

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 29, 2016.

OR

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

For the transition period from _____ to _____.

OR

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

Date of event requiring this shell company report _____

Commission file number: 001-34900

TAL Education Group

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

**12/F, Danling SOHO
6 Danling Street, Haidian District
Beijing 100080
People's Republic of China**

(Address of principal executive offices)

**Rong Luo, Chief Financial Officer
Telephone: +86-10-5292-6658
Email: ir@100tal.com
12/F, Danling SOHO**

**6 Danling Street, Haidian District
Beijing 100080
People's Republic of China**

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

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

Title of each class

**American Depositary Shares, each
representing two Class A common shares
Class A common shares, par value
\$0.001 per share***

Name of each exchange on which registered

The New York Stock Exchange

* Not for trading, but only in connection with the listing on The New York Stock Exchange of American depositary shares ("ADSs"). Currently, each ADS represents two Class A common shares.

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of February 29, 2016, 90,309,532 Class A common shares, par value \$0.001 per share and 71,456,000 Class B common shares, par value \$0.001 per share were outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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INTRODUCTION

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

- “China” or “PRC” refers to the People’s Republic of China, and for the purpose of this annual report, excluding Taiwan, Hong Kong and Macau;
- “we,” “us,” “our company” and “our” refer to TAL Education Group, a Cayman Islands company, and its subsidiaries, and, in the context of describing our operations and consolidated financial data, also include the Consolidated Affiliated Entities (as defined below);
- “shares” or “common shares” refers to our Class A and Class B common shares, par value \$0.001 per share;
- “ADSs” refers to our American depositary shares, each of which represents two Class A common shares;
- “VIEs” refers to Beijing Xueersi Network Technology Co., Ltd., or Xueersi Network, and Beijing Xueersi Education Technology Co., Ltd., or Xueersi Education, and Xinxin Xiangrong Education Technology (Beijing) Co., Ltd. (the original name of which is Beijing Dididaojia Education Technology Co., Ltd.), or Xinxin Xiangrong, and Beijing Lebai Education Consulting Co., Ltd., or Lebai Education, all of which are domestic PRC companies in which we do not have equity interests but whose financial results have been consolidated into our consolidated financial statements in accordance with U.S. GAAP; and “Consolidated Affiliated Entities” refers to our VIEs and the VIEs’ direct and indirect subsidiaries and schools;
- “U.S. GAAP” refers to generally accepted accounting principles in the United States;
- “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;
- “K-12” refers to the year before the first grade through the last year of high school;
- “RMB” or “Renminbi” refers to the legal currency of China; and
- “\$” or “U.S. dollars” refers to the legal currency of the United States.

Our financial statements are expressed in U.S. dollars, which is our reporting currency. Certain of our financial data in this annual report on Form 20-F are translated into U.S. dollars solely for the reader’s convenience. Unless otherwise noted, all convenient translations from Renminbi to U.S. dollars in this annual report on Form 20-F were made at a rate of RMB6.5525 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on February 29, 2016. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, at the rate stated above, or at all.

FORWARD-LOOKING STATEMENTS

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

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to” or other similar expressions. These forward-looking statements include statements relating to:

- our anticipated growth strategies;
 - competition in the K-12 after-school tutoring market;
-

- our future business development, results of operations and financial condition;
- expected changes in our revenues and certain cost and expense items;
- our ability to increase student enrollments and course fees and expand course offerings;
- risks associated with the expansion of our geographic reach;
- the expected increase in spending on private education in China; and
- PRC laws, regulations and policies relating to private education and providers of after-school tutoring services.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. You should read this annual report and the documents that we refer to in this annual report completely and with the understanding that our actual future results may be materially different from and/or worse than what we expect. We qualify all of our forward-looking statements with these cautionary statements.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

Our Selected Consolidated Financial Data

The following selected consolidated statement of operations data for our company for the fiscal years ended February 28/29, 2014, 2015 and 2016 and the selected consolidated balance sheet data as of February 28/29, 2015 and 2016 are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of operations data for our company for the fiscal years ended February 28/29, 2012 and 2013 and the selected consolidated balance sheet data as of February 28/29, 2012, 2013 and 2014 are derived from our audited consolidated financial statements not included in this annual report.

The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and related notes and “Item 5—Operating and Financial Review and Prospects” included elsewhere in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

Our historical results are not necessarily indicative of results to be expected in any future period.

	For the Years Ended February 28/29,				
	2012	2013	2014	2015	2016
	(in thousands of \$, except for share, per share and per ADS data)				
Consolidated Statements of Operations Data:					
Net revenues	\$ 177,520	\$ 225,931	\$ 313,895	\$ 433,970	\$ 619,949
Cost of revenues ⁽¹⁾	(95,587)	(115,749)	(151,543)	(203,074)	(303,635)
Gross profit	81,933	110,182	162,352	230,896	316,314
Operating expenses					
Selling and marketing ⁽¹⁾	(23,166)	(27,674)	(35,761)	(53,882)	(73,568)
General and administrative ⁽¹⁾	(37,815)	(51,125)	(70,300)	(110,230)	(161,022)
Impairment losses on long-term prepayment	—	(594)	—	—	—
Impairment losses on intangible assets and goodwill	(140)	—	—	—	—
Total operating expenses	(61,121)	(79,393)	(106,061)	(164,112)	(234,590)
Government subsidies	213	632	1,105	464	3,327
Income from operations	21,025	31,421	57,396	67,248	85,051
Interest income	3,500	5,344	9,438	16,614	17,733
Interest expense	—	—	—	(5,811)	(7,499)
Other income/(expenses)	4,180	776	399	(2,010)	(2,522)
Impairment loss on long-term investments	(235)	—	—	—	(7,504)
Gain from sales of available-for-sale securities	—	—	53	—	—
Gain from disposal of components	—	—	—	—	50,377
Gain from fair value change of long-term investments	—	—	—	1,202	1,266
Income before provision for income tax and loss from equity method investments	28,470	37,541	67,286	77,243	136,902
Provision for income tax	(4,156)	(4,101)	(6,680)	(9,369)	(33,483)
Loss from equity method investments	—	—	—	(730)	(663)
Net income	24,314	33,440	60,606	67,144	102,756
Add: Net loss attributable to noncontrolling interest	—	—	—	13	122
Net income attributable to shareholders of TAL Education Group	24,314	33,440	60,606	67,157	102,878
Net income per common share					
Basic	\$ 0.16	\$ 0.21	\$ 0.39	\$ 0.42	\$ 0.64
Diluted	\$ 0.16	\$ 0.21	\$ 0.38	\$ 0.41	\$ 0.60
Net income per ADS⁽²⁾					
Basic	\$ 0.32	\$ 0.43	\$ 0.77	\$ 0.85	\$ 1.29
Diluted	\$ 0.31	\$ 0.43	\$ 0.76	\$ 0.82	\$ 1.21
Cash Dividends per common share	—	\$ 0.25 ⁽³⁾	—	—	—
Weighted average shares used in calculating net income per common share					
Basic	154,000,219	155,607,458	156,726,994	158,381,576	160,109,169
Diluted	155,874,381	155,631,090	159,444,928	163,589,649	183,056,255

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

For the Years Ended February 28/29

	2012	2013	2014	2015	2016
	(in thousands of \$)				
Cost of revenues	\$ 418	\$ 106	\$ 48	\$ 48	\$ 43
Selling and marketing	1,497	1,815	1,161	2,073	2,480
General and administrative	5,986	6,363	7,136	16,320	23,325
Total	7,901	8,284	8,345	18,441	25,848

(2) Each ADS represents two Class A common shares.

(3) In December 2012, we paid a \$39 million cash dividend to our shareholders of record as of December 7, 2012. Our issued and outstanding share capital as of December 7, 2012 consisted of 68,314,150 Class A common shares and 87,806,000 Class B common shares.

As of February 28/29,

	2012	2013	2014	2015	2016
	(in thousands of \$)				
Summary Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 188,580	\$ 185,081	\$ 269,931	\$ 470,157	\$ 434,042
Total assets	294,653	316,042	427,599	772,415	1,061,379
Deferred revenue	85,594	102,514	132,401	177,640	289,281
Total liabilities	104,536	124,597	167,603	458,844	620,642
Total equity	190,117	191,445	259,996	313,571	440,737

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business

If we are not able to continue to attract students to enroll in our courses without significantly decreasing course fees, our business and prospects will be materially and adversely affected.

The success of our business depends primarily on the number of students enrolled 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 continue to develop new programs and enhance or adapt existing programs to respond to changes in market trends, student demands and government policies, expand our geographic reach, manage our growth while maintaining consistent and high teaching quality, effectively market our programs to a broader base of prospective students, develop additional high-quality educational content and respond effectively to competitive pressures. If we are unable to continue to attract students without significantly decreasing course fees to enroll in our courses, our revenues may decline, which may have a material adverse effect on our business, financial condition and results of operations.

We may not be able to continue to recruit, train and retain qualified and dedicated teachers, who are critical to the success of our business and the effective delivery of our tutoring services to students.

Our teachers are critical to the quality of our services and our reputation. We seek to hire qualified and dedicated teachers who deliver effective and inspirational instruction. There is a limited pool of teachers with these attributes, and we must provide competitive compensation packages to attract and retain such teachers. We must also provide continued training to our teachers to ensure that they stay abreast of changes in student demands, academic standards and other key trends necessary to teach effectively. We may not be able to recruit, train and retain a sufficient number of qualified teachers in the future to keep pace with our growth while maintaining consistent teaching quality in the different markets we serve. A shortage of qualified teachers or a decrease in the quality of our teachers' services, whether actual or perceived, or a significant increase in compensation for us to retain qualified teachers, would have a material adverse effect on our business, financial condition and results of operations.

We may not be able to improve the content of our existing courses or to develop new courses or services in a timely or cost-effective manner.

We constantly update and improve the content of our existing courses and develop new courses or services to meet changing market demands. Revisions to our existing courses and our newly developed courses or services may not be well received by existing or prospective students or their parents. If we cannot respond effectively to changes in market demands, our business may be adversely affected. Even if we are able to develop new courses or services that are well received, we may not be able to introduce them in a timely or cost-effective manner. If we do not respond adequately to changes in market demands, our ability to attract and retain students may be impaired and our financial results could suffer.

Offering new courses or services or modifying existing courses may require us to invest in content development, increase marketing efforts and re-allocate resources away from other uses. We may have limited experience with the content of new courses or services and may need to adjust our systems and strategies to incorporate new courses or services into our existing offerings. If we are unable to continuously improve the content of our existing courses, or offer new courses or services in a timely or cost-effective manner, our results of operations and financial condition could be adversely affected.

If we are not able to maintain and enhance the value of our brand, our business and operating results may be harmed.

We believe that market awareness of our “Xueersi” brand has contributed significantly to the success of our business, and that maintaining and enhancing the value of this brand is critical to maintaining and enhancing our competitive advantage. If we are unable to successfully promote and market our brand and services, our ability to attract new students could be adversely impacted and, consequently, our financial performance could suffer. We mainly rely on word-of-mouth referrals to attract prospective students. We also use integrated marketing tools and tactics such as the Internet, wechat, social media, public lectures, outdoor advertising campaigns, co-brand promotions, and distribution of marketing materials to promote our brand and service offerings. In order to maintain and increase our brand recognition and promote our new service offerings, we have increased our marketing personnel and expenses over the last several years. We have also sought to strengthen recognition for our other brands, such as our “Haoweilai” brand, which is the umbrella brand for all our brands, our “Zhikang” brand, through which we offer personalized premium services, our “Mobby” brand, through which we offer small classes focused on thinking development for young learners, our “Lejiale” brand, through which we offer English subject tutoring services and our “Dongxuetang” brand, through which we offer our Chinese subject tutoring services. After our acquisition of Firstleap Education, we will also enhance and promote the “Firstleap” brand for all-subject tutoring services in English to students aged two to fifteen. A number of factors could prevent us from successfully promoting our brand, including student dissatisfaction with our services and the failure of our marketing tools and strategies to attract prospective students. If we are unable to maintain and enhance our “Xueersi” brand, successfully develop additional brands, or utilize marketing tools in a cost-effective manner, our revenues and profitability may suffer.

Moreover, we offer a variety of courses to primary, middle and high school students in some of the large cities in China. As we continue to grow in size, expand our course offerings and extend our geographic reach, it may be more difficult to maintain quality and consistent standards of our services and to protect and promote our brand name.

Furthermore, we cannot assure you that our sales and marketing efforts will be successful in further promoting our brand in a cost-effective manner. If we are unable to further enhance our brand recognition and increase awareness of our services, or if we incur excessive sales and marketing expenses, our business and results of operations may be materially and adversely affected.

Our historical financial and operating results, growth rates and profitability may not be indicative of future performance.

Our net revenues increased from \$313.9 million in the fiscal year ended February 28, 2014 to \$434.0 million in the fiscal year ended February 28, 2015, and further to \$619.9 million in the fiscal year ended February 29, 2016. Any evaluation of our business and our prospects must be considered in light of the risks and uncertainties encountered by companies at our stage of development. The after-school tutoring service market in China is still at the development stage, which makes it difficult to evaluate our business and future prospects. In addition, our past results may not be indicative of future performance because of new businesses developed or acquired by us. Furthermore, our results of operations may vary from period to period in response to a variety of other factors beyond our control, including general economic conditions and regulations or government actions pertaining to the private education service sector in China, changes in spending on private education and non-recurring charges incurred under unexpected circumstances or in connection with acquisitions, equity investments or other extraordinary transactions. Due to these and other factors, our historical financial and operating results, growth rates and profitability as well as 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 our future performance.

If our students' level of performance deteriorates or satisfaction with our services declines, they may decide to withdraw from our courses and request refunds and our business, financial condition, results of operations and reputation would be adversely affected.

The success of our business depends on our ability to deliver a satisfactory learning experience and improved academic results. Our tutoring services may fail to improve a student's academic performance and a student may perform below expectations even after completing our courses. Additionally, student and parent satisfaction with our services may decline. A student's learning experience may also suffer if his or her relationship with our teachers does not meet expectations. We generally offer refunds for the remaining classes in a course to students who withdraw from the course. If a significant number of students fail to improve their academic performance after attending our courses or if their learning experiences with us are unsatisfactory, they may decide to withdraw from our courses and request refunds, and our business, financial condition, results of operations and reputation would be adversely affected.

We face significant competition, and if we fail to compete effectively, we may lose our market share or fail to gain additional market share, and our profitability may be adversely affected.

The private education market in China is rapidly evolving, highly fragmented and competitive, and we expect competition to persist and intensify. We face competition in each type of services we offer and in each geographic market where we operate. Our competitors at the national level include New Oriental Education & Technology Group Inc. and Xueda Education Group.

Our student enrollments may decrease due to intense competition. Some of our 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, admission standards, market trends or new technologies. In addition, some smaller local companies may be able to respond more quickly to changes in student preferences in some of our targeted markets. Moreover, the increasing use of the Internet and advances in Internet, mobile Internet and computer-related technologies, such as web video conferencing and online testing simulators, are eliminating geographic and physical facility-related entry barriers to providing private education services. As a result, smaller local companies or Internet-content providers may be able to use the Internet or mobile Internet to offer their programs, services and products quickly and cost-effectively to a large number of students with less capital expenditure than previously required. Consequently, we may be pressured to reduce course fees or increase spending in response to competition in order to retain or attract students or pursue new market opportunities, which could result in a decrease in our revenues and profitability. We will also face increased competition as we expand our operations. 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 effectively respond to competition, we may lose our market share or fail to gain additional market share, and our profitability may be adversely affected.

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

Our business has experienced growth in recent years. The number of our learning centers increased from 274 as of February 28, 2014 to 363 as of February 29, 2016. We plan to continue to expand our operations in different geographic markets in China. The establishment of new learning centers poses challenges and requires us to make investments in management, capital expenditures, marketing expenses and other resources. The expansion has resulted, and will continue to result, in substantial demands on our management and staff as well as our financial, operational, technological and other resources. In addition, we typically incur pre-opening costs associated with our new learning centers, and may incur losses during their initial ramp-up stage because we incur rent, salary and other operating expenses for new learning centers regardless of any revenues we may generate. If the ramp-up of our new learning centers is slower than expected, whether due to our inability to attract sufficient student enrollments or charge hourly rates for our courses that are high enough for us to recover our costs, our overall financial performance may be materially and adversely affected. Our planned expansion will also place significant pressure on us to maintain teaching quality and consistent standards, controls and policies to ensure that our brand does not suffer as a result of any decrease, whether actual or perceived, in the quality of our programs. To manage and support our expansion, 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 marketing personnel. We cannot assure you that we will be able to effectively and efficiently manage the growth of our operations, maintain or accelerate our current growth rate, maintain or increase our gross and operating profit margins, recruit and retain qualified teachers and management personnel, successfully integrate new learning centers into our operations and otherwise effectively manage our growth. If we are not successful in effectively and efficiently managing our expansion, we may not be able to capitalize on new business opportunities, which may have a material and adverse impact on our financial condition and results of operations.

If we fail to successfully execute our growth strategies, our business and prospects may be materially and adversely affected.

Our growth strategies include further penetrating our existing markets, extending our geographic reach into new regions, further developing our online course offerings and online education platform and making acquisitions and investments to complement our existing business and offerings. We may not succeed in executing our growth strategies due to a number of factors, including, without limitation, the following:

- we may fail to identify, and effectively market our services in, new markets with sufficient growth potential into which to expand our network or promote new courses in existing markets;
- it may be difficult to increase the number of learning centers in more developed cities;
- although we have replicated our growth model in Beijing to certain other cities, we may not be able to continue to do so to additional geographic markets, especially to lower-tier cities, and we might experience decline in our Beijing business that would offset the growth we are experiencing in other geographic markets;
- our analysis for selecting suitable new locations may not be accurate and the demand for our services at the newly selected locations may not materialize or increase as rapidly as we expect;
- we may fail to obtain the requisite licenses and permits necessary to open learning centers at our desired locations from local authorities or face risks in opening without the requisite licenses and permits;
- we may not be able to manage our personalized premium services business efficiently and cost-effectively;

- we may not be able to continue to enhance our online offerings or expand them to new markets, generate profits from online offerings, or adapt online offerings to changing student needs and technological advances such that we will continue to face significant student acquisition costs in the markets we enter;
- we may not be profitable in our new tutoring business and may encounter obstacles in expanding our new tutoring business to other markets; and
- we may not be able to successfully integrate acquired businesses and may not be able to achieve the benefits we expect from recent and future acquisitions or investments.

If we fail to successfully execute our growth strategies, we may not be able to maintain our growth rate and our business and prospects may be materially and adversely affected as a result.

We derive a majority of our revenues from a limited number of cities. Any event negatively affecting the private education market in these cities, or any increase in the level of competition for the types of services we offer in these cities, could have a material adverse effect on our overall business and results of operations.

We derived approximately 54.4% of our total net revenues for the fiscal year ended February 29, 2016 from our Xueersi Peiyou small-class offering in Beijing, Shanghai, Guangzhou, Shenzhen, Nanjing and we expect these five cities to continue to constitute important sources of our revenues. If any of these cities experiences an event negatively affecting its private education market, such as a serious economic downturn, natural disaster or outbreak of contagious disease, adopts regulations relating to private education that place additional restrictions or burdens on us, or experiences an increase in the level of competition for the types of services we offer, our overall business and results of operations may be materially and adversely affected.

If we fail to manage our personalized premium services business efficiently and cost-effectively, our business and prospects could be harmed.

The expansion of our personalized premium services business has entailed and may continue to entail significant investment of human capital, financial resources and management time and attention as such one-on-one tutoring services impose a different set of requirements on our teachers and many other aspects of our operations than small-class offerings, which currently constitute the main format of our service offerings. If we fail to manage our personalized premium services business efficiently and cost-effectively, it could have an adverse effect on our business and prospects.

Failure to adequately and promptly respond to changes in PRC laws and regulations on school curriculum, examination systems and admission standards in China could render our courses and services less attractive to students.

Under the PRC education system, school admissions rely heavily on examination results. College and high school entrance examinations in most cases are mandatory for high school and middle school graduates to gain admission to colleges and high schools, respectively. Therefore, a student's performance in these examinations is critical to his or her education and future employment prospects. Although examinations are not required for entering middle schools, many key middle schools may administer their own assessment processes to disqualify prospective students. It is therefore common for students to take after-school tutoring classes to improve performance, and the success of our business to a large extent depends on the continued use of assessment process by high schools and colleges in their admissions. However, this heavy emphasis on examination scores may decline or fall out of favor with educational institutions or education authorities in China.

There are continuous changes in high school and college entrance exams and college admission standards in China, including the focus of the subjects and questions tested, the format of the tests, and the manner in which the tests are administered. These changes require us to continually update and enhance our curriculum, course materials and teaching methods. Any inability to track and respond to these changes in a timely and cost-effective manner would make our services and products less attractive to students, which may materially and adversely affect our reputation and ability to continue to attract students. For example, the Ministry of Education, or MoE, promulgated new curriculum standards for primary and secondary schools in China covering 19 subjects, including mathematics, Chinese and English, in December 2011. These new curriculum standards took effect in the fall semester of 2012. In October 2013, the Beijing Municipal Commission of Education announced plans to change policies relating to college entrance examinations, under which changes to the format and content of English exam were to be introduced in the coming years. On September 3, 2014, the State Council promulgated the Opinions Related to the Implementation of the Further Reform of Examination-Enrollment System to provide further opinions in changing the enrollment system of college entrance examination. Since the promulgation of such Opinions by the State Council, there have been 24 provinces, autonomous regions or municipalities directly under the central government that have announced to launch their respective new policies related to college entrance examinations in accordance with the Opinions aforementioned. These provinces include Tianjin, Beijing, Qinghai, Shanghai, Jiangsu, Zhejiang, Hainan, Tibet, Ningxia, Guangxi, Guangdong, Gansu, Heilongjiang, Liaoning, Guizhou, Hebei, Shandong, Hunan, Sichuan, Jiangxi, Jilin, Shanxi, Chongqing, and Hubei. These new policies generally covers the changes of subjects in the entrance examination and the changes of the times of the English examinations in college entrance examination. On December 10, 2014, MoE, State Ethnic Affairs Commission, the Ministry of Public Security, General Administration of Sport and China Association for Science and Technology jointly promulgated the Opinions to Further Reduce and Regulate the Subject and Number of Extra Scores in College Entrance Examination, which among other things, provides to cancel the extra scores due to the excellent performance of students in the fields of sports, Olympiad competitions, science and technology competitions, and morality for college entrance examination as well as the extra scores of students who obtains the title of Provincial Excellent Students in their college entrance examination, and also provide further opinions in regulating the subject and number of extra scores in college entrance examination. On December 10, 2014, MoE promulgated the Opinions of Implementation of the High School Academic Proficiency Test, which requires the high school students to participate the High School Academic Proficiency Test and the scores of students obtained in this High School Academic Proficiency Test will be provided to the colleges for enrollment in specific ways respectively determined by each college, province, region and municipality. We have completed the process of adapting our tutoring programs and materials to these new curriculum requirements. However, any failure to respond in a timely and cost-effective manner to such changes will adversely impact the marketability of our services and products.

Regulations and policies which de-emphasize scholastic competition achievements in college and high school admissions have had, and may continue to have, an impact on our enrollments. Our business in Beijing has been affected by the change in policy on the use of mathematical Olympiad competition results for admission to key middle schools. Following the MoE's amendment of its "extra credit policy" in November 2010 to limit the number of extra scores Olympiad competition winners may receive for their college entrance examination and in compliance with the Implementation Opinions on Standardizing Educational Changes and Adjusting Arbitrary Educational Changes in 2013, which relate to the admissions processes of high schools, certain local educational authorities promulgated policies limiting the role of Olympiad competitions in the admission process of high schools and middle schools. In February 2013, the Beijing Municipal Education Commission issued a Notice on Mitigating Schoolwork-Related Stress on Students in Primary and Secondary Schools, which, among other things, prohibit public schools from cooperating with or authorizing private training organizations to offer after-school tutoring services for the purpose of enrolling students in such public schools. This policy has generally resulted in a decrease in the demand for mathematical Olympiad competition courses, which in turn has also affected the enrollments in our mathematics classes as well as our personalized premium services business. In addition, the MoE issued the Implementation Opinions on Further Improving the Exam-exemption and Nearest Schooling Enrollment Work in Secondary Schools in January 2014 to clarify that local educational administrative departments at all levels, public schools and private schools are not allowed to use examinations to select their students. Public schools may not use various competitions or examinations as the selection method for enrollment. The general office of the MoE issued the Notice on Further Improving the Compulsory School Exam-exemption and Nearest Schooling Enrollment Work in Main Cities to the provincial and municipal educational administrative departments in Beijing, Tianjin, Liaoning, Jilin, Heilongjiang, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Chongqing, Sichuan, Shanxi, Dalian, Qingdao, Ningbo, Xiamen and Shenzhen in January 2014 to further request that all the primary schools and secondary schools in main cities implement this notice gradually from now to 2017 and put an end to the entrance examinations and the link between entrance examinations and enrollment. These policies were published recently and have not resulted in a decrease in the demand for any of our services so far. However, we cannot ensure you that they will not adversely affect the performance of our after-school tutoring business and personalized premium services that target students in primary schools.

Also, education authorities in Yunnan Province stopped administering provincial-level high school entrance examinations in 2010. High school admissions in Yunnan Province have since then been based on a combination of middle school examination results that have replaced raw scores with letter grades and comprehensive evaluations of students' aptitude and performance by their middle schools. Yunnan Province also began to prohibit subject competitions in primary and secondary schools in November 2009. Although we do not offer after-school tutoring services in Yunnan Province, nor do we expect to do so in the near future, it is possible that the local governments in the areas where we have operations may adopt similar measures. If we fail to adjust our services to respond to any such material changes, our business may be materially and adversely affected. In addition, admission and assessment processes in China constantly undergo changes and development in terms of subject and skill focus, question type, examination format and the manner in which processes are used. We are therefore required to continually update and improve our curriculum, course materials and our teaching methods. A failure to track and respond to any such changes in a timely and cost-effective manner could make our courses and services less attractive to students, which may materially and adversely affect our reputation and ability to continue to attract students and in turn have a material adverse effect on our business, financial condition and results of operations.

Accidents or injuries suffered by our students or other people caused by us, or perceived to be caused by us may adversely affect our reputation, subject us to liability and cause us to incur substantial costs.

We have a large number of students and their parents on our premises to attend classes and/or use our facilities, and they may suffer accidents or injuries or other harm on our premises, including those caused by or otherwise arise from the actions of our employees or contractors. For instance, in 2012, three students were injured while attending a physics laboratory class in Beijing. We have paid for the medical and related expenses and/or negotiated settlements with the families of these three students, and while we have liability insurance policies, such policies only covered a small portion of the compensation. Although we have since enhanced preventive measures to avoid similar incidents, we cannot assure you that there will be no similar incidents in the future. We also organize overseas trips for students as a part of our Firstleap services. Due to our limited experience organizing such trips and unfamiliarity with foreign countries, our students may be involved in accidents or suffer injuries or other harm on these trips.

In the event of accidents or injuries or other harm caused or perceived to be caused by us, our facilities and/or services may be perceived to be unsafe, which may discourage prospective students from attending our classes and participate in our activities. Although we carry certain liability insurance policies for our students and their parents, they may not be sufficient to cover the compensation or even applicable to the accidents or injuries occurred. We could also face claims alleging that we should be liable for the accidents or injuries, or we were negligent, provided inadequate supervision to our employees or contractors and therefore should be held jointly liable for harm caused by them. A material liability claim against us or any of our teachers or independent contractors could adversely affect our reputation, enrollment and revenues. Even if unsuccessful, such a claim could create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of our management.

Our new courses and services may compete with our existing offerings.

We are constantly developing new courses and services to meet changes in student demands, school curriculum, testing materials, admission standards, market trends and technologies. While some of the courses and services that we develop will expand our current offerings and increase student enrollment, others may compete with or render obsolete our existing offerings without increasing our total student enrollment. For example, our online courses might attract students away from our classroom-based courses. If we are unable to increase our total student enrollment and profitability as we expand our course and service offerings, our business and growth may be adversely affected.

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

Widespread use of the Internet for educational purposes is a relatively recent occurrence, and the market for Internet-based courses and services is characterized by rapid technological changes and innovations, as well as unpredictable product life cycles and user preferences. We have limited experience with online courses and services. We must be able to adapt quickly to changing student needs and preferences, technological advances and evolving Internet practices in order to compete successfully in online education. Ongoing enhancement of our online offerings and technologies may entail significant expenses and technological risks, and we may not be able to use new technologies effectively and may fail to adapt to changes in the online education market on a timely and cost-effective basis. We began offering online courses through our www.xueersi.com in 2010 and revenues generated from our online course offerings through www.xueersi.com accounted for 3.0%, 3.6% and 4.0% of our total net revenues in the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. We expect that revenues from our online course offerings will increase. However, if improvements to our online offerings and technologies are delayed, result in systems interruptions or are not aligned with market expectations or preferences, we may lose market share and our growth prospects could be adversely affected.

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, which includes Bangxin Zhang, our chairman and chief executive officer, Yachao Liu, our senior vice president, Yunfeng Bai, our senior vice president and Rong Luo, our chief financial officer. If any member of our senior management team leaves us and we fail to effectively manage a transition to new personnel in the future or if we fail to attract and retain qualified and experienced professionals on acceptable terms, our business, financial condition and results of operations could be adversely affected. Competition for experienced management personnel in the education industry is intense, and we may not be able to retain the services of our senior executives or key personnel, or to attract and retain high-quality senior executives or key personnel in the future.

Our success also depends on our having highly trained financial, technical, human resource, sales and marketing staff, management personnel and qualified and dedicated teachers for local markets. We will need to continue to hire additional personnel as our business grows. A shortage in the supply of personnel with requisite skills or our failure to recruit them could impede our ability to increase revenues from our existing courses and services, to launch new course and service offerings and to expand our operations, and would have an adverse effect on our business and financial results.

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

Our office space and service and learning centers are presently mainly located on leased premises. We purchased 7,582 square meters of building space in Beijing in July 2011, which we renovated as offices in the fiscal year ended February 28, 2013, and purchased 881 square meters of building space in Anhui in May 2016, which we plan to use as learning center. With respect to our leased premises, at the end of each lease term, which generally ranges from one to 15 years, we must negotiate an extension of the lease and if we are not able to negotiate an extension on terms acceptable to us, we will be forced to move to a different location, or the rent may increase significantly. This could disrupt our operations and adversely affect our profitability. All of our leases are subject to renewal at market prices, which could result in a substantial rent increase at each time of renewal. We compete with many other businesses for sites in certain prime locations and some landlords may have entered into long-term leases with our competitors for these locations. As a result, we may not be able to obtain new leases at desirable locations or renew our existing leases on acceptable terms or at all, which could adversely affect our business. In addition, a few of our lessors have not been able to provide us with copies of title certificates or other evidencing documents to prove that they have authorization to lease the properties to us. We also have not registered most of our lease agreements with the relevant PRC governmental authorities as required by relevant PRC law. As of the date of this annual report, we are not aware of any actions, claims or investigations threatened against us with respect to the defects in our leasehold interests while we are informed that one of our lessors is involved in litigations with respect to the defects in its rental right, which to our best knowledge will not have material adverse effect on our business, financial condition and results of operations as a whole. We were aware of the defects when we entered into those leases. In many cases, we entered into leases upon promises from the lessors that relevant certificates and authorizations would be delivered at a later time, which did not eventually materialize. Our business and legal teams followed an internal guideline to identify and assess risks in connection with leasing the properties, and a final business decision was made after our analysis of the likely impact of the defects on the leasehold interests and the value of the properties to our expansion plan. However, there is no assurance that our decision would always lead to the favorable outcome we expected to achieve. If any of our leases are terminated as a result of challenges by third parties or government authorities for lack of title certificates or proof of authorization to lease, we do not expect to be subject to any fines or penalties but we may be forced to relocate the affected learning centers and incur additional expenses relating to such relocation. If we fail to find suitable replacement sites in a timely manner or on terms acceptable to us, our business and results of operations could be materially and adversely affected.

Capacity constraints of our teaching facilities could cause us to lose students to our competitors.

The teaching facilities of our physical network are limited in size and number of classrooms. We may not be able to admit all students who would like to enroll in our courses due to the capacity constraints of our teaching facilities. This would deprive us of the opportunity to serve them and to potentially develop a long-term relationship with them for continued services. If we fail to expand our physical capacity as quickly as the demand for our classroom-based services grows, we could lose potential students to our competitors, and our results of operations and business prospects could suffer.

If we fail to protect our intellectual property rights, our brand and business may suffer.

We consider our copyrights, trademarks, trade names, Internet domain names, patents and other intellectual property rights invaluable to our ability to continue to develop and enhance our brand recognition. Unauthorized use of our intellectual property rights may damage our reputation and brands. Our “Xueersi” brand and logo is a registered trademark in China. Our proprietary curricula and course materials are protected by copyrights. However, preventing infringement on or misuse of intellectual property rights could be difficult, costly and time-consuming, particularly in China. The measures we take to protect our intellectual property rights may not be adequate to prevent unauthorized uses. Furthermore, application of laws governing intellectual property rights in China is uncertain and evolving, and could involve substantial risks to us. There have been several incidents in the past where third parties used our brand “Xueersi” without our authorization, and on occasion we have needed to resort to litigation to protect our intellectual property rights. In addition, we are still in the process of applying for the registration in China of the trademarks for our “Haoweilai” brand in various categories. We cannot assure you that the relevant governmental authorities will grant us the approval to register such trademarks. As a result, we may be unable to prevent third parties from utilizing this brand name, which may have an adverse impact on our brand image. If we are unable to adequately protect our intellectual property rights in the future, we may lose these rights, our brand name may be harmed, and our business may suffer materially. Furthermore, our management’s attention may be diverted by violations of our intellectual property rights, and we may be required to enter into costly litigation to protect our proprietary rights against any infringement or violation.

We may encounter disputes from time to time relating to our use of the intellectual property of third parties.

We cannot assure you that our courses and marketing materials, online courses, products, and platform or other intellectual property developed or used by us do not or will not infringe upon valid copyrights or other intellectual property rights held by third parties. We may encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in those disputes. For instance, on April 28, 2015, three major education publishers, People’s Education Press, Ltd., Beijing Normal University Press Ltd. and Foreign Language Teaching and Research Press LLC, made a joint statement on protecting copyrights and pursuing legal liabilities against those entities which use, edit, publish, sell or otherwise disseminate the contents in the textbooks published by the three press without authorization. We have adopted policies and procedures to prohibit our employees and contractors from infringing upon third-party copyright or intellectual property rights. However, we cannot assure that our teachers or other personnel will not, against our policies, use third-party copyrighted materials or intellectual property without proper authorization in our classes, on our websites, at any of our locations or via any medium through which we provide our programs. Our users may also post unauthorized third-party content on our websites. We may incur liability for unauthorized duplication or distribution of materials posted on our websites or used in our classes. We have been involved in claims against us alleging our infringement of third-party intellectual property rights and we may be subject to such claims in the future. Any such intellectual property infringement claim could result in costly litigation and divert our management attention and resources.

We may fail to successfully make necessary or desirable acquisition or investment, and we may not be able to achieve the benefits we expect from recent and future acquisitions or investments.

We have made and intend to continue to make acquisitions or equity investments in additional businesses that complement our existing business. We may not be able to successfully integrate acquired businesses. We may not have any control over the businesses or operations of our minority equity investments, the value of which may decline over time. As a result, our business and operating results could be harmed. In addition, if the businesses we acquire or invest in do not subsequently generate the anticipated financial performance or if any goodwill impairment test triggering event occurs, we may need to revalue or write down the value of goodwill and other intangible assets in connection with such acquisitions or investments, which would harm our results of operations. For the fiscal year ended February 29, 2016, we incurred impairment loss on long-term investments of \$7.5 million.

In addition, we may be unable to identify appropriate acquisition or strategic investment targets when it is necessary or desirable to make such acquisition or investment to remain competitive or to expand our business. Even if we identify an appropriate acquisition or investment target, we may not be able to negotiate the terms of the acquisition or investment successfully, finance the proposed transaction or integrate the relevant businesses into our existing business and operations. Furthermore, as we often do not have control over the companies in which we only have minority stake, we cannot ensure that these companies always will comply with applicable laws and regulations in their business operations. Material non-compliance by our investees may cause substantial harms to our reputations and the value of our investment.

We face risks associated with the Firstleap franchisees.

A small portion of the Firstleap business is operated through franchisees, or the Firstleap Franchisees, instead of Lebai Education and its subsidiaries and schools. These franchisees are typically located in lower-tier cities and operate their own learning centers not within our network. The Firstleap franchisees have very limited impact on our overall business and financial performance, and schools operated by them are not included in the counts of our schools, learning centers and service centers, and student enrollments from these schools are not included as our student enrollments. However, we are still subject to risks inherent to the franchising model and we have not had experience in operating the franchising model and dealing with such risks.

Our control over the Firstleap franchisees is based on contractual agreements, which may not be as effective as direct ownership and potentially makes it difficult for us to manage the franchisees. We do not have direct control over their service quality, and do not directly recruit, manage and train their employees. As a result, we may not be able to successfully monitor, maintain and improve the performance of the Firstleap franchisees and their employees. However, they carry out the Firstleap tutoring services and directly interact with students and their parents. In the event of any delinquent performance by the Firstleap franchisees and their employees, we may suffer from business reduction as well as reputational damage. In the event of any unlawful or unethical conduct by the Firstleap franchisees and/or their employees, we may suffer financial losses, incur liabilities and suffer reputation damage. Meanwhile, a franchisee may suspend or terminate its cooperation with us voluntarily or involuntarily due to various reasons, including disagreement or dispute with us, or failure to maintain requisite approvals, licenses or permits or to comply with other governmental regulations. We may not be able to find alternative ways to continue to provide the tutoring services formerly covered by such franchisee, and our student/parent satisfaction, reputation and financial performance may be adversely affected.

Seasonal and other fluctuations in our results of operations could adversely affect the trading price of our ADSs.

Our business is subject to fluctuations caused by seasonality or other factors beyond our control, which may cause our operating results to fluctuate from quarter to quarter. This may result in volatility and adversely affect the price of our ADSs. We have experienced, and expect to continue to experience, seasonal fluctuations in our revenues and results of operations, primarily due to seasonal changes in student enrollments. However, our expenses vary, and certain of our expenses do not necessarily correspond with changes in our student enrollments and revenues. For example, we make investments in marketing and promotion, teacher recruitment and training, and product development throughout the year and we pay rent for our facilities based on the terms of the lease agreements. In addition, other factors beyond our control, such as special events that take place during a quarter when our student enrollment would normally be high, may have a negative impact on our student enrollments. We expect quarterly fluctuations in our revenues and results of operations to continue. These fluctuations could result in volatility and adversely affect the price of our ADSs. As our revenues grow, these seasonal fluctuations may become more pronounced.

If we cannot obtain sufficient cash when we need it, we may not be able to meet our payment obligations under our convertible notes.

In May 2014, we issued \$200 million in aggregate principal amount of 2.50% convertible senior notes due 2019. Additionally, we granted to the initial purchasers of the notes a 30-day option to purchase up to an additional \$30 million in principal amount of notes. Upon the exercise of such option by certain initial purchasers, we issued an aggregate of \$230 million in aggregate principal amount of the notes. The notes bear interest at a rate of 2.50% per year, payable semiannually in arrears on May 15 and November 15 of each year, beginning on November 15, 2014. The notes will mature on May 15, 2019. Holders of the notes will have the right to require us to repurchase for cash all or part of their notes on May 15, 2017 or upon the occurrence of certain fundamental changes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date. The notes are convertible into ADSs, at the option of the holders, in integral multiples of \$1,000 principal amount at any time prior to the close of business on the second trading day immediately preceding the maturity date. We cannot assure you that we will have sufficient funds to pay the interest or repurchase price or fulfill other obligations under the notes.

We are a holding company with no material operations of our own. As a result, we rely upon dividends and other cash distributions paid to us by our subsidiaries to meet our payment obligations under the notes and our other obligations. Our subsidiaries are distinct legal entities and do not have any obligation, legal or otherwise, to provide us with dividends or other distributions. We may face tax or other adverse consequences, or legal limitations, on our ability to obtain funds from these entities. In addition, our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

- our financial condition, results of operations and cash flows;
- general market conditions for financing activities by internet companies; and
- economic, political and other conditions in China and elsewhere.

If we are unable to obtain funding in a timely manner or on commercially acceptable terms, we may not be able to meet our payment obligations under our convertible notes. If we fail to pay interest on the notes, we will be in default under the indenture governing the notes, which in turn may constitute a default under existing and future agreements governing our indebtedness.

We have experienced fluctuations in our margins.

Many factors may cause our gross and net margins to fluctuate. For example, our gross margin may decrease as costs incurred in the expansion of our business and our physical network of learning centers and service centers increase faster than our revenues. In addition, new investments and acquisitions may cause our margins to decline before we successfully integrate the acquired businesses into our operations and realize the full benefits of these investments and acquisitions. We have experienced a decline in gross margin from fiscal year 2015 to fiscal year 2016, as well as a decline in net margins from fiscal year 2014 to fiscal year 2015. There is a risk that our margins will continue to fluctuate in the future.

We have limited experience generating net income from some of our newer offerings.

Historically, our core businesses have been Xueersi Peiyou small-class offerings and personalized premium services. We have expanded our offerings through internal development and external investments. Some of these new offerings have not generated significant or any profit to date. We have limited experience responding quickly to changes and competing successfully for certain of these new areas. In addition, newer offerings may require more financial and managerial resources than available. Furthermore, there is limited operating history on which you can base your evaluation of the business and prospects of these relatively more recent offerings.

We have limited liability insurance coverage and do not carry business disruption insurance.

We have limited liability insurance coverage for our students and their parents in most of our learning centers. A successful liability claim against us due to injuries suffered by our students or other people on our premises could materially and adversely affect our financial conditions, results of operations and reputation. Even if unsuccessful, such a claim could cause adverse publicity to us, require substantial cost to defend and divert the time and attention of our management. For more information, see “Item 3.D.—Key Information—Risk Factors—Risks Related to Our Business—Accidents or injuries suffered by our students or other people on our premises may adversely affect our reputation, subject us to liability and cause us to incur substantial costs.” In addition, we do not have any business disruption insurance. Any business disruption event could result in substantial cost to us and diversion of our resources.

System disruptions to our websites or computer systems or a leak of student data could damage our reputation and limit our ability to retain students and increase student enrollment.

The performance and reliability of our websites and computer systems is critical to our reputation and ability to retain students and increase student enrollment. Any system error or failure, or a sudden and significant increase in online traffic, could disrupt or slow access to our websites. We cannot assure you that we will be able to expand our online infrastructure in a timely and cost-effective manner to meet the increasing demands of our students and their parents. In addition, our computer systems store and process important information including, without limitation, class schedules, registration information and student data and could be vulnerable to interruptions or malfunctions due to events beyond our control, such as natural disasters and technology failures. For instance, we have in the past experienced interruptions to our operations due to temporary computer system failures. Although we have a daily backup system that runs on different servers for our operating data, we may still lose important student data or suffer disruption to our operations if there is a failure of the database system or the backup system. In addition, computer hackers, foreign governments or cyber terrorists may attempt to penetrate our network security and our website. Unauthorized access to our proprietary business information or customer data may be obtained through break-ins, sabotage, breach of our secure network by an unauthorized party, computer viruses, computer denial-of-service attacks, employee theft or misuse, breach of the security of the networks of our third party providers, or other misconduct. Because the techniques used by computer programmers who may attempt to penetrate and sabotage our network security or our website change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. It is also possible that unauthorized access to customer data may be obtained through inadequate use of security controls by customers. We would suffer economic and reputational damages if a technical failure of our systems or a security breach compromises student data, including identification or contact information, although there has not been any compromise in the past. Any disruption to our computer systems could therefore have a material adverse effect on our on-site operations and ability to retain students and increase student enrollments.

We face risks related to natural and other disasters, including outbreaks of health epidemics, and other extraordinary events, which could significantly disrupt our operations.

Our business could be materially and adversely affected by natural and other disasters, including earthquakes, fire, floods, environmental accidents, power loss, communication failures and similar events. Additionally, our business could be materially and adversely affected by the outbreak of H7N9 bird flu, H1N1 swine influenza, severe acute respiratory syndrome, or SARS, Ebola or another health epidemic. While we have not suffered any material loss or experienced any significant increase in costs as a result of any natural and other disaster or other extraordinary event, our student attendance and our business could be materially and adversely affected by any such occurrence in any of the cities in which we have major operations.

Failure to maintain effective internal controls over financial reporting could cause us to inaccurately report our financial result or fail to prevent fraud and have a material adverse effect on our business, results of operations and the trading price of our ADSs.

We are subject to the reporting obligations under U.S. securities laws. Section 404 of the Sarbanes-Oxley Act of 2002 and related rules require public companies to include a report of management on their internal control over financial reporting in their annual reports. This report must contain an assessment by management of the effectiveness of a public company's internal control over financial reporting. In addition, an independent registered public accounting firm for a public company must attest to and report on management's assessment of the effectiveness of the company's internal control over financial reporting. Our efforts to implement standardized internal control procedures and develop the internal tests necessary to verify the proper application of the internal control procedures and their effectiveness are a key area of focus for our board of directors, our audit committee and senior management.

Our management has concluded that our internal control over financial reporting was effective as of February 29, 2016, and our independent registered public accounting firm has issued an attestation report which concludes that our internal control over financial reporting was effective in all material aspects as of February 29, 2016. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. Moreover, effective internal controls over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. In addition, we need to continue to evaluate the consolidation of our VIEs and VIEs' subsidiaries and schools given the change in the ownership or voting power of the Company by the nominee shareholders of the VIEs. As a result, although we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to continue to comply with Section 404 and other requirements of the Sarbanes-Oxley Act of 2002, any failure to maintain effective internal controls over financial reporting could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs.

We may be the subject of anti-competitive, harassing, or other detrimental conduct by third parties including anonymous allegations, negative blog postings, and the public dissemination of malicious assessments of our business that could cause us to incur significant time and costs to address these allegations, harm our reputation and adversely affect the price of our ADSs.

We may be the target of anti-competitive, harassing, or other detrimental conduct by third parties. Such conduct includes allegations, anonymous or otherwise, sent to our auditors and/or other third parties regarding our operations, accounting, revenues, business relationships, business prospects and business ethics. Additionally, allegations, directly or indirectly against us, may be posted in internet chat-rooms or on blogs or any websites by anyone, whether or not related to us, on an anonymous basis. We may be subject to government or regulatory investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Our reputation may also be negatively affected as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may adversely affect the price of our ADSs.

We have granted and will continue to grant restricted shares, share options and other share-based awards in the future, which may materially reduce our net income.

We adopted a share incentive plan in June 2010 that permits granting of options to purchase our Class A common shares, restricted shares, restricted share units, share appreciation rights, dividend equivalent rights and other instruments as deemed appropriate by the administrator under the plan. In August 2013, we amended and restated our 2010 Share Incentive Plan. Pursuant to the amended and restated 2010 Share Incentive Plan, the maximum aggregate number of Class A common shares that may be issued pursuant to all awards under our share incentive plan is equal to five percent (5%) of the total issued and outstanding shares as of the date of the amended and restated 2010 Share Incentive Plan. However, the shares reserved may be increased automatically if and whenever the unissued share reserve accounts for less than one percent (1%) of the total then issued and outstanding shares, so that after the increase, the shares unissued and reserved under this plan immediately after each such increase shall equal five percent (5%) of the then issued and outstanding shares. As of April 30, 2016, 14,389,068 non-vested restricted Class A common shares and 1,172,546 share options to purchase 1,172,546 Class A common shares under our share incentive plan previously granted to our employees, directors and consultants are outstanding. As a result of these grants and potential future grants under the plan, we have incurred and will continue to incur share-based compensation expenses. We had share-based compensation expenses of \$8.3 million, \$18.4 million and \$25.8 million for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. As of February 29, 2016, the unrecognized compensation expenses related to the non-vested restricted shares and share options amounted to \$187.0 million, which will be recognized over a weighted-average period of 4.0 years. Expenses associated with share-based compensation awards granted under our share incentive plan may materially reduce our future net income. However, if we limit the size of grants under our share incentive plan to minimize share-based compensation expenses, we may not be able to attract or retain key personnel.

Risks Related to Our Corporate Structure

If the PRC government determines that the agreements that establish the structure for operating our business in China are not in compliance 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 education services outside China. None of our offshore holding companies is an educational institution or provides education services. To comply with PRC laws and regulations, we have entered into (i) a series of contractual arrangements among Beijing Century TAL Education Technology Co., Ltd., or TAL Beijing, on the one hand, and Xueersi Education, Xueersi Network, Xinxin Xiangrong and their respective shareholders, subsidiaries and schools, on the other hand, and (ii) a series of contractual arrangements among Beijing Lebai Information Consulting Co., Ltd., or Lebai Information, on the one hand, and Lebai Education and its sole shareholder, subsidiaries and schools, on the other hand. Accordingly, Xueersi Education, Xueersi Network, Xinxin Xiangrong and Lebai Education are our VIEs, and we rely on the contractual arrangements with our VIEs and their respective shareholders, subsidiaries and schools, or the VIE Contractual Arrangements, to conduct most of our services in China. Our VIEs, together with their respective subsidiaries and schools, are our Consolidated Affiliated Entities.

We have been and are expected to continue to be dependent on our Consolidated Affiliated Entities in China to operate our education business until we qualify for direct ownership of educational businesses in China. Pursuant to the VIE Contractual Arrangements, we, through our wholly owned subsidiaries in China, exclusively provide comprehensive intellectual property licensing, technical and business support services to our Consolidated Affiliated Entities in exchange for payments from them. In addition, the VIE Contractual Arrangements provide us with the ability to effectively control our VIEs and their respective existing and future subsidiaries and schools, as applicable.

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

If the corporate structure and contractual arrangements through which we conduct our business in China are found to be in violation of any existing or future PRC laws or regulations, or such arrangements are determined as illegal and invalid by PRC courts, arbitration tribunals or regulatory authorities, or if we fail to obtain or maintain any of the required permits or approvals, we would be subject to potential actions by the relevant PRC regulatory authorities with broad discretion, which actions could include:

- revoke our business and operating licenses;
- require us to discontinue or restrict our operations;
- limit our business expansion in China by way of entering into contractual arrangements;
- restrict our right to collect revenues or impose fines;
- block our websites;
- require us to restructure our operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- impose additional conditions or requirements with which we may not be able to comply; or
- take other regulatory or enforcement actions against us that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. If any of these actions results in our inability to direct the activities of our Consolidated Affiliated Entities that most significantly impact their economic performance, and/or our failure to receive the economic benefits from our Consolidated Affiliated Entities, we may not be able to consolidate these entities in our consolidated financial statements in accordance with U.S. GAAP. However, we do not believe that such actions would result in the liquidation or dissolution of our company, our wholly owned subsidiaries in China or our Consolidated Affiliated Entities.

We rely on the VIE Contractual Arrangements for our PRC operations, which may not be as effective in providing operational control as direct ownership.

We have relied and expect to continue to rely on the VIE Contractual Arrangements to operate our education business in China. See “Item 4.C.— Information on the Company—Organizational Structure—VIE Contractual Arrangements.” The VIE Contractual Arrangements may not be as effective in providing us with control over our Consolidated Affiliated Entities as direct ownership. If we had direct ownership of the Consolidated Affiliated Entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of these entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the VIE Contractual Arrangements, we rely on the performance by our Consolidated Affiliated Entities and their respective shareholders of their obligations under the contracts to exercise control over and receive economic benefits from our Consolidated Affiliated Entities.

We have entered into equity pledge agreements with our VIEs and their respective shareholders to guarantee the performance of the obligations of our Consolidated Affiliated Entities under the exclusive business cooperation agreements they have entered into with us. In the registration forms submitted to the local branch of the State Administration of Industry and Commerce, or the SAIC, for the pledges over the equity interests under the equity pledge agreements, the amount of registered equity interests pledged to TAL Beijing, our wholly owned subsidiary, was RMB10 million, RMB3 million and RMB2 million for Xueersi Education, Xueersi Network and Xinxin Xiangrong, respectively, which represents 100% of their respective registered capital. Pursuant to the equity pledge agreement entered into by and among Lebai Information, Lebai Education and its sole shareholder, 100% of the registered capital of Lebai Education has been pledged to Lebai Information, our wholly owned subsidiary, while such pledge of the equity interests in Lebai Education has not been registered with the local branch of the SAIC. The equity pledge agreements with the shareholders of the VIEs provide that the pledged equity interest shall constitute continuing security for any and all of the indebtedness, obligations and liabilities under all of the principal service agreements and the scope of pledge shall not be limited by the amount of the registered capital of the VIEs. However, it is possible that a PRC court may take the position that the amount listed on the equity pledge registration forms represents the full amount of the collateral that has been registered and perfected. If this is the case, the obligations that are supposed to be secured in the equity pledge agreements in excess of the amount listed on the equity pledge registration forms could be determined by the PRC court as unsecured debt, which takes last priority among creditors.

In addition, we have not entered into agreements with our VIEs that pledge the assets of our Consolidated Affiliated Entities for the benefit of us or our wholly owned subsidiaries. Consequently, the assets of our Consolidated Affiliated Entities are not secured on behalf of our wholly owned subsidiary, and the amounts owed by our Consolidated Affiliated Entities are not collateralized. As a result, if our Consolidated Affiliated Entities fail to pay any amount due to us under, or otherwise breach, the exclusive business service agreements, we will not be able to directly seize the assets of our Consolidated Affiliated Entities. If the nominee shareholders of the VIEs do not act in the best interests of us when conflicts of interest arise, or if they act in bad faith towards us, they may attempt to cause our Consolidated Affiliated Entities to transfer or encumber the assets of the Consolidated Affiliated Entities without our authorization. In such a scenario, we may choose to exercise our option under the call option agreements to demand the shareholders of the VIEs to transfer their respective equity interests in the VIEs to a PRC person designated by us, and we may need to resort to litigation in the PRC courts to effect such an equity interests transfer and prevent the transfer or encumbrance of the VIEs' assets without our authorization. However, uncertainties in the PRC legal system could limit our ability to enforce the VIE Contractual Arrangements. In the event we are unable to enforce the VIE Contractual Arrangements, we may not be able to have the power to direct the activities that most significantly affect the economic performance of our VIEs and their schools and subsidiaries, and our ability to conduct our business may be negatively affected, and we may not be able to consolidate the financial results of our VIEs and their schools and subsidiaries into our consolidated financial statements in accordance with U.S. GAAP.

Any failure by our VIEs or their respective shareholders to perform their obligations under the VIE Contractual Arrangements would have a material adverse effect on our business and financial condition.

If our VIEs or any of their respective subsidiaries or schools or any of their respective shareholders fails to perform its obligations under the VIE Contractual Arrangements, we may have to incur substantial costs and resources to enforce our rights under the contracts, and rely on legal remedies under the PRC law, including seeking specific performance or injunctive relief and claiming damages, which may not be effective. For example, if the shareholders of our VIEs were to refuse to transfer their equity interest in these entities to us or our designee when we exercise the call option pursuant to the VIE Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we may have to take legal actions to compel them to perform their contractual obligations.

All the material agreements under the VIE Contractual Arrangements, which are summarized under “Item 4.C.—Information on the Company—Organizational Structure—VIE Contractual Arrangements”, are governed by PRC law and provide for the resolution of disputes under the agreements through arbitration in Beijing. 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 system in China is not as developed as some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce the VIE Contractual Arrangements. Under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would incur additional expenses and delay. In the event we are unable to enforce the VIE Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities, and our ability to conduct our business may be negatively affected.

The legal owners of our VIEs may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The four legal owners of Xueersi Education and Xueersi Network are Mr. Bangxin Zhang, Mr. Yachao Liu, Mr. Yunfeng Bai and Mr. Yundong Cao, and the three legal owners of Xinxin Xiangrong are Mr. Zhang, Mr. Liu and Mr. Bai, and the sole legal owner of Lebai Education is Xueersi Education. Mr. Zhang, Mr. Liu and Mr. Bai are shareholders and directors or officers of TAL Education Group. Mr. Cao is a beneficial owner of TAL Education Group. The interests of Mr. Zhang, Mr. Liu, Mr. Bai and Mr. Cao as beneficial owners of the VIEs may differ from the interests of our company as a whole, since these parties' respective equity interests in the VIEs may conflict with their respective equity interests in our company.

We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or such conflicts will be resolved in our favor. In addition, these individuals may breach, or cause our Consolidated Affiliated Entities to breach, or refuse to renew, the existing VIE Contractual Arrangements. In June 2013, we entered into a deed of undertaking with Mr. Zhang, which prevents Mr. Zhang from using his majority voting power to remove, replace or appoint any of our directors, and from casting any votes he has as our director or shareholder on any resolutions or matters concerning the deed itself. The deed is irrevocable, and applies to any and all periods during which Mr. Zhang beneficially owns share representing more than 50% of the aggregate voting power of our then total issued and outstanding shares. However, there can be no assurance that such arrangement is sufficient to address potential conflicts of interests Mr. Zhang may encounter. Other than this deed of undertaking we have entered into with Mr. Zhang, we currently do not have any arrangements to address potential conflicts of interest Mr. Zhang, Mr. Liu, Mr. Bai and Mr. Cao may encounter in their capacity as direct or indirect nominee shareholders of the VIEs (and, as applicable, as directors of the VIEs), on the one hand, and as beneficial owners of our company (and, as applicable, director and/or officers of our company), on the other hand. To a large extent, we rely on the legal owners of the VIEs to abide by the laws of the Cayman Islands and China, which provide that directors and officers owe a fiduciary duty to our company that requires them to act in good faith and in the best interests of our company and not to use their positions for personal gains. If we cannot resolve any conflict of interest or dispute between us and these individuals, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

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

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

We have three major types of chops—corporate chops, contract chops and finance chops. We use corporate chops generally for documents to be submitted to government agencies, such as applications for changing business scope, directors or company name, and for legal letters. We use corporate chops or contract chops for executing leases and commercial contracts. We use finance chops generally for making and collecting payments, including, but not limited to issuing invoices. Use of chops must be approved by the responsible departments and follow our internal procedure.

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Our designated legal representatives generally do not have access to the chops. Although we monitor such employees and the designated legal representatives, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees or designated legal representatives could abuse their authority, for example, by binding the relevant subsidiary or Consolidated Affiliated Entity with contracts against our interests, as we would be obligated to honor these contracts if the other contracting party acts in good faith in reliance on the apparent authority of our chops or signatures of our legal representatives. If any designated legal representative obtains control of the chop in an effort to obtain control over the relevant entity, we would need to have a shareholder or board resolution to designate a new legal representative and to take legal action to seek the return of the chop, apply for a new chop with the relevant authorities, or otherwise seek legal remedies for the legal representative's violation of the duties to us.

If any of the authorized employees or designated legal representatives obtain and misuse or misappropriate our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations.

Our Consolidated Affiliated Entities 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 governing private education providers.

The principal regulations governing private education in China are The Law for Promoting Private Education and The Implementation Rules for The Law for Promoting Private Education. 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 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. 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 clear requirements or restrictions on a private school's ability to operate its education business based on such school's status as one that does or does not require reasonable returns.

Our schools are registered as schools that require reasonable returns in some cities and as schools that do not require reasonable returns in others. As of April 30, 2016, we had 47 affiliated schools, among which 17 had elected not to require reasonable returns and the remaining 30 had elected to require reasonable returns. The respective sponsor of each school will make such election and determine the amounts to be allocated to each school's development fund in accordance with PRC laws and regulations. We do not believe that the election to be a school that does or does not require reasonable returns will affect amounts that may be distributed to us by means of different fee payments such as service fees. As a holding company, we rely on dividends and other distributions from our PRC subsidiaries, including TAL Beijing and Lebai Information. TAL Beijing, Lebai Information and their designated affiliates are entitled to receive service fees from the schools according to the relevant exclusive business cooperation agreements. We do not believe that TAL Beijing, Lebai Information and their designated affiliates' right to receive the service fees from the schools will be affected by such election, but if our judgment turns out to be incorrect, TAL Beijing, Lebai Information and our other PRC subsidiaries' ability to make distributions or pay dividends to us may be materially and adversely impacted. If a school elects to be a school that does not require reasonable return but in fact pays reasonable return to its sponsor, in extreme cases, PRC government authorities have the right to suspend the operations of the relevant school and suspend student enrollment and perhaps even to de-register the operating permits of such schools altogether, which may materially and adversely impact our business, financial condition and results of operations.

The VIE Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and a finding that we or our Consolidated Affiliated Entities 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 within ten years after the taxable year when the transactions are conducted. We could face material and adverse tax consequences if the PRC tax authorities determine that the VIE Contractual Arrangements do not represent an arm's-length price and consequently adjust our Consolidated Affiliated Entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our Consolidated Affiliated Entities, which could in turn increase their tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our Consolidated Affiliated Entities for unpaid taxes. Our consolidated net income may be materially and adversely affected if our Consolidated Affiliated Entities' tax liabilities increase or if they are subject to late payment fees or other penalties.

If any of our PRC subsidiaries or Consolidated Affiliated Entities becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy certain important 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.

We currently conduct our operations in China mainly through the VIE Contractual Arrangements. As part of these arrangements, our Consolidated Affiliated Entities hold operating permits and licenses and 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.

We do not have priority pledges and liens against the assets of our Consolidated Affiliated Entities. As a contractual and property right matter, this lack of priority pledges and liens has remote risks. If any of our Consolidated Affiliated Entities undergoes an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and we may not have priority against such third-party creditors on the assets. If any of our Consolidated Affiliated Entities liquidates, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law and recover any outstanding liabilities owed by the entity to our PRC subsidiaries under the applicable service agreements.

In the event that the shareholders of any of our VIEs initiates a voluntary liquidation proceeding without our authorization or attempts to distribute the retained earnings or assets of the relevant VIE without our prior consent, we may need to resort to legal proceedings to enforce the terms of the VIE Contractual Arrangements. Any such litigation may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such litigation would be uncertain.

Risks Related to Doing Business in China

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions in a civil law system 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, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always consistent, and enforcement of these laws, regulations and rules involve uncertainties, which may limit the available legal protections. In addition, the PRC administrative and court authorities have significant discretion in interpreting and implementing or enforcing statutory rules and contractual terms, and it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we may enjoy in China than under some more developed legal systems. These uncertainties may affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith and may affect our ability to enforce our contractual or tort rights. In addition, the regulatory uncertainties may be exploited through unmerited legal actions or threats in an attempt to extract payments or benefits from us. Such uncertainties may therefore increase our operating expenses and costs, and materially and adversely affect our business and results of operations.

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

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

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

The “variable interest entity” structure has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See “Risks Related to Our Corporate Structure” and “Item 4. Information on the Company—C. Organizational Structure—VIE Contractual Arrangements.” Under the draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. Therefore, for any companies with a “variable interest entity” structure in an industry category that is on the “negative list,” the “variable interest entity” structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “negative list” without market entry clearance may be considered as illegal.

Through our dual-class share structure, Mr. Bangxin Zhang, a PRC citizen, possesses and controls 74.0% of the voting power of our company as of April 30, 2016. However, the draft Foreign Investment Law has not taken a position on what actions shall be taken with respect to the existing companies with a “variable interest entity” structure, whether or not these companies are controlled by PRC parties, while it has solicited comments from the public on this point. Moreover, it is uncertain whether the industries in which our variable interest entities operate will be subject to the foreign investment restrictions or prohibitions set forth in the “negative list” to be issued. If the enacted version of the Foreign Investment Law and the final “negative list” mandate further actions, such as the MoC market entry clearance, to be completed by companies with existing “variable interest entity” structure like us, we face uncertainties as to whether such clearance can be timely obtained, or at all.

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

Uncertainties with respect to PRC regulatory restrictions on after-school services could have a material adverse effect on us.

In 2009, the MoE, together with a few other PRC government agencies, issued implementation rules on administration of education-related fee collection, which provide, among other things, that schools that are part of the compulsory education system are not allowed to charge students additional fees for any type of after-school tutoring classes, and that public schools and their teachers, whether or not in cooperation with private schools, are prohibited from offering any type of after-school tutoring or training classes for a fee outside the school. Private schools, which are not part of the compulsory education system, generally are permitted to offer after-school tutoring services pursuant to their private school operating permits issued by the relevant PRC government authorities pursuant to the Law for Promoting Private Education and implementation rules promulgated thereunder. However, several provincial government agencies issued notices or rules applicable in their respective provinces expressly prohibiting even private schools from offering after-school tutoring classes to primary and secondary school students. Among the areas where we offer after-school tutoring services, local governments in Shanghai and Tianjin issued notices in 2004 and 2005, respectively, prohibiting private schools from offering after-school tutoring services to primary and secondary school students. Nevertheless, we are not aware of any instances in Shanghai or Tianjin where the government authorities took actions enforcing the aforementioned notices; nor have we received any notices, warnings or inquiries from these government authorities with respect to our tutoring services. In February 2013, the Beijing Municipal Education Commission issued a Notice on Reducing Schoolwork-Related Stress on Students in Primary and Secondary Schools, which, among other things, strictly prohibits private schools from offering after-school tutoring classes to primary and secondary school students. The aforementioned notices do not provide any monetary penalties for violations and thus we are not able to quantify the penalties that we may be subject to if we are deemed not to be in compliance with these notices. We are not aware of any imminent risks in connection with the aforementioned notices. However, since PRC regulatory authorities have significant discretion in interpreting and implementing rules and regulations and that regulatory enforcements can be inconsistent, we cannot assure you that we will not in the future be subject to the above mentioned regulations, fined or otherwise penalized by government authorities for offering such classes, in which case our business and operations could be materially and adversely affected.

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, and has previously resulted in, the revocation of licenses to provide internet content and other licenses, and the closure of the concerned websites. The website operator may also be held liable for such censored information displayed on or linked to the websites. If any of our websites, including those used for our online education business, are found to be in violation of any such requirements, we may be penalized by relevant authorities, and our operations or reputation could be adversely affected.

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

We are required to obtain and maintain various licenses and permits and fulfill registration and filing requirements in order to operate our tutoring service business. For instance, a duly approved private school will be granted a private school operating permit, and shall be registered with the Ministry of Civil Affairs or its local branches as a privately run non-enterprise institution. In addition, learning centers of schools must make filings with the MoE or its local branches. As of February 29, 2016, we had 363 learning centers in operation, of which 241 learning centers offer Xueersi Peiyou small classes, 41 learning centers offer Firstleap small classes and five learning centers offer Mobby small classes. As of April 30, 2016, 66 learning centers had not completed filing requirements for permits or registrations. These 66 learning centers in the aggregate accounted for 7% of our total net revenues for the fiscal year ended February 29, 2016. If we fail to comply with applicable legal requirements, we may be subject to fines, confiscation of any gains derived from our non-compliant operations or the suspension of our non-compliant operations, which may materially and adversely affect our business and results of operations.

We are in the process of preparing filings and applying for permits for these learning centers but do not expect to complete all such filings and obtain all such permits in the near term. We have been taking steps to meet these requirements, but there is no assurance that our efforts will result in full compliance given the significant amount of discretion PRC government authorities have in interpreting, implementing and enforcing rules and regulations and due to other factors beyond our control. For example, Shenzhen Municipal Education Bureau ceased accepting applications for the establishment of new private schools between the year of 2006 and December 7, 2010. While we were preparing the application to the Shenzhen educational authorities for the operating permits in Shenzhen, two of our learning centers received notices from the local city administrative departments in March 2012 which required us to obtain the operating permits before we could continue our business in Shenzhen. We later received the private school operating permit for our school in Shenzhen from Shenzhen Municipal Education Bureau in August 2013 and completed the registration with the Shenzhen City Civil Affairs Office in November 2013. For the twelve Xueersi Peiyou learning centers operated by our school in Shenzhen, we have completed the required registration with the Shenzhen Municipal Education Bureau.

We have been making efforts to ensure compliance with applicable rules and regulations in establishing new learning centers, as well as to remediate non-compliances relating to our existing learning centers. In addition, our business and legal teams follow an internal guideline to make necessary filings and obtain necessary permits for new learning centers on a timely basis, and final business decisions are made taking into account the business and legal risks and uncertainties in our expansion plan. However, if we fail to comply with the applicable legal requirements concerning obtaining and maintaining applicable licenses and permits and fulfilling applicable registration and filing requirements to operate our after-school tutoring business, including any failure to cure non-compliances in a timely manner, we may be subject to fines, confiscation of the gains derived from our non-compliant operations or the suspension of our non-compliant operations, which may materially and adversely affect our business and results of operations.

If the relevant PRC regulatory authorities subsequently determine that personalized premium services must be operated through schools or for-profit training institutions that meet certain legal requirements, our personalized premium services business would be exposed to increased risks, which may materially and adversely affect our business and results of operations.

Substantially all of the personalized premium services we offer in Beijing are offered through Beijing Huanqiu Zhikang Shidai Education Consulting Co., Ltd., or Huanqiu Zhikang, and Zhixuesi Education Consulting (Beijing) Co., Ltd., or Zhixuesi Beijing, our wholly owned subsidiaries, both of which are foreign-invested companies under PRC laws. Huanqiu Zhikang and Zhixuesi Beijing together with their branches have obtained business licenses from the Beijing branch of the SAIC, expressly permitting them to conduct “educational consulting services,” which we believe covers our personalized premium services in Beijing and are not under the jurisdiction of the Beijing Municipal Education Commission based on telephone inquiries we and our PRC counsel have made to the Beijing Municipal Education Commission. For the fiscal year ended February 29, 2016, revenues from the personalized premium services of Huanqiu Zhikang and Zhixuesi Beijing contributed approximately 6.8% of our total net revenues.

In cities other than Beijing, a significant portion of our personalized premium services is offered through the subsidiaries of our VIEs, and most of these subsidiaries have obtained business licenses from the local branch of the SAIC permitting them to conduct consulting services. However, some of the subsidiaries of our VIEs have not obtained business licenses and a few learning centers which engage in personalized premium services have not obtained operating permits that meet regulatory requirements. For example, Shanghai local educational authority and Shanghai branch of the SAIC published provisional measures in June 2013 regarding the registration and management of for-profit educational institutions to provide the conditions and procedures for setting up for-profit private training institutions in the form of a company and further clarify that other types of companies shall not carry out educational consulting or one-on-one services. These provisional measures became effective on July 20, 2013 and stayed effective until July 19, 2015. However, based on telephone inquiries our PRC counsel have made to the Shanghai Municipal education Commission, these provisional measures still apply in practice, since no alternative regulation is currently available. We offered personalized premium services in some districts in Shanghai through a company with its business license not permitting it to conduct such consulting services and we have not yet set up companies in Shanghai to meet regulatory requirements in accordance with the aforementioned rules. In addition, two learning centers in Xi'an are operated by a subsidiary of a VIE without the scope of "educational consulting services" for the fiscal year ended February 29, 2016, revenues from the personalized premium services of such subsidiaries of our VIEs in Shanghai and Xi'an contributed approximately 1.6% of our total net revenues.

We believe that our personalized premium services fall within the scope of "for-profit training activities" and are not "educational activities" that must be under the jurisdiction of the educational authorities and thus offered through schools or educational institutions. However, the differences between "educational activities," on the one hand, and "for-profit training activities" and "educational consulting services," on the other hand, remain unclear under applicable PRC laws and regulations. The Law for Promoting Private Education provides that "educational activities," which are required to be conducted through schools or educational institutions, shall be regulated by the MoE whereas "for-profit training activities" shall be regulated by the SAIC in accordance with separate regulations to be issued by the State Council. To date, the State Council has not promulgated any regulations with respect to "for-profit training activities." In July 2010, the MoE issued the National Guidance on Mid- to Long-term Education Reform and Development, which is the first guidance expressly encouraging the applicable PRC government authorities to classify, through implementing rules or regulations, activities as "for-profit training activities" to be conducted only by for-profit entities or "non-profit training or educational activities" to be conducted only by certain schools. However, to date, the SAIC and the MoE have not issued any such rules or regulations, and in practice, regulators in different local jurisdictions may still have different views and administrative policies on one-on-one tutoring activities. Therefore, we cannot be certain that the relevant government authorities will reach the same conclusion in the future as we have that our personalized premium services fall within the scope of "for-profit training activities" and are not "educational activities."

If the relevant PRC regulatory authorities subsequently determine that our personalized premium services must be operated through schools or educational institutions, as opposed to through companies, or if the local branch of the SAIC subsequently determines that our personalized premium services must be operated through companies that hold business licenses to cover for-profit training services or educational consulting services, we may be required to restructure our operations to offer personalized premium services through the schools owned by our VIEs. We may also be subject to fines of up to RMB100,000 for each of our subsidiaries that offers personalized premium services, suspension of our personalized premium services or other penalties, which may materially and adversely affect our business and results of operations.

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 business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The economy in China differs from the economies of most developed countries in many respects, including the degree of government involvement, level of development, growth rate, control of foreign exchange and currency conversion, access to financing and allocation of resources.

The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. While some of these measures benefit the overall PRC economy, they may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments, conversion of foreign exchange into Renminbi or changes in tax regulations that are applicable to us. In addition, future actions or policies of the PRC government to control the pace of economic growth may cause a decrease in the level of economic activity in China, which in turn could materially affect our liquidity and access to capital and our ability to operate our business.

A severe or prolonged downturn in the global or PRC economy could materially and adversely affect our business and our financial condition.

The global macroeconomic environment is facing challenges, including the escalation of the European sovereign debt crisis since 2011, the end of quantitative easing by the U.S. Federal Reserve and the economic slowdown in the Eurozone in 2014. The Chinese economy has slowed down since 2012 and such slowdown may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in volatility in oil and other markets, and over the conflicts involving Ukraine and Syria. There have also been concerns on the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition. In addition, continued turbulence in the international markets may adversely affect our ability to access capital markets to meet liquidity needs.

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

The economy of China has been experiencing increases in labor costs in recent years. The overall economy and the average wage in China are expected to continue to grow. The average wage level for our employees has increased in recent years. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. It is up to the relevant government agencies to determine whether an employer has made adequate payments of the requisite statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our students by increasing prices for our services or improving the utilization of our teachers and our staff, our profitability and results of operations may be materially and adversely affected.

We may rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could limit our ability to pay dividends to holders of our ADSs and common shares.

We are a holding company and conduct substantially all of our business through our operating subsidiaries and Consolidated Affiliated Entities. We may rely on dividends paid by our subsidiaries for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities organized in China is subject to limitations. In particular, regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. PRC companies are also required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their statutory surplus reserves until the accumulative amount of such reserves reaches 50% of their registered capital. These reserves are not distributable as cash dividends. Furthermore, if our subsidiaries and Consolidated 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. 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. In addition, PRC companies may allocate a portion of their after-tax profit to their staff welfare and bonus fund at the discretion of their boards of directors. Our PRC subsidiaries and Consolidated Affiliated Entities historically have not allocated any of their after-tax profits to staff welfare and bonus funds, since there is no legal requirement to do so, but they may nevertheless decide to set aside such funds in the future. There is no maximum amount of after-tax profit that a company may contribute to such funds. Moreover, each of our affiliated schools is required to allocate certain amount of profits to its development fund for the construction or maintenance of school facilities or procurement or upgrade of educational equipment at the end of each fiscal year. See "Item 4.B. Information on the Company—Business Overview—PRC Regulation—Regulations on Private Education—The Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education" for a discussion on the requirements for private schools to make allocations to school development funds. Any direct or indirect limitation on the ability of our PRC subsidiaries to distribute dividends and other distributions to us could materially and adversely limit our ability to make investments or acquisitions at the holding company level, pay dividends or otherwise fund and conduct our business.

PRC laws and regulations may limit the use of the proceeds we received from our initial public offering or other financing activities for our investment or operations in China.

In utilizing the proceeds we received from our initial public offering in October 2010 or from other financing activities, such as the offering of convertible senior notes in May 2014, as an offshore holding company with PRC subsidiaries, we may (i) make additional capital contributions to our PRC subsidiaries, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiaries or our VIEs, or (iv) acquire offshore entities with business operations in China in an offshore transaction. However, most of these uses are subject to PRC regulations and approvals. For example:

- capital contributions to our subsidiaries in China, whether existing ones or newly established ones, must be approved by the MoC or its local branches and must also be registered with the local bank authorized by State Administration of Foreign Exchange, or SAFE;
- loans by us to our 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 SAFE or its local branches; and
- loans by us to our Consolidated Affiliated Entities, which are domestic PRC entities, must be registered with the National Development and Reform Commission and must also be registered with the SAFE or its local branches.

In addition, on August 29, 2008, the SAFE promulgated a notice regulating the conversion by a foreign-invested company of its capital contribution in foreign currency into Renminbi, or SAFE Circular 142, which requires that RMB converted from foreign currency-denominated capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the relevant government authority and may not be used to make equity investments in China, unless specifically provided otherwise. Moreover, the approved use of such RMB funds may not be changed without approval from the SAFE. RMB funds converted from foreign exchange may not be used to repay loans in RMB if the proceeds of such loans have not yet been used. Any violation of SAFE Circular 142 may result in severe penalties, including substantial fines. We expect that if we convert the net proceeds from offshore offerings into RMB pursuant to SAFE Circular 142, our use of RMB funds will be for purposes within the approved business scope of our PRC subsidiaries. However, we may not be able to use such RMB funds to make equity investments in China through our PRC subsidiaries. On March 30, 2015, the SAFE promulgated the Notice on Reforming the Management Method relating to Conversion of the Capital Contribution of Foreign Invested Company from Foreign Exchange to Renminbi, or SAFE Circular 19. Although SAFE Circular 142 was abolished when SAFE Circular 19 became effective on June 1, 2015, the foregoing rules have been retained in SAFE Circular 19. On February 13, 2015, the SAFE promulgated the Notice on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, or SAFE Circular 13, which was effective on June 1, 2015. Pursuant to SAFE Circular 13, annual foreign exchange inspection of direct investment is not required anymore and the registration of existing equity is required. SAFE Circular 13 also grants the authority to banks to examine and process foreign exchange registration with respect to both domestic and offshore direct investment.

We expect that PRC laws and regulations may continue to limit our use of proceeds from offshore offerings. There are no costs associated with registering loans or capital contributions with relevant PRC government authorities, other than nominal processing charges. Under PRC laws and regulations, the PRC government authorities are required to process such approvals or registrations or deny our application within a prescribed period which is usually less than 90 days. The actual time taken, however, may be longer due to administrative delay. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future plans to use the U.S. dollar proceeds we receive from offshore offerings for our investment and operations in China. If we fail to receive such registrations or approvals, our ability to use the proceeds of offshore offerings and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and ability to fund and expand our business.

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

The Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular 75, requires PRC residents to register with the relevant local branch of the SAFE before establishing or controlling any company outside China, referred to as an offshore special purpose company, for the purpose of raising funds from overseas to acquire or exchange the assets of, or acquiring equity interests in, PRC entities held by such PRC residents and to update such registration in the event of any significant changes with respect to that offshore company. The SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced SAFE Circular 75. SAFE Circular 37 requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle". The term "control" under SAFE Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions.

We believe that all of our shareholders who are PRC citizens or residents have completed their required registrations with the SAFE in accordance with SAFE Circular 75 prior to, and immediately after, the completion of our initial public offering in October 2010. However, we may not at all times be fully aware or informed of the identities of all of our beneficial owners who are PRC citizens or residents, and we may not always be able to compel our beneficial owners to comply with rules and requirements of the SAFE; nor can we ensure you that their registrations, if they choose to apply, will be successful. The failure or inability of our PRC resident beneficial owners to make any required registrations or comply with these requirements may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to our PRC operations, limit our PRC subsidiary's ability to pay dividends or otherwise distribute profits to us, or otherwise materially and adversely affect us.

The M&A rules establish complex procedures for some acquisitions of PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

On August 8, 2006, six PRC regulatory agencies, namely the MoC, the State Assets Supervision and Administration Commission, the State Administration of Taxation, or the SAT, the SAIC, the China Securities Regulatory Commission, or CSRC, and the SAFE, jointly adopted regulations, commonly referred to as the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules establish procedures and requirements that could make some acquisitions of PRC companies by foreign investors more time-consuming and complex, including requirements in some instances that the MoC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. We may expand our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MoC, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

The discontinuation of any of the preferential tax treatments currently available to us in China could adversely affect our overall results of operations.

Under the PRC Enterprise Income Tax Law, or the EIT Law, an enterprise qualified as a High and New Technology Enterprise is entitled to a preferential tax rate of 15%. The status of High and New Technology Enterprise may be retained subject to annual reexamination. Under the Notice on Further Encouraging the Development of Software Enterprises and Integrated Circuits Industry by Enterprise Income Tax in April 2012, an enterprise qualified as a Newly Established Software Enterprise is entitled to a two-year exemption from the enterprise income tax and a further three-year tax reduction to 50% of the applicable rate. Pursuant to the Notice on Issues Related to the Enterprise Income Tax Preferential Policies of Software and Integrated Circuit Industry on May 4, 2016, the software enterprises which enjoy preferential tax treatments shall also provide filing documents with respect to preferential tax treatments to the relevant tax authority when filing annual enterprise income tax returns for the settlement of tax payments. From January 1, 2011, Xueersi Education was eligible for retention of High and New Technology Enterprise status and therefore was entitled to a preferential tax rate of 15% until the end of calendar year 2013. From January 1, 2014, Xueersi Education was again eligible for retention of High and New Technology Enterprise status, and is therefore entitled to a preferential tax rate of 15% until the end of calendar year 2016. Our wholly owned subsidiary, TAL Beijing, was qualified as a Newly Established Software Enterprise under the EIT Law and therefore entitled to a two-year exemption from the enterprise income tax from calendar year 2009 to 2010 and a further tax reduction to 50% of the applicable rate from calendar year 2011 to 2013. Moreover, TAL Beijing was qualified as a High and New Technology Enterprise from January 1, 2014, and is therefore entitled to a preferential tax rate of 15% from calendar year 2014 to 2016. Our wholly owned subsidiary, Yidu Huida Education Technology (Beijing) Co., Ltd., or Yidu Huida, was qualified as a Newly Established Software Enterprise under the EIT law, and therefore entitled to a two-year exemption from the enterprise income tax from calendar year 2011 to 2012 and enjoys a further tax reduction to 50% of the applicable rate from calendar year 2013 to 2015. Moreover, Yidu Huida was qualified as a High and New Technology Enterprise from January 1, 2015, and is therefore entitled to a preferential tax rate of 15% from calendar year 2015 to 2017. Our wholly owned subsidiary, Beijing Xintang Sichuang Education Technology Co., Ltd., or Beijing Xintang Sichuang, was also qualified as a Newly Established Software Enterprise under the EIT Law and was therefore entitled to a two-year exemption from the enterprise income tax from calendar year 2013 to 2014 and enjoys a further reduction to a tax rate of 12.5% from calendar year 2015 to 2017.

We cannot assure you, however, that the tax authorities will not in the future change their position on our preferential tax treatments or that our subsidiaries and Consolidated Affiliated Entities will be able to pass their respective annual re-examination and obtain preferential tax treatment. Further, the preferential tax treatments granted to us by government authorities may be adjusted or revoked at any time in the future. The discontinuation of any preferential tax treatments currently available to us will cause our effective tax rate to increase, which will increase our income tax expenses and in turn decrease our net income.

Under the EIT Law, we may be classified as a PRC “resident enterprise”. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.

Under the EIT Law, an enterprise established outside China with “de facto management body” within China is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes, although the dividends paid to one resident enterprise from another may be qualified as “tax-exempt income.” The implementing rules of the EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. A circular issued by the SAT on April 22, 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with its “de facto management body” located within China if all of the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly in China; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in China; and (iv) at least half of the enterprise’s directors with voting right or senior management reside in China.

In addition, the SAT issued a bulletin on August 3, 2011, effective as of September 1, 2011, to provide more guidance on the implementation of the above circular. The bulletin clarified certain matters relating to resident status determination, post-determination administration and competent tax authorities. It also specifies that when provided with a copy of a PRC tax resident determination certificate from a resident PRC-controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the PRC-sourced dividends, interest and royalties to the PRC-controlled offshore incorporated enterprise. Although both the circular and the bulletin only apply to offshore enterprises controlled by PRC enterprises and not those by PRC individuals, the determination criteria set forth in the circular and administration clarification made in the bulletin may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax residency status of offshore enterprises and the administration measures should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals.

In addition, the SAT issued a bulletin on January 29, 2014, to provide more guidance on the implementation of the above circular. This bulletin further provided that, among other things, an entity that is classified as a “resident enterprise” in accordance with the circular shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors registered. From the year in which the entity is determined as a “resident enterprise”, any dividend, profit and other equity investment gain shall be taxed in accordance with the Article 26 of EIT law and the Article 17 and Article 83 of its implementation rules.

As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply to our case. We believe that none of our offshore holding companies should be treated as a “resident enterprise” for PRC tax purposes. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities, there are uncertainties and risks associated with this issue. If the PRC tax authorities determine that any of our offshore holding companies are “resident enterprises” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income, as well as PRC enterprise income tax reporting obligations. Second, although under the EIT Law and its implementing rules, dividend income between qualified resident enterprises is a “tax-exempt income,” we cannot guarantee that dividends paid to TAL Education Group from our PRC subsidiaries through TAL Holding Limited, or TAL Hong Kong, or dividends paid from our PRC subsidiaries to Yidu Technology Group, which is incorporated in the Cayman Islands, through Yidu Technology Group Limited, which is incorporated in Hong Kong, or dividends paid from our PRC subsidiaries to Firstleap Education, which is incorporated in the Cayman Islands, through Firstleap Education (HK) Limited, which is incorporated in Hong Kong, would qualify as “tax-exempt income” and will not be subject to withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as “resident enterprises” for PRC enterprise income tax purposes. Finally, the “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC enterprise shareholders and with respect to gains derived by our non-PRC and enterprise shareholders from transferring our notes, shares or ADSs, if such income is considered PRC-sourced income by the relevant PRC authorities. This could have the effect of increasing our and our shareholders’ effective income tax rates and may require us to deduct withholding tax from any dividends we pay to our non-PRC shareholders. In addition to the uncertainties regarding how the “resident enterprise” classification may apply, it is also possible that the rules may change in the future, possibly with retroactive effect.

Dividends we receive from our operating subsidiaries located in China may be subject to PRC withholding tax.

Pursuant to the Arrangement between the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, dividends declared after January 1, 2008 and distributed to our Hong Kong subsidiaries by our PRC subsidiaries are subject to withholding tax at a rate of 5%, provided that our Hong Kong subsidiaries are deemed by the relevant PRC tax authorities to be “non-PRC resident enterprises” under the EIT Law and hold at least 25% of the equity interest of our PRC subsidiaries. The SAT promulgated the Notice on How to Understand and Determine the Beneficial Owners in Tax Agreement on October 27, 2009, or SAT Circular 601, which provides guidance for determining whether a resident of a jurisdiction with tax treaties with China is the “beneficial owner” of an item of income under PRC tax treaties and tax arrangements. According to SAT Circular 601, a beneficial owner generally must engage in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. A conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. Although we may use our Hong Kong subsidiaries as a platform to expand our business in the future, our Hong Kong subsidiaries currently do not engage in any substantive business activities and thus it is possible that our Hong Kong subsidiaries may not be regarded as “beneficial owners” for the purposes of SAT Circular 601 and the dividends they receive from our PRC subsidiaries would be subject to withholding tax at a rate of 10%.

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

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or SAT Circular 698, issued by the SAT on December 10, 2009, where a foreign investor transfers the equity interests of a resident enterprise indirectly via disposition of the equity interests of an overseas holding company, or an “indirect transfer,” and such overseas holding company is located in a tax jurisdiction that (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report the indirect transfer to the competent tax authority. The PRC tax authority will examine the true nature of the indirect transfer, and if the tax authority considers that the foreign investor has adopted an “abusive arrangement” in order to avoid PRC tax, it may disregard the existence of the overseas holding company and re-characterize the indirect transfer and as a result, gains derived from such indirect transfer may be subject to PRC withholding tax at a rate of up to 10%.

On February 6, 2015, the SAT issued the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, or SAT Bulletin 7, which terminated the aforementioned articles of SAT Circular 698. Pursuant to SAT Bulletin 7, where a non-resident enterprise indirectly transfers properties such as equity in PRC resident enterprises without any justifiable business purposes and aiming to avoid the payment of enterprise income tax, such indirect transfer must be reclassified as a direct transfer of equity in PRC resident enterprise. To assess whether an indirect transfer of PRC taxable properties has reasonable commercial purposes, all arrangements related to the indirect transfer must be considered comprehensively and factors set forth in SAT Bulletin 7 must be comprehensively analyzed in light of the actual circumstances. SAT Bulletin 7 also provides that, where a non-PRC resident enterprise transfers its equity interests in a resident enterprise to its related parties at a price lower than the fair market value, the competent tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is little practical experience regarding the application of SAT Bulletin 7 because it was issued in February 2015. During the effective period of SAT Circular 698, some intermediary holding companies were actually looked through by the PRC tax authorities, and consequently the non-PRC resident investors were deemed to have transferred the PRC subsidiaries and PRC corporate taxes were assessed accordingly. It is possible that we or our non-PRC resident investors may become at risk of being taxed under SAT Bulletin 7 and may be required to expend valuable resources to comply with SAT Bulletin 7 or to establish that we or our non-PRC resident investors should not be taxed under SAT Bulletin 7, which may have an adverse effect on our financial condition and results of operations or such non-PRC resident investors’ investment in us.

We face risks and uncertainties with respect to the licensing requirement for Internet audio-video programs.

On December 20, 2007, the State Administration of Radio, Film and Television, or SARFT (which was merged with the General Administration of Press and Publication in 2013 to form the State Administration of Press, Publication, Radio, Film and Television, or SAPPRFT), and the Ministry of Information Industry, or MII (which was superseded in 2008 by the Ministry of Industry and Information Technology, or MIIT), issued the Administrative Measures Regarding Internet Audio-Video Program Services, or the Internet Audio-Video Program Measures, which became effective on January 31, 2008 and was revised on August 28, 2015. Among other things, the Internet Audio-Video Program Measures stipulate that no entities or individuals may provide Internet audio-video program services without a License for Disseminating Audio-Video Programs through Information Network issued by the SARFT or SAPPRFT (as applicable) or the relevant local branches or completing the relevant registration with the SARFT or SAPPRFT (as applicable) or the relevant local branches, and only entities wholly owned or controlled by the PRC government may engage in the production, editing, integration or consolidation, and transmission to the public through the Internet, of audio-video programs, or the provision of audio-video program uploading and transmission services. On February 3, 2008, the SARFT and the MII jointly held a press conference in response to inquiries related to the Internet Audio-Video Program Measures, during which the SARFT and the MII officials indicated that providers of audio-video program services established prior to the promulgation date of the Internet Audio-Video Program Measures that do not have any regulatory non-compliance records can re-register with the relevant government authorities to continue their current business operations. After the conference, the two authorities published a press release that confirmed the above guidelines. There are still significant uncertainties relating to the interpretation and implementation of the Internet Audio-Video Program Measures, in particular, the scope of Internet Audio-Video Programs.

Furthermore, on April 1, 2010, the SARFT promulgated the Tentative Categories of Internet Audio-Visual Program Services (Trail), or the Categories, which clarified the scope of Internet audio-video programs services. According to the Categories, there are four categories of Internet audio-visual program services which are further divided into seventeen sub-categories. The third sub-category to the second category covers the making and editing of certain specialized audio-video programs concerning, among other things, educational content, and broadcasting such content to the general public online.

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

We began offering online courses in 2010 www.xueersi.com, and in the fiscal years ended February 28/29, 2014, 2015 and 2016, revenues derived from audio-video program services offered through www.xueersi.com that may be subject to the Audio-Video Program Measures were 3.0%, 3.6% and 4.0%, respectively, of our total net revenues. In the course of offering online tutoring services, we transmit our audio-video educational courses and programs through the Internet only to enrolled students, not to the general public. The limited scope of our audience distinguishes us from general online audio-video broadcasting companies, such as companies operating user-generated content websites. In addition, we do not provide audio-video program uploading and transmission services. As a result, we believe that we are not subject to the Internet Audio-Video Program Measures and the Broadcasting Audio-Video Programs Regulations. However, there is no further official or publicly available interpretation of these definitions, especially the scope of Internet audio-video program service. If the government authorities determine that our provision of online tutoring services falls within the Internet Audio-Video Program Measures or the Broadcasting Audio-Video Programs Regulations, we may not be able to obtain the required permit or license. If this occurs, we may become subject to significant penalties, fines, legal sanctions or an order to suspend our use of audio-video content.

Fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment.

Our revenues and costs are mostly denominated in RMB. The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in PRC political and economic conditions and PRC foreign exchange policies. The conversion of Renminbi into foreign currencies, including U.S. dollar, is based on rates set by the People's Bank of China. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation was halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. As a consequence, the Renminbi fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. After June 2010, the Renminbi began to appreciate against the U.S. dollar again, although there have been some periods when it has depreciated against the U.S. dollar, as it did for example during 2014 and 2016. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into RMB for capital expenditures and working capital and other business purposes, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our common shares or ADSs, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

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

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

The PRC government imposes controls on the convertibility between the Renminbi and foreign currencies and, in certain cases, the remittance of currency out of China. Under our current corporate structure, our income is primarily derived from a share of the earnings from our PRC subsidiaries. Revenues of our PRC subsidiaries are all denominated in RMB. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, for any PRC company, dividends can be declared and paid only out of the retained earnings of that company under PRC law. Furthermore, approval from the SAFE or its local branch is required where Renminbi 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. Specifically, under the existing exchange restrictions, without a prior approval of the SAFE, cash generated from the operations of our subsidiaries in China may be used to pay dividends by our PRC subsidiaries to TAL Education Group through our Hong Kong subsidiaries and pay employees of our PRC subsidiaries who are located outside China in a currency other than the Renminbi. With a prior approval from the SAFE, cash generated from the operations of our PRC subsidiaries and Consolidated Affiliated Entities may be used to pay off debt in a currency other than the RMB owed by our subsidiaries and Consolidated Affiliated Entities to entities outside China, and make other capital expenditures outside China in a currency other than the Renminbi. 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.

Employee participants in our share incentive plan who are PRC citizens may be required to register with the SAFE. We also face regulatory uncertainties in China that could restrict our ability to grant share incentive awards to our employees who are PRC citizens.

To implement the Administrative Rule on Foreign Exchange Matters of Individuals promulgated by the People's Bank of China and its related implementing rule provided by the SAFE, on March 28, 2007, the SAFE issued the Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Incentive Plan and Stock Option Plan of An Overseas Listed Company, or SAFE Circular 78. For any plans adopted by an overseas listed company that are covered by SAFE Circular 78, it requires the employee participants who are PRC citizens to register, through a PRC agent or PRC subsidiary of the overseas listed company, with the SAFE or its local branch. In addition, SAFE Circular 78 also requires the employee participants who are PRC citizens to follow a series of requirements, including applications for foreign exchange purchase quotas, opening of special bank accounts and filings with the SAFE or its local branch before they exercise their stock options. On January 7, 2008, the SAFE issued Notice on Relinquishing Power of Approving the First-time Application of Foreign Exchange Purchase Quotas, Opening of Special Bank Accounts. According to this notice, the local SAFE branches at provincial level have the authority to approve certain foreign exchange transactions in connection with equity compensation plans or incentive plans.

Pursuant to the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in a Stock Incentive Plan of an Overseas Publicly-Listed Company issued by the SAFE on February 15, 2012, or SAFE Circular 7, which terminated both SAFE Circular 78 and the Notice on Relinquishing Power of Approving the First-time Application of Foreign Exchange Purchase Quotas, Opening of Special Bank Accounts issued by the SAFE on January 7, 2008, a qualified PRC agent (which could be the PRC subsidiary of the overseas-listed company) is required to file, on behalf of "domestic individuals" (both PRC residents and non-PRC residents who reside in China for a continuous period of not less than one year, excluding the foreign diplomatic personnel and representatives of international organizations) who are granted shares or share options by the overseas-listed company according to its stock incentive plan, an application with the SAFE to conduct the SAFE registration with respect to such stock incentive plan, and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the stock purchase or stock option exercise. Such PRC individuals' foreign exchange income received from the sale of stocks and dividends distributed by the overseas listed company and any other income shall be fully remitted into a collective foreign currency account in the PRC opened and managed by the PRC domestic agent before distribution to such individuals. In addition, such domestic individuals must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options and their purchase and sale of stock. The PRC domestic agent also needs to update registration with the SAFE within three months after the overseas-listed company materially changes its stock incentive plan or make any new stock incentive plans.

Prior to the issuance of SAFE Circular 7, we received approval from the SAFE's Beijing branch in January 2012 in regards to applications we had submitted on behalf of certain of our employees who hold a significant number of restricted shares. Upon the issuance of SAFE Circular 7, we renewed our registration on behalf of these employees in accordance with SAFE Circular 7 as SAFE Circular 78 ceased to be applicable for such registration. From time to time, we need to apply for or to update our registration with the SAFE or its local branches on behalf of our employees who are granted options or registered shares under our share incentive plan or material changes in our current share incentive plan. However, we may not always be able to make applications or update our registration on behalf of our employees who hold our restricted shares or other types of share incentive awards in compliance with SAFE Circular 7, nor can we ensure you that such applications or update of registration will be successful. If we or the participants of our share incentive plan who are PRC citizens fail to comply with SAFE Circular 7, we and/or such participants of our share incentive plan may be subject to fines and legal sanctions, there may be additional restrictions on the ability of such participants to exercise their stock options or remit proceeds gained from sale of their stock into China, and we may be prevented from further granting share incentive awards under our share incentive plan to our employees who are PRC citizens. Such events could adversely affect our business operations.

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

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

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

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

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

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

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

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in China, which could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding PRC-based, U.S.-listed companies and the market price of our ADSs may be adversely affected.

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

Risks Related to Our ADSs

The market price for our ADSs may be volatile.

The market price for our ADSs has fluctuated significantly since we first listed our ADSs. Since our ADSs became listed on the New York Stock Exchange on October 20, 2010, the closing prices of our ADSs have ranged from \$7.3 to \$58.49 per ADS, and the last reported trading price on May 27, 2016 was \$56.45 per ADS.

The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors such as:

- actual or anticipated fluctuations in our operating results,
- changes in financial estimates by securities research analysts,
- changes in the economic performance or market valuation of other education companies,
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments,
- addition or departure of our executive officers and key personnel,
- detrimental negative publicity about us, our competitors or our industry,
- intellectual property litigation, regulatory investigation or other governmental proceedings against us,
- substantial sales or perception of sales of our ADSs in the public market, and
- general economic, regulatory or political conditions in China and the United States.

In addition, the stock market in general, and the market prices for companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. The securities of some PRC-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of these PRC-based companies' securities after their offerings may affect the attitudes of investors toward PRC-based companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other PRC-based companies may also negatively affect the attitudes of investors towards PRC-based companies in general, including us, regardless of whether we have conducted any inappropriate activities. Further, the global financial crisis, the ensuing economic recessions in many countries and the slowing Chinese economy have contributed and may continue to contribute to extreme volatility in the global stock markets. These broad market and industry fluctuations may adversely affect operating performance. Volatility or a lack of positive performance in our ADS price may also adversely affect our ability to retain key employees, some of whom have been granted share incentive awards under our share incentive plan.

Moreover, we expect that the trading price of our convertible senior notes will be significantly affected by the market price of our ADSs. On the other hand, the price of the ADSs could also be affected by possible sales of the ADSs by investors who view our convertible senior notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving the ADSs. This trading activity could, in turn, affect the trading prices of our convertible senior notes.

Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A common shares and ADSs may view as beneficial.

Our common shares are divided into Class A common shares and Class B common shares. Holders of Class A common shares are entitled to one vote per share, while holders of Class B common shares are entitled to ten votes per share. We issued Class A common shares represented by our ADSs in our initial public offering in October 2010. As part of the redesignation of our capital structure at the time of our initial public offering, all of our existing shareholders as of September 29, 2010, including our founders, received Class B common shares, and our outstanding preferred shares at the time were automatically converted into Class B common shares immediately prior to the completion of our initial public offering. Holders of Class A common shares are entitled to one vote per share, while holders of Class B common shares are entitled to ten votes per share. Each Class B common share is convertible into one Class A common share at any time by the holder thereof. Class A common shares are not convertible into Class B common shares under any circumstances.

Upon any transfer of Class B common shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B common shares shall be automatically and immediately converted into the equal number of Class A common shares. In addition, if at any time, any of the persons who held Class B common shares immediately before our initial public offering and their affiliates collectively own less than 5% of the total number of the issued and outstanding Class B common shares, each issued and outstanding Class B common share owned by such Class B holder shall be automatically and immediately converted into one share of Class A common share, and no Class B common shares shall be issued by us thereafter. Due to the disparate voting powers attached to these two classes, As of April 30, 2016, holders of our Class B common shares (excluding any Class A common shares such holder may hold in the form of ADSs) collectively held approximately 88.8% the voting power of our outstanding shares and have considerable influence over matters requiring shareholder approval, including election of directors and significant corporate transactions, such as a merger or sale of our company or our assets. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A common shares and ADSs may view as beneficial.

Our corporate actions are substantially controlled by our officers, directors and their affiliated entities.

As of April 30, 2016, our executive officers, directors and their affiliated entities beneficially owned approximately 44.2% of our total outstanding shares, representing 88.8% of our total voting power. These shareholders, if they acted together, could exert substantial influence over matters requiring approval by our shareholders, including electing directors and approving mergers or other business combination transactions and they may not act in the best interests of other minority shareholders. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders.

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

The trading market for our securities depends, in part, on the research reports and ratings that securities or industry analysts or ratings agencies publish about us, our business and the K-12 after-school tutoring market in China in general. We do not have any control over these analysts or agencies. If one or more of the analysts or agencies who cover us downgrades us or our securities, the price of our securities may decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the price of our securities or trading volume to decline.

Substantial future sales or the expectation of substantial sales of our ADSs in the public market could cause the price of our ADSs to decline.

Sales of our ADSs in the public market and after the convertible senior notes offering, or the perception that these sales could occur, may cause the market price of our ADSs to decline and could materially impair our ability to raise capital through equity offerings in the future. We have Class A and Class B common shares outstanding, including Class A common shares represented by ADSs. All of our ADSs are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. Class A common shares not represented by ADS, such as grants of share incentive awards which have vested, and Class B common shares are available for sale subject to volume and other restrictions as applicable under Rule 144 and Rule 701 under the Securities Act. To the extent shares are sold into the market, the market price of our ADSs could decline.

A number of the ADSs are reserved for issuance upon conversion of our convertible senior notes. The conversion of some or all of the convertible senior notes will dilute the ownership interests of existing shareholders and holders of the ADSs. The issuance and sale of a substantial number of ADSs, or the perception that such issuances and sales may occur, could adversely affect the trading price of our convertible senior notes and the market price of the ADSs and impair our ability to raise capital through the sale of additional equity securities.

In addition, several of our shareholders have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain circumstances. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration of these shares. Sales of these registered shares in the public market could cause the price of our ADSs to decline.

Our articles of association contain anti-takeover provisions that could discourage a third party from acquiring us, which could limit our shareholders' opportunity to sell their shares, including Class A common shares represented by our ADSs, at a premium.

Our articles of association contain provisions that limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares. These preferred shares may have better voting rights than our Class A common shares, in the form of ADSs or otherwise, and could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting rights of the holders of our common shares and ADSs may be diluted.

Holders of ADSs have fewer rights than shareholders and must act through the depositary to exercise those rights.

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

You may not receive distributions on our common shares or any value for them if such distribution is illegal or if any required government approval cannot be obtained in order to make such distribution available to you.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on common shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A common shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful, inequitable or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, common shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, common shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our common shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

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

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

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary will not make rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act, or exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

Conversion of our convertible notes may dilute the ownership interest of existing shareholders.

The conversion of some or all of our convertible notes may dilute the ownership interests of existing shareholders. Any sales in the public market of the ordinary shares issuable upon such conversion could adversely affect prevailing market prices of our ordinary shares. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the market price of our ordinary shares.

Provisions of our convertible notes could discourage an acquisition of us by a third party.

In May 2014, we issued \$200 million in aggregate principal amount of 2.50% convertible senior notes due 2019. Additionally, we granted to the initial purchasers of the notes a 30-day option to purchase up to an additional \$30 million in principal amount of notes. Upon the exercise of such option by certain initial purchasers, we issued an aggregate of \$230 million in aggregate principal amount of the notes. Certain provisions of our convertible notes could make it more difficult or more expensive for a third party to acquire us. For instance, holders of the notes will have the right to require us to repurchase for cash all or part of their notes upon the occurrence of certain fundamental changes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date. The indentures for these convertible notes define a “fundamental change” to include, among other things: (1) any recapitalization, reclassification or change of our Class A common shares or the ADSs as a result of which these securities would be converted into, or exchanged for, shares, other securities, other property or assets; (2) any share exchange, consolidation or merger involving our company as a result of which holders of our all classes of common equity do not own 50% of all classes of common equity of the surviving corporation; (3) sale, lease or other transfer of all or substantially all of our assets to a third party; (4) the adoption of any plan relating to the dissolution or liquidation of our company; or (5) our ADSs ceasing to be listed on a major U.S. national securities exchange.

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

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, the Cayman Islands Companies Law (as amended) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a U.S. public company.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China against us or our management.

We are a Cayman Islands company and substantially all of our assets are located outside the United States. Substantially all of our current operations are conducted in China. In addition, some of our directors and all of our officers are nationals and residents of China. As a result, it may be difficult for you to effect service of process within the United States or elsewhere outside China upon these persons. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or China would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state and it is uncertain whether such Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or China against us or such persons predicated upon the securities laws of the United States or any state. In addition, since we are incorporated under the laws of the Cayman Islands and our corporate affairs are governed by the laws of the Cayman Islands, it is difficult for you to bring an action against us based upon PRC laws in the event that you believe that your rights as a shareholder have been infringed.

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

Under U.S. federal income tax law, we will be classified as a PFIC for any taxable year if either (i) at least 75% of our gross income for the taxable year is passive income or (ii) at least 50% of the value of our assets (determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income (the “asset test”). Although the law in this regard is unclear, we treat our VIEs and their respective subsidiaries and schools as being owned by us for U.S. federal income tax purposes, not only because we control their management decisions but also because we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate their operating results in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of the VIEs and their respective subsidiaries for U.S. federal income tax purposes, we would likely be treated as a PFIC for our current and any subsequent taxable year.

While we do not believe that we were a PFIC for the taxable year ended February 29, 2016 and do not anticipate becoming a PFIC for the foreseeable future, no assurance can be given in this regard because the determination of whether we will be or become a PFIC is a fact-intensive inquiry made on an annual basis that depends, in part, on the composition of our income and assets. Fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or subsequent taxable years because the value of assets for the purpose of the asset test may be determined by reference to the market price of our ADSs from time to time (which may be volatile). The composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets. Under circumstances where our revenue from activities that produce passive income significantly increase relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase.

If we were to be or become classified as a PFIC, a U.S. Holder (as defined in “Item 10.E.—Additional Information—Taxation—U.S. Federal Income Tax Considerations—General”) may be subject to reporting requirements and may incur significantly increased U.S. federal income tax on gain recognized on the sale or other disposition of the ADSs or common shares and on the receipt of distributions on the ADSs or common shares to the extent such gain or distribution is treated as an “excess distribution” under the U.S. federal income tax rules. Further, if we were a PFIC for any year during which a U.S. Holder held our ADSs or common shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. Holder held our ADSs or common shares. You are urged to consult your tax advisor concerning the U.S. federal income tax consequences of holding and disposing of ADSs or common shares if we are or become classified as a PFIC. For more information see “Item 10.E.—Additional Information—Taxation—U.S. Federal Income Tax Considerations—PFIC Considerations” and “Item 10.E.—Additional Information—Taxation—U.S. Federal Income Tax Considerations—PFIC Rules.”

Item 4. Information on the Company

A. History and Development of the Company

We started our operation in 2005 with the establishment of Xueersi Education, a domestic company in China. We then incorporated TAL Education Group to become our offshore holding company under the laws of the Cayman Islands on January 10, 2008, in order to facilitate foreign investment in our company. TAL Education Group established TAL Holdings Limited in Hong Kong in March 2008 as our intermediary holding company, which subsequently established six wholly owned subsidiaries in China: TAL Education Technology (Beijing) Co., Ltd. in May 2008, Huanqiu Zhikang in September 2009, Yidu Huida in November 2009, TAL Electronic Technology (Shanghai) Co., Ltd. in May 2012 (subsequently dissolved in February 2014), Beijing Xintang Sichuang in August 2012, and Zhixuesi Beijing in October 2012. In February 2012, we acquired Yidu Technology Group, a company incorporated in the Cayman Islands, which then established a wholly owned subsidiary, Yidu Technology Group Limited, in Hong Kong in April 2012. In November 2012, Yidu Technology Group Limited established a wholly owned subsidiary, Yidu Xuedi Network Technology (Beijing) Co., Ltd. In January 2016, we acquired Firstleap Education and its wholly owned subsidiaries, Firstleap Education (HK) Limited and Lebai Information. In February 2016, we acquired Beijing Yinghe Youshi Technology Co., Ltd., or Yinghe Youshi, a PRC company.

In August 2013, we changed the name of TAL Education Technology (Beijing) Co., Ltd. to Beijing Century TAL Education Technology Co., Ltd.. In addition, we changed our umbrella brand from “Xueersi” to “Haoweilai”, and offer different service offerings under different brands, such as “Xueersi Peiyou”, “Mobby” and “Firstleap”, through which we offer small-class services, “Zhikang”, through which we offer personalized premium services, “Lejiale”, through which we offer English subject tutoring services and “Dongxuetang”, through which we offer Chinese subject tutoring services.

We have acquired certain other businesses to expand our service offerings:

- in February 2014, we acquired Kaoyan.com, which is a site designed to improve preparation for entrance examinations for postgraduate degrees;
- in January 2016, we completed the acquisition of Firstleap Education, a provider of all-subject tutoring services in English to children aged from two to 15 years old in China, pursuant to a stock purchase agreement we entered into in September 2015 with Firstleap Education and other parties named therein and other related transaction documents; and
- in February 2016, we acquired Yinghe Youshi, which primarily provides online preparation services of English tests for study abroad purposes.

We have also made certain investments in other businesses that complement our existing business:

- in January 2014, we made a minority equity investment of \$23.5 million in BabyTree Inc., an online parenting community and an online retailer of products for children, baby and maternity wear in China;
- in October 2014, we made a minority equity investment of \$18.0 million in Minerva, a new provider of liberal arts and sciences education in the United States;
- in October 2014, we made a minority equity investment of \$15.0 million in Guokr, a mobile and web-based community for science and technology education in China;
- in April and August 2015, we made a minority equity investment of \$86.3 million in Changing Education Inc., which operates a customer-to-customer mobile tutoring platform in China;
- in December 2015, we made a minority equity investment of \$30.0 million in Phoenix E-Learning Corporation, which operates *zxxk.com*, an online educational platform serving the public school system in China; and
- in December 2015, we made a minority equity investment of \$10.5 million in Beijing Shunshunbida Information Consulting Co., Ltd., which primarily engages in providing professional counseling services to students who desire to study abroad through its online-to-offline platform.

For information on our capital expenditures, see “Item 5.B.—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Expenditures.”

In October 2010, we completed an initial public offering of 13,800,000 ADSs. On October 20, 2010, we listed our ADSs on the New York Stock Exchange under the symbol “XRS.”

In May 2014, we issued \$200 million in aggregate principal amount of 2.50% convertible senior notes due 2019. Additionally, we granted to the initial purchasers of the notes a 30-day option to purchase up to an additional \$30 million in principal amount of notes. Upon the exercise of such option by certain initial purchasers, we issued an aggregate of \$230 million in aggregate principal amount of the notes. The notes bear interest at a rate of 2.50% per year, payable semiannually in arrears on May 15 and November 15 of each year, beginning on November 15, 2014. The notes will mature on May 15, 2019. Holders of the notes will have the right to require us to repurchase for cash all or part of their notes on May 15, 2017 or upon the occurrence of certain fundamental changes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date. The notes are convertible into ADSs, at the option of the holders, in integral multiples of \$1,000 principal amount at any time prior to the close of business on the second trading day immediately preceding the maturity date. Our principal executive offices are located at 12/F, Danling SOHO, 6 Danling Street, Haidian District, Beijing 100080, People's Republic of China. Our telephone number at this address is +86 (10) 5292 6692. Our registered office in the Cayman Islands is located at Maples Corporate Services Limited, PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands. In addition, as of February 29, 2016, we had branch offices in 25 cities in China. Our agent for service of process in the United States in connection with our registration statement on Form F-1 for our initial public offering in October 2010 is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, 4th Floor, New York, New York 10017.

B. Business Overview

Overview

We are a leading K-12 after-school tutoring services provider in China. We offer comprehensive tutoring services to K-12 students covering core academic subjects, including among others, mathematics, physics, chemistry, biology, history, geography, political science, English and Chinese. We have successfully established "Xueersi" as a leading brand in the PRC K-12 private education market closely associated with high teaching quality and academic excellence, as evidenced by our students' academic performance, our ability to recruit students through word-of-mouth referrals and the numerous recognitions and awards we have received. In August 2013, we changed our umbrella brand from "Xueersi" to "Hao weilai", and now we offer different service offerings under different brands, such as "Xueersi Peiyou", "Mobby" and "Firstleap", through which we offer small-class services, "Zhikang", through which we offer personalized premium services, "Lejiale", through which we offer English subject tutoring services and "Dongxuetang", through which we offer Chinese subject tutoring services.

We deliver our tutoring services primarily through small classes (including Xueersi Peiyou tutoring services, Mobby tutoring services and Firstleap tutoring services), personalized premium services and online course offerings. We are constantly working to expand and supplement our service offerings, through both internal development and strategic investments. As of February 29, 2016, our extensive educational network consisted of 363 learning centers and 292 service centers in 25 cities throughout China, with approximately half of these learning centers and service centers located in Beijing and Shanghai, as well as our online courses and online education platform. Our student enrollments increased from approximately 1,073,950 in the fiscal year ended February 28, 2014 to approximately 2,309,830 in the fiscal year ended February 29, 2016, representing a compound annual growth rate, or CAGR, of 46.7%.

We operate www.jzb.com (formerly www.eduu.com), a leading online education platform in China. The website serves as a gateway to our online courses, primarily offered through our website www.xueersi.com, and other websites dedicated to specific topics and offerings, including college entrance examinations, high school entrance examinations, graduate school entrance examinations, preschool education, mathematics, English, Chinese composition, raising infants and toddlers, small-class training under our "Xueersi Peiyou" brand, personalized premium services under our "Zhikang" brand, tutoring services for thinking development under our "Mobby" brand, and all-subject tutoring services in English under "Firstleap" brand. We also offer select educational content through mobile applications. We are constantly working to expand our online offerings, with learning materials and services in varying stages of development. Our online platform enables us to continue to roll out and expand our online course offerings. Our online platform is protected by a combination of PRC laws and regulations that protect trademarks, copyrights, domain names, know-how and trade secrets, as well as confidentiality agreements.

Our total net revenues increased from \$313.9 million in the fiscal year ended February 28, 2014 to \$619.9 million in the fiscal year ended February 29, 2016, representing a CAGR of 40.5%. Our net income increased from \$60.6 million in the fiscal year ended February 28, 2014 to \$102.9 million in the fiscal year ended February 29, 2016, representing a CAGR of 30.3%.

Our Mission, Vision and Values

Our mission is to make learning more effective, efficient and fun. We believe learning should be an enjoyable experience for all of our students. Our vision is to integrate the latest technologies into the learning process and to continuously introduce innovative approaches to teaching and tutoring so as to garner the respect of parents and students alike. As an educational institution, we seek to attract the most talented workforce and create the most enjoyable classroom environments so we can best serve our teachers, staff members and students. Lastly, we believe values such as student satisfaction, responsibility, innovation, proactiveness, diligence and cooperation are critical to our success and we strive to promote and adhere to these values. For more information about our mission, vision and values, please visit our official website at www.100tal.com/gywm/aboutus.

Our Tutoring Services

We deliver our tutoring services to our students through small-class offerings, personalized premium services and online courses.

Small-Class Offerings

We have been delivering courses in small-class offerings since the inception of our company through Xueersi Peiyou small classes, which currently covers all subjects in supplement to school learnings. Xueersi Peiyou small classes course consists of four semesters, namely the two school semesters in Spring and Fall and the two holiday semesters in summer and winter. Xueersi Peiyou small classes typically have a maximum of 15 to 35 students per class for different grade levels and remain our main form of service offering in terms of revenue and number of student enrollments. As of February 29, 2016, 241 of our 363 learning centers and 209 of our 292 service centers nationwide offered Xueersi Peiyou small classes.

In March 2011, we began offering our Mobby tutoring services. Mobby small classes typically have up to 12 to 16 children per class and is currently focused on thinking development for young learners aged from two to twelve through the learning of mathematics. As of February 29, 2016, five of our learning centers and five of our service centers offered Mobby small classes.

In January 2016, we acquired 100% of equity interest in Firstleap Education, which provides all-subject small-class tutoring in English to students aged from two to fifteen. Firstleap small classes typically have up to 14 students per class. We also organize overseas trips for our students from time to time as a part of Firstleap services. Most of the Firstleap business is carried out through Lebai Education and its subsidiaries and schools, which offered Firstleap small classes at 41 of our learning centers as of February 29, 2016. A small portion of the Firstleap business is carried out through franchisees, who are typically located in lower-tier cities and operate their own learning centers not within our network.

We believe that, under small-class offerings, students can receive more individual attention from teachers than what they would typically experience in a large class setting and are able to learn in an interactive group environment. We design curricula catering to our students' different educational requirements and needs. Many of our classes for the same subject and grade level are offered at different levels of difficulty to better cater to the different needs of our students. For instance, for our Xueersi Peiyou small classes, we offer mathematics tutoring in the forms of basic classes, advanced classes, which are taught at a faster pace than basic classes, intensive classes, which are conducted at an even more accelerated pace, and specialized classes, which cater to the needs of advanced students and focus on specialized training for mathematics competitions. We periodically assess our students' progress, and based on the results of such assessment, reassign students to different classes on an as-needed basis such that each student's situation and needs are taken into consideration.

To maximize transparency, improve learning experience and build trust with students and parents, we allow parents to audit most of the small classes their children attend, and for many of our Xueersi Peiyou small classes, also offer unconditional refunds for any remaining unattended classes net of the costs of materials if notified by the student or parent within the first two-thirds of each course.

In November 2010, we launched Intelligent Classroom System, or ICS, a proprietary classroom teaching solution used in small-class instruction. Through ICS, teachers at each of our learning centers are able to upload over the Internet all of our internally developed multi-media teaching content, including instructional videos and audio materials, and project this content onto white boards to make the instructional process more efficient and the learning experience more interactive and stimulating.

Personalized Premium Services

We began to offer personalized premium services in September 2007 under our “Zhikang” brand. As of February 29, 2016, our Zhikang network included 76 learning centers and 78 service centers in Beijing, Shanghai, Tianjin, Shenzhen, Wuhan, Hangzhou, Nanjing, Xi’an, Chengdu, Zhengzhou and Suzhou.

Our personalized premium services mainly provide customized curricula and course materials and flexible schedules to suit each student’s educational focus in a one-on-one student-teacher setting. We provide personalized premium services to cater to the specific requirements of our students, such as addressing weaknesses in particular subjects or topics, providing intensive examination or competition preparation and tailoring the pace of learning to accommodate above- or below-average learning curves. Key features of our personalized premium services include:

Customized tutoring solution. Each prospective student of our personalized premium services must meet with our educational planner and undergo a diagnostic assessment of the student’s strengths, weaknesses and potential. We then design and recommend a customized tutoring solution to the student in consultation with the student’s parents with respect to timing, cost and other considerations specific to the students’ circumstances. During the entire course of our personalized premium services for a student, we actively monitor the student’s progress and adjust the curriculum and learning pace for the student when necessary.

Tailor-made course materials. The course materials used in our personalized premium services are selected by subject teachers from our comprehensive course material database for the benefits of each student. We leverage our strong curriculum and course material development capability to provide high quality course materials to our students.

One-on-one student-teacher setting, supported by a team of experienced teachers. Each student in our personalized premium service has access to a large pool of experienced teachers. Teachers are chosen by students and their parents based on the interests and needs of each student. Our personalized premium services are mostly offered in one-on-one format, with a small portion of small-group classes, which typically consist of only two to six students.

Personalized attention. We assign each student a coordinator, who routinely communicates with the student and the student’s parents to address their questions and concerns and to closely monitor the quality of our services. The coordinator also solicits monthly feedback from students and parents. We also accommodate any request by students or parents to change teachers to the extent practicable.

Online Courses

We began to offer online courses in January 2010 through www.xueersi.com. Through www.xueersi.com, we offer online courses on mathematics, English, Chinese, physics, chemistry, biology, and other subjects. We also offer select online courses through other websites. Online courses enable us to leverage our proprietary curricula and course materials and high quality teachers to target markets beyond the reach of our physical network. It also enables our students to access our courses through the Internet at times and places most convenient for them.

In the past, our online courses were mostly in the format of pre-recorded classes. In March 2015, we launched a new TEPC (standing for teaching, examination, practice and communication) flipped classroom format, which was intended to serve as a major upgrade from the traditional model of recorded classes, and enable our students to participate in more proactive and interactive learnings. This new format was further developed into live-broadcasting classes starting from October 2015, which we expect to become the principal format of our online courses.

Currently, our online courses mainly feature interactive, live-broadcasting lectures by experienced teachers. We seek to engage teachers who have a strong command of the respective subject areas and superior communication skills. By offering live broadcasting classes, our teachers can adjust the pace and content of each class according to student performance and reaction. Under this format, students can proactively participate in the class and obtain a more personalized learning experience. We also conduct in-class examination and have dedicated tutoring teachers who focus on the correction of examinations and post-exam tutoring for students. In this way, students can receive timely and tailored feedback on their learning.

We plan to further develop our online course offerings to extend our market reach and maximize the potential of our services. In particular, we intend to expand our course offerings to include more subjects and grade levels. We have also made a few acquisitions and investments to expand our online business and enhance our online presence.

Student Services

We strive to provide a supportive learning environment to our students through our teachers, class coordinators, call centers and online platform.

Our teachers keep track of the students' performance and progress and regularly communicate with the students and parents. Moreover, each of our students in the personalized premium services is assigned a class coordinator who is in close contact with the students and parents regarding scheduling and other logistical issues, receives feedback on teaching quality and arranges teacher replacements where necessary.

We have eleven call centers in eight cities, the main functions of which include receiving enquiries, accepting registrations to small classes, addressing course-related issues and facilitating communication with existing and prospective students for our center-based offerings and the parents of such students. As of February 29, 2016, we had approximately 320 operators at the call centers. All of our call centers are open during business hours, and our Beijing and Shanghai call centers also remain open until 9 pm and 9:30 pm in the evening, respectively.

In addition, the online platform, among other things, provides an efficient channel for students and parents to submit study questions to our subject experts.

Our Curricula and Course Materials

Curricula

The curricula for our K-12 tutoring services covers the core K-12 subjects and is described in more detail in the table below. We started our business by offering tutoring classes in mathematics and then gradually rolled out courses in other subjects over the past several years. In terms of grade levels, we initially focused on serving primary school students and over time expanded our course offerings into higher grade levels. The following table provides a list of our current K-12 course offerings:

	Primary School							Middle School			High School		
	K	1	2	3	4	5	6	7	8	9	10	11	12
Mathematics	•	•	•	•	•	•	•	•	•	•	•	•	•
English	•	•	•	•	•	•	•	•	•	•	•	•	•
Chinese	•	•	•	•	•	•	•	•	•	•	•	•	•
Physics	–	–	–	–	–	–	•	•	•	•	•	•	•
Chemistry	–	–	–	–	–	–	–	•	•	•	•	•	•
Biology	–	–	–	–	–	–	–	–	–	–	•	•	•
History	–	–	–	–	–	–	–	–	–	–	•	•	•
Political Science	–	–	–	–	–	–	–	–	–	–	•	•	•
Geography	–	–	–	–	–	–	–	–	–	–	•	•	•

- Current offered.
- Currently not offered.

The history, political science and geography courses set forth in the table above are offered mainly through personalized premium tutoring services under our “Zhikang” brand. Net revenues related to these courses are not material.

The curricula for our Mobby tutoring services that we began in March 2011 focuses primarily on mathematics.

Curriculum and Course Material Development

Substantially all of our education content for our non-English subject areas is developed in-house. As of February 29, 2016, we had a team of over 160 full-time employees who are responsible for developing, updating and improving our small-class curricula and course materials. In addition, approximately 400 full-time teachers are also engaged in the development of the small-class curriculum and course material in addition to their classroom teaching commitments.

For the science subjects offered through Xueersi Peiyou small classes, our team works closely with experts in different subject fields to keep up with changing academic and examination requirements in the PRC education system and solicits feedback from our teachers based on their classroom experience. The development process of our curricula and course materials typically starts with reviewing and referencing recent teaching materials and teachers’ training materials from leading public schools as well as any new examination requirements to analyze the latest market trends and needs. Our development team is able to identify subjects and concepts that are difficult for students and focuses on the most important and difficult concepts and skills in the curricula. To address different educational requirements and needs of our students at each grade level, we have also developed curricula and course materials tailored for classes of different difficulty levels based on that group of students’ learning curves as well as their strengths and weaknesses. We evaluate, update and improve course materials based upon usage rate, feedback from teachers, students and parents as well as student performance. Most of our curricula and course materials are developed at our corporate level in Beijing and adopted by other locations with modifications to meet local requirements and demands. We have modularized a portion of our course materials based on specific topics so that centrally developed content can be more easily adopted locally and make our services more scalable, and we are in the process of modularizing other portions of our course materials.

In addition, we cooperated with McGraw-Hill Education to co-develop and co-brand two sets of English language educational materials for Xueersi Peiyou small classes in 2012. In March 2014, we, through our “Lejiale” brand which offers English subject tutoring services, collaborated closely with Cambridge University Press, and together, launched a series of English learning materials called “Hello Learner’s English.” The Hello Learner’s English series of learning materials is tailored specifically for Chinese students, from grades one through six, and introduces new learning patterns for students to advance their English speaking, listening, reading and writing abilities, preparing students to pass the government authorized English examinations or well-recognized English assessment tests, and for their future secondary school or college English entrance examinations.

Our Teachers

Our teaching staff is critical to maintaining the quality of our services and to promoting our brand and reputation. We have a team of dedicated and highly qualified teachers with a strong passion for education, whom we believe are essential to our success. We are committed to maintaining consistent and high teaching quality across our business. This commitment is reflected in our highly selective teacher hiring process, our emphasis on continued teacher training and rigorous evaluation, competitive performance-based compensation and opportunities for career advancement. We had 3,364, 4,367 and 6,594 full-time teachers and 1,282, 1,158 and 1,794 contract teachers as of February 28/29, 2014, 2015 and 2016, respectively.

For our Xueersi Peiyou business, personalized premium services and online education business, we recruit teachers from university graduates, including many top-tier universities in China, as well as experienced teachers with a solid track record and strong reputation from other schools. Each of our newly hired full-time teachers is required to undergo certain standard and customized trainings that focus on education content, teaching skills and techniques as well as our corporate culture and values. In addition, our teachers are regularly evaluated for their classroom performance and teaching results. Our teachers' retention, compensation and promotion are to a large extent based on the results of such evaluations. The evaluation process is highly rigorous and, for our small-class business, it is based mainly on four factors: student retention rate, refund rate, class fulfillment rate and student and parent satisfaction rate. We offer our teachers competitive and performance-based compensation packages and provide them with prospects of career advancement within the company. Our best teachers may be promoted to become directors of our operations in new geographic markets outside Beijing, invited to participate in our educational content development effort and even considered for senior management positions.

Our Network

As of February 29, 2016, our extensive network consisted of 363 learning centers and 292 service centers in Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Wuhan, Nanjing, Xi'an, Hangzhou, Chengdu, Zhengzhou, Suzhou, Chongqing, Taiyuan, Changsha, Shenyang, Shijiazhuang, Qingdao, Jinan, Luoyang, Nanchang, Ningbo, Hefei, Wuxi and Fuzhou, call centers in Beijing, Shanghai, Tianjin, Guangzhou, Shenzhen, Nanjing, Shenyang and Chongqing, as well as our online platform. Our learning centers are physical locations where classes are conducted. Our service centers offer consultation, course selection, registration and other services, most of which are also provided by our call centers.

The following table sets forth the number of learning centers and service centers in each of the 25 cities in our physical network as of February 29, 2016.

City	Number of Learning Centers	Number of Service Centers
Beijing	121	97
Shanghai	40	30
Guangzhou	23	18
Shenzhen	18	18
Tianjin	17	17
Wuhan	20	20
Nanjing	34	20
Xi'an	17	15
Hangzhou	11	11
Chengdu	13	10
Zhengzhou	8	8
Suzhou	5	5
Chongqing	8	4
Taiyuan	5	3
Changsha	3	3
Shenyang	8	3
Shijiazhuang	3	3
Qingdao	1	1
Jinan	1	1
Luoyang	1	1
Nanchang	1	1
Ningbo	1	1
Hefei	2	0
Wuxi	1	1
Fuzhou	1	1
Total	363	292

We intend to open new learning and service centers both in our existing and newly identified geographic markets to capitalize on growth opportunities. We have adopted a systematic approach to expansion of our learning centers and geographic markets. The decision on whether to enter a new city is typically made at the corporate business unit level and involves a well-established process requiring participation by different levels of management personnel within our organizational structure. Our process in identifying a new market involves developing plans for promoting our brand locally, recruiting teachers and other staff and commencing course offerings with an initial focus on certain core subjects and grades. In then selecting the locations for new learning centers, we perform studies of each location by gathering education statistics, demographic data, public transportation information and other data.

We operate www.jzb.com (formerly www.eduu.com), a leading online education platform in China. The website serves as a gateway to our online courses, primarily offered through our website www.xueersi.com, and other websites dedicated to specific topics and offerings.

Marketing and Student Recruitment

We recruit students for our small-class business primarily through word-of-mouth referrals. Our reputation and brand have also greatly facilitated our student recruitment. Moreover, we engage in a range of marketing activities to enhance our brand recognition among prospective students and their parents, generate interest in our service offerings and further stimulate referrals. In the fiscal years ended February 28/29, 2014, 2015 and 2016, our selling and marketing expenses were \$35.8 million, \$53.9 million and \$73.6 million, respectively, accounting for 11.4%, 12.4% and 11.9% of our total net revenues, respectively.

Referrals

We believe the single greatest contributor to our success in small-class student recruitment has been word-of-mouth referrals by our students and their parents who share their learning experiences with others. Our recruitment through word-of-mouth referrals has enjoyed a strong network effect with the rapid growth in our student base, and benefits from our reputation, brand and the performance track record of our students.

Cross selling

We also use our interaction with parents and students for one type of service offerings as an opportunity to advertise our other service offerings. With a variety of offerings aimed at different student groups or focused on different areas, our goal is to create a brand name that permeates every aspect of our potential students' educational needs.

Online Platform

Our online platform is an important component of our marketing and branding efforts. It also facilitates direct and frequent communications with and among our prospective students as well as our existing students and parents, supporting our overall sales and marketing efforts.

Public Lectures, Seminars, Diagnostic Sessions and Media Interviews

We frequently offer free public lectures, seminars and diagnostic sessions to students and parents as a way of providing useful information to our prospective students and relevant experience for them to evaluate our offerings. In addition, our approach to teaching quality and the track record of our student performance has been covered by traditional and new media, which we believe has further enhanced our reputation and brand.

Advertisement and Others

We advertise through leading search engines in China and our cooperative relationships with other education websites targeting students in China. We also have advertising arrangements with national and regional newspapers in China and use other advertising channels such as outdoor advertising campaigns. In addition, we distribute marketing materials such as brochures, posters and flyers to current and prospective students and their parents in our learning centers, service centers and outside public school campuses. We also participate in various education services and products exhibitions and conventions.

Competition

The after-school tutoring service sector in China is rapidly evolving, highly fragmented and competitive. We face competition in each type of service we offer and each geographic market in which we operate. Our competitors at the national level include New Oriental Education & Technology Group Inc. and Xueda Education Group.

We believe the principal competitive factors in our business include the following:

- brand;
- student achievements;
- price-to-value;
- type and quality of tutoring services offered; and
- ability to effectively tailor service offerings to the needs of students, parents and educators.

We believe that we compete favorably with our competitors on the basis of the above factors. However, some of our competitors may have more resources than we do, and may be able to devote greater resources than we can to expand their business and market shares. See “Item 3.D.—Key Information—Risk Factors—Risks Related to Our Business—We face significant competition, and if we fail to compete effectively, we may lose our market share and our profitability may be adversely affected.”

Intellectual Property

Our brands, trademarks, service marks, copyrights, patents and other intellectual property rights distinguish and protect our course offerings and services from infringement, and contribute to our competitive advantages in the after-school tutoring service sector in China. Our intellectual property rights include the following:

- 137 trademark registrations for our brand and logo in China and Hong Kong;
- domain names;
- copyrights to substantially all of the course contents we developed in house, including all of our online courses;

- copyright registration certificates for 135 software programs developed by us relating to different aspects of our operations; and
- 17 patents granted in China relating to interactive and technology-driven teaching and learning in our classes, as well as user interface on various platforms.

Among the domain names we have registered, several are highly valued and unique online assets as the domain name incorporates the Chinese spelling of the theme of the corresponding website, and is therefore easy to remember. Our domain names include the following:

Website Domain Name	Topic
<i>www.jzb.com</i> (formerly <i>www.eduu.com</i>)	Our main webpage which mainly has links to the websites listed below
<i>www.xueersi.com</i>	Online courses
<i>www.gaokao.com</i>	College entrance examinations
<i>www.zhongkao.com</i>	High school entrance examinations
<i>www.jiajiaoban.com</i>	Personalized premium services
<i>www.aoshu.com</i>	Mathematics for primary and middle schools; specialized training for competition mathematics
<i>www.yingyu.com</i>	English language
<i>www.youjiao.com</i>	Preschool and kindergarten education
<i>www.speiyou.com</i>	Small-class tutoring under our Xueersi Peiyou brand
<i>www.mobby.cn</i>	Tutoring services for students aged two through twelve under our Mobby brand
<i>www.yuer.com</i>	Raising infants and toddlers
<i>www.kaoyan.com</i>	Post-graduate degree entrance examination
<i>www.firstleap.cn</i>	All-subject tutoring services in English to children aged from 2 to 15 years old
<i>www.kaomanfen.com</i>	Preparation of English tests for study abroad purposes
<i>www.lewaijiao.com</i>	One-on-one English tutoring services from foreign teachers

To protect our brand and other intellectual property, we rely on a combination of trademark, copyright, patent, domain names, know-how and trade secret laws as well as confidentiality agreements with our employees, contractors and others. We cannot be certain that our efforts to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights. See “Item 3.D.—Key Information—Risk Factors—Risks Related to Our Business—If we fail to protect our intellectual property rights, our brand and business may suffer.”

Insurance

We have purchased limited liability insurance covering most of our learning centers and service centers, with maximum claim amount of RMB0.45 million or RMB0.3 million per person for our students and their parents, and RMB5,000 per person for our contract employees (other than those at our Firstleap learning centers). We do not maintain business disruption insurance, product liability insurance or key-man life insurance. We consider our insurance coverage to be in line with that of other private education providers of a similar size in China.

Legal Proceedings

From time to time, we may be subject to various legal proceedings, investigations and claims arising in the ordinary course of business. As of the date of this annual report, we are not involved in any material litigation, arbitration or administrative proceedings that could have a material adverse effect on our financial condition or results of operations, and we are not aware of any material legal or administrative proceedings threatened against us.

PRC Regulation

This section summarizes the principal PRC regulations relating to our businesses.

We operate our business in China under a legal regime consisting of the National People's Congress, which is the country's highest legislative body, the State Council, which is the highest authority of the executive branch of the PRC central government, and several ministries and agencies under its authority, including the MoE, the General Administration of Press and Publication, the Ministry of Industry and Information Technology, the SAIC, the Ministry of Civil Affairs and their respective local offices.

Regulations on Private Education

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

Education Law of the PRC

On March 18, 1995, the National People's Congress enacted the Education Law of the PRC. The Education Law sets forth provisions relating to the fundamental education systems of China, including a school system of preschool education, primary education, secondary education (including middle and high schools) and higher education, a system of nine-year compulsory education and a system of education certificates. The Education Law stipulates that the government formulates plans for the development of education, and establishes and operates schools and other institutions of education. Under the Education Law, enterprises, social organizations and individuals are in principle encouraged to operate schools and other types of educational organizations in accordance with PRC laws and regulations. Meanwhile, no organization or individual may establish or operate a school or any other institution of education for profit-making purposes. However, private schools may be operated for "reasonable returns," as described in more detail below.

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

The Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education

The Law for Promoting Private Education became effective on September 1, 2003 and was amended on June 29, 2013. The Implementation Rules for the Law for Promoting Private Education became effective on April 1, 2004. Under these regulations, "private schools" are defined as schools established by non-governmental organizations or individuals using non-government funds. In addition, under the regulations, private schools providing certifications, pre-school education, self-study aid and other academic education are subject to approval by the education authorities, while private schools engaging in occupational qualification training and occupational skill training are subject to approval by the authorities in charge of labor and social welfare. A duly approved private school will be granted a private school operating permit, and shall be registered with the Ministry of Civil Affairs or its local branches as a privately run non-enterprise institution. In addition, learning centers of schools must make filings with the MoE or its local branches. Our 47 affiliated schools have all obtained and maintained their respective private school operating permits and have registered with the Ministry of Civil Affairs or its relevant local branch.

Under the above regulations, private schools have the same status as public schools, though private schools are prohibited from providing military, police, political and other kinds of education that are of a special nature. Government-run schools that provide compulsory education are not permitted to be converted into private schools. In addition, operation of a private school is highly regulated. For example, the types and amounts of fees charged by a private school providing certifications shall be approved by the pricing authority and be publicly disclosed. A private school that does not provide certifications shall file its pricing information with the pricing authority and publicly disclose such information. We do not offer any degree or certification course and thus we shall file our pricing information with the relevant pricing authorities in the school districts where we have operations. We disclose our pricing information for our services provided by our private schools to the public.

Private education is treated as a public welfare undertaking under the regulations. Nonetheless, investors of a private school may choose to require “reasonable returns” from the annual net balance of the school net of costs, donations received, government subsidies, if any, the reserved development fund and other expenses as required by the regulations. Private schools fall into three categories, including private schools established with donated funds, private schools that require reasonable returns and private schools that do not require reasonable returns.

The election to establish a private school requiring reasonable returns shall be provided in the articles of association of the school. The percentage of the school’s annual net income that can be distributed as reasonable return shall be determined by the school’s board of directors, taking into consideration the following factors: (i) school fee types and collection criteria, (ii) the ratio of the school’s expenses in connection with educational activities and improvement of educational conditions to the total fees collected; and (iii) the admission standards and educational quality. The relevant information relating to the above factors shall be publicly disclosed before the school’s board may determine the percentage of the school’s annual net income to be distributed as reasonable returns. Such information and the decision to distribute reasonable returns shall also be filed with the relevant government authorities within 15 days of the board decision. However, none of the current PRC laws and regulations provides any specific formula or guideline for determining “reasonable returns.” In addition, none of the current PRC laws and regulations sets forth clear requirements or restrictions on a private school’s ability to operate its education business as a school that requires reasonable returns or as a school that does not require 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 school facilities or procurement or upgrade of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of the annual net income of the school, while in the case of a private school that does not require reasonable returns, this amount shall be equal to no less than 25% of the annual increase in the net assets of the school, if any. Private schools that do not require reasonable returns shall be entitled to the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools requiring reasonable returns shall be formulated by the finance authority, taxation authority and other authorities under the State Council. To date, however, no regulations have been promulgated by the relevant authorities in this regard. As of April 30, 2016, among our 47 affiliated schools, 17 had elected not to require reasonable returns and the remaining 30 had elected to require reasonable returns. Because no preferential tax policies have been promulgated by the relevant authorities, none of our 47 affiliated schools enjoys any preferential tax treatments pursuant to the requirements of local governmental authorities. All of them have allocated certain amounts to their development funds in compliance with the aforesaid provisions.

Sponsorship of Private Schools

Under the Law for Promoting Private Education and the Implementation Rules for Promoting Private Education, entities and individuals that establish private schools are referred to as “sponsors.” As of the date of this annual report, Xueersi Education, Xueersi Network, Lebai Education and Pengxin TAL Industrial Investment (Shanghai) Co., Ltd., or Pengxin, or their subsidiaries were the sponsors of our 47 affiliated schools.

The “sponsorship interest” that a sponsor holds in a private school is, for all practical purposes, substantially equivalent under PRC law and practice to the “equity interest” a shareholder holds in a company. Pursuant to the Implementation Rules for Promoting Private Education, a sponsor of a private school has the obligation to make capital contributions to the school in a timely manner. The contributed capital can be in the form of tangible or non-tangible assets such as materials in kind, land use rights or intellectual property rights. Pursuant to the Law for Promoting Private Education, the capital contributed by the sponsor becomes assets of the school and the school has independent legal person status. In addition, pursuant to the Law for Promoting Private Education and the Implementation Rules for Promoting Private Education, the sponsor of a private school has the right to exercise ultimate control over the school by becoming the member of and controlling the composition of the school’s decision making body. Specifically, the sponsor has control over the private school’s constitutional documents and has the right to elect and replace the private school’s decision making bodies, such as the school’s board of directors, and therefore controls the private school’s business and affairs.

Before the Law for Promoting Private Education took effect in 2003, the Regulations on Schools Run by Different Sectors of Society had provided that upon liquidation, the residual assets of a private school after the original investment had been returned to the sponsor would be used by the relevant PRC government for the development of private education. However, this is no longer the case, as Article 68 of the Law for Promoting Private Education expressly abolished the Regulations on Schools Run by Different Sectors of Society.

We are not aware of any PRC law which provides that upon liquidation of a private school, the sponsor is legally restricted to receive only its invested capital and is not allowed to receive other returns. According to our PRC counsel, there is no national law that addresses this subject one way or the other. In the absence of a national law providing for the sponsor's rights upon liquidation of a private school, provincial regulations and interpretations are ambiguous and inconsistent on this subject. There are local regulations or interpretations that specifically provide that sponsors are entitled to private schools' residual assets pro rata based on their respective capital contribution. Nevertheless, there are also local regulations that are less clear in this regard.

Notwithstanding the legal uncertainties surrounding this issue, we believe that the potential risk that we will not receive all of the residual assets upon the liquidation of a school is immaterial. There were no capital contributions made by any PRC governmental authorities to our schools, nor did any of our schools ever receive donations from any third parties, including PRC governmental authorities or any third party enterprises. Since the Law for Promoting Private Education became effective on September 1, 2003, neither we nor our PRC counsel have been aware of any case in China where a private school which has been solely funded by private sponsors without any government or donated funds became state property or was otherwise appropriated by a government authority upon liquidation without the prior consent of its sponsor. We historically have never liquidated any school that was profitable and we have no plans to do so in the future. If, for any reason, we would like to divest a profitable school, a commercially sensible way to do so is to sell, rather than liquidate, the school. When selling a school, the sponsor is entitled to receive consideration for transferring sponsorship, which often exceeds its initial investment in the school.

Regulations on PRC-Foreign Cooperation in Operating Schools

PRC-foreign cooperation in operating schools or training courses is specifically governed by the Regulations on PRC-Foreign Cooperation in Operating Schools, promulgated by the State Council in 2003 in accordance with the Education Law, the Occupational Education Law and the Law for Promoting Private Education, and the Implementing Rules for the Regulations on PRC-Foreign Cooperation in Operating Schools, or the Implementing Rules, which were issued by the MoE in 2004.

The Regulations on PRC-Foreign Cooperation in Operating Schools and its Implementing Rules encourage substantive cooperation between overseas educational organizations with relevant qualifications and experience in providing high-quality education and PRC educational organizations to jointly operate various types of schools in China. Cooperation in the areas of higher education and occupational education is especially encouraged. PRC-foreign cooperative schools are not permitted, however, to engage in compulsory education or military, police, political and other kinds of education that are of a special nature in China.

Permits for schools jointly operated by PRC and foreign entities shall be obtained from the relevant education authorities or the authorities that regulate labor and social welfare in China. We are not required to apply for such permits since we currently do not have schools jointly operated by PRC and foreign entities.

Outline of PRC National Plan for Medium- and Long-Term Education Reform and Development (2010-2020)

On July 29, 2010, the PRC central government promulgated the Outline of PRC National Plan for Medium- and Long-Term Education Reform and Development (2010-2020), which for the first time announced the policy that the government will implement a reform to divide private education entities into two categories: (1) for-profit private education entities and (2) not-for-profit private education entities. On October 24, 2010, the General Office of the State Council issued the Notices on the National Education System Innovation Pilot. Under this notice, the PRC government plans to implement a for-profit and non-profit classified management system for the private schools in Shanghai, Zhejiang, Shenzhen and Jilin Huaqiao Foreign Language School. However, the above outline and the innovation pilot is still new and no additional national law or regulation has been promulgated to implement them and, except in Shanghai, no other local government of the pilot areas has promulgated relevant regulations on differentiated management of the private schools. Shanghai promulgated the Interim Measures for the Registration of Operational Private Training Institutions, which requires for-profit private training institutions to register with local administration of industry and commerce bureau and will remain effective until August 8, 2015. If, upon the implementation of the above reform, our schools choose to be for-profit private education entities, they may be subject to all the taxes that are applicable to enterprises as if they were enterprises; if our schools choose to be not-for-profit private education entities, our VIE Contractual Arrangements may be subject to more stringent scrutiny and the education authorities may not allow our schools to pay us services fees under the VIE Contractual Arrangements as they currently do. As a result, the implementation of this reform may adversely affect our results of operations.

On January 1, 2015, the State Council passed a package of revised draft amendments on education including Compulsory Education Law, Higher Education Law and the Law on the Promotion of Privately-run Schools, and decided to submit the package to the Standing Committee of the National People's Congress for deliberation. Under the draft amendments, for-profit private education schools are encouraged. Additionally, on December 27, 2015, Higher Education Law was amended by the National People's Congress, which, among other things, deleted the requirement that institutions of higher education may not be established for profit-making purposes. If we are required to, or choose to, change our schools into for-profit private education entities, we may have to adjust our business structure in accordance with the relevant amended regulations.

On June 18, 2012, the MoE issued the Implementation Opinions of the MoE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education to encourage private investment and foreign investment in the field of education. According to these opinions, the proportion of foreign capital in a PRC-foreign education institute shall be less than 50%. These opinions currently do not apply to our schools because we currently do not have PRC-foreign education institutes.

Regulations on Online and Distance Education

Pursuant to the Administrative Regulations on Educational Websites and Online and Distance Education Schools issued by the MoE in 2000, educational websites and online education schools may provide education services in relation to higher education, secondary education, primary education, preschool education, education for teachers, occupational education, adult education, other education and public educational information services. "Educational websites" refer to organizations providing education or education-related information services to website visitors by means of a database or online education platform connected via the Internet or an educational television station through an Internet service provider, or ISP. "Online education schools" refer to education websites providing academic education services or training services that issue education certificates.

Based on the above regulations issued by the MoE, setting up educational websites and online education schools is subject to approval from relevant education authorities, depending on the specific type of education provided. Any education website and online education school shall, upon receipt of the approval, indicate on its website such approval information as well as the approval date and file number.

However, according to the Administrative License Law promulgated by the Standing Committee of the National People's Congress, or NPC, on August 27, 2003, which became effective on July 1, 2004, only laws promulgated by NPC and regulations and decisions promulgated by the State Council may eliminate the requirement for any administrative license. Furthermore, according to a regulation promulgated by the State Council on June 29, 2004, and later amended on January 29, 2009, operators of "online education schools" must obtain approval from the government, while no approval is required to operate "educational websites." We are not required to obtain a license to operate "online education schools" as we do not offer government accredited degrees or certifications through our tutoring services. As a result and in accordance with the laws and regulations promulgated by NPC and the State Council, they are not required to obtain approval to operate "educational websites" from the MoE. On January 28, 2014, the State Council promulgated the Decision to Cancel or to Delegate another Batch of Administrative Approval Items to Lower Level, in which the administrative license for "online education schools" was cancelled for higher education. On February 3, 2016, the State Council promulgated the Decision of State Council to Cancel the Second Batch of Administrative Approval Items (152 Items) that Delegated to Lower Level, in which the administrative license for "online education schools" and "educational websites" were cancelled.

Regulations on Publishing and Distribution of Publications

On December 25, 2001, the State Council promulgated the Administrative Regulations on Publication, or the Publication Regulations, which became effective on February 1, 2002, and which was later amended on March 19, 2011. The Publication Regulations apply to publication activities, i.e., the publishing, printing, copying, importation or distribution of publications, including books, newspapers, periodicals, audio and video products and electronic publications, each of which requires approval from the relevant publication administrative authorities.

On April 13, 2005, the State Council announced a policy on private investments in China relating to cultural matters, which affects private investments in businesses that involve publishing. The policy authorizes the Ministry of Culture and several other central government authorities to adopt detailed rules to implement the policy. In July 2005, the Ministry of Culture, together with other central government authorities, issued a regulation that prohibits private and foreign investors from engaging in the publishing business. Our subsidiaries and Consolidated Affiliated Entities are not permitted to engage in the publishing business under this regulation.

Subsequent to the implementation of the Publication Regulations, the General Administration of Press and Publication issued the Administrative Regulations on Publications Market, which became effective on September 1, 2003 and which was amended on June 16, 2004. According to the Administrative Regulations on Publications Market, any organization or individual engaged in general distribution, wholesale or retail distribution of publications shall obtain a Permit for Operating Publications Business. Distribution of publications in China is regulated on different administrative levels. An entity engaged in general distribution of publications shall obtain such permit from the General Administration of Press and Publication and may conduct general distribution of the publications in China. An entity engaged in wholesaling of publications shall obtain such permit from the provincial office of the General Administration of Press and Publication and may not engage in general distribution in China. An entity engaged in retail distribution of publications shall obtain such permit from the local office of the Administration of Press and Publication and may not conduct general distribution or wholesaling of publications in China.

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

During the term of the above-mentioned permits, the General Administration of Press and Publication or its local branches or other competent authorities may conduct annual or spot examinations or inspections to ascertain their compliance with applicable regulations and may require changes in or renewal of such permits.

The Administrative Regulations on Publishing Audio-Video Products was later amended on March 19, 2011, pursuant to which the Permit for Operating Audio-Video Products is replaced by the Permit for Operating Publications Business. In addition, the General Administration of Press and Publication and the MoC jointly issued the Administrative Regulations on Publication Market, which became effective on March 25, 2011, and was subsequently amended on July 13, 2013 and December 7, 2013, or the New Administrative Regulations on Publication Market. According to the New Administrative Regulations on Publication Market, the distribution of publications is still subject to the same license system provided in the Administrative Regulations on Publication Market, except that the scope of publications is widened to include audio and video products. Upon the effectiveness of the New Administrative Regulations on Publication Market, the Administrative Regulations on Publication Market ceased to be effective, and entities or individuals engaging in distribution of publications, including audio-video products, shall only need to hold a Permit for Operating Publications Business, while a Permit for Publishing Audio-Video Products shall no longer be needed.

Xueersi Education and Xueersi Network, our VIEs engaging in retailing teaching materials and audio-video products to our students, and Beijing Zhikang Culture Distribution Co., Ltd., one of our Consolidated Affiliated Entities, have obtained the Permit for Operating Publications Business for retail services. If our VIEs and Consolidated Affiliated Entities engaged in the retail distribution of teaching materials and audio-video products are not able to pass the subsequent inspection or examination, they may not be able to maintain such permits or licenses necessary for their business.

Decision of the Central Committee of the Communist Party of China on Major Issues Concerning Comprehensively Deepening Reforms

The Decision of the Central Committee of the Communist Party of China on Major Issues Concerning Comprehensively Deepening Reforms, which was adopted at the Third Plenary Session of the 18th Central Committee of the Communist Party of China on November 12, 2013 will further open and liberalize certain investment access. The finance, education, culture and medical sectors will enjoy an orderly opening-up to market access and the government will encourage non-state capital to invest in the education sector.

Regulations on Internet Information Services

The Internet Information Measures require that commercial Internet content providers, or ICP providers, obtain a license for Internet information services, or ICP license, from the appropriate telecommunications authorities in order to offer any commercial Internet information services in China. ICP providers shall display their ICP license number in a conspicuous location on their home page. In addition, the Internet Information Measures also provide that ICP providers that operate in sensitive and strategic sectors, including news, publishing, education, health care, medicine and medical devices, must obtain additional approvals from the relevant authorities regulating those sectors as well.

In July 2006, the MII 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.

Xueersi Education and Xueersi Network, which engage in providing most of the Internet information services and providing online bulletin board services in China, respectively, have each obtained an ICP license from, and will duly amend registrations with, the Beijing branch of the MII.

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

The SARFT promulgated the Rules for Administration of Broadcasting of Audio-Video Programs through the Internet and Other Information Networks, or the Broadcasting Rules, in 2004, which became effective on October 11, 2004. The Broadcasting Rules apply to the activities of broadcasting, integration, transmission, downloading of audio-video programs with computers, televisions or mobile phones as main terminals and through various types of information networks. Pursuant to the Broadcasting Rules, a Permit for Broadcasting Audio-Video Programs via Information Network is required for engaging in Internet broadcasting activities. On April 13, 2005, the State Council announced a policy on private investments in businesses in China that relate to cultural matters, which prohibits private investments in businesses relating to the dissemination of audio-video programs through information networks.

On December 20, 2007, the SARFT and the MII issued the Internet Audio-Video Program Measures, which became effective on January 31, 2008 and was revised on August 28, 2015. Among other things, the Internet Audio-Video Program Measures stipulate that no entities or individuals may provide Internet audio-video program services without a License for Disseminating Audio-Video Programs through Information Network issued by the SARFT or SAPPRFT (as applicable) or the relevant local branches or completing the relevant registration with the SARFT or SAPPRFT (as applicable) or the relevant local branches and only entities wholly owned or controlled by the PRC government may engage in the production, editing, integration or consolidation, and transmission to the public through the Internet, of audio-video programs, and the provision of audio-video program uploading and transmission services. There are significant uncertainties relating to the interpretation and implementation of the Internet Audio-Video Program Measures, in particular, the scope of "Internet Audio-Video Programs." However, on April 1, 2010, the SARFT promulgated the Tentative Categories of Internet Audio-Visual Program Service (Trail), or the Categories, which clarified the scope of Internet Audio-Video Programs. According to the Categories, there are four categories of Internet audio-visual program service which in turn are divided into seventeen sub-categories. The third sub-category of the second category covers the making and broadcasting of certain specialized audio-visual programs concerning art, culture, technology, entertainment, finance, sports, and education.

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

In the fiscal year ended February 29, 2016, 4.0% of our total net revenues were derived from audio-video program services offered through *www.xueersi.com* that may be subject to the Audio-Video Program Measures. In the course of offering online tutoring services through *www.xueersi.com*, we transmit our audio-video educational courses and programs through the Internet only to enrolled course participants, not to the general public. The limited scope of our audience distinguishes us from general online audio-video broadcasting companies, such as companies operating user-generated content websites. In addition, we do not provide audio-video program uploading and transmission services. As a result, we believe that we are not subject to the Internet Audio-Video Program Measures and the Broadcasting Audio-Video Programs Regulations. However, there is no further official or publicly available interpretation of these definitions, especially the scope of "Internet audio-video program service." If the governmental authorities determine that our provision of online tutoring services falls within the Internet Audio-Video Program Measures or the Broadcasting Audio-Video Programs Regulations, we may not be able to obtain the required permit or license. If this occurs, we may become subject to significant penalties, fines, legal sanctions or an order to suspend our use of audio-video content.

Regulations on Television Program Industry

Television program productions and distribution businesses are mainly regulated by the Administrative Regulations on Radio and Television which became effective on September 1, 1999, the Administrative Regulations on the Production and Operation of Radio and Television Program which became effective on August 20, 2004, and the Administrative Regulations on the Content of Television Plays which became effective on July 1, 2010. Pursuant to these regulations, television programs can only be produced by television stations at the municipal level or above or entities with either a Film Production License or a License for the Production and Operation of Radio and Television Program.

Pursuant to the SARFT Circular on the Implementation of Licensing System for the Distribution of Domestically Produced TV Animation Movies which was issued on January 7, 2005 and became effective as of January 20, 2005, a licensing system was introduced since January 20, 2005 for the distribution of domestically produced TV animation movies. The Permit for Public Projection of Film or the Permit for Distribution of Domestically Produced TV Animation Movies must be obtained for broadcasting any domestically produced TV animation movie from the SARFT, before a TV animation movie could be broadcasted through television channels.

Xueersi Education and Xueersi Network, which carry out producing TV animation movies, have each obtained the License for the Production and Operation of Radio and Television Program from the Beijing branch of the SARFT, and we have obtained the Permit for Distribution of Domestically Produced TV Animation Movies for our TV animation movie *Mobby's Legend and Lihuadan Season 1*.

Regulations on Protection of the Right of Dissemination through Information Networks

On May 18, 2006, the State Council promulgated the Regulations on Protection of the Right of Dissemination through Information Networks, which became effective on July 1, 2006 and was revised in January 2013. These regulations require that every organization or individual who disseminates a third party's work, performance, audio or visual recording products to the public through information networks shall obtain permission from, and pay compensation to, the legitimate copyright owner of such products, unless otherwise provided under relevant laws and regulations. The legitimate copyright owner may take technical measures to protect his or her copyright and any organization or individual shall not intentionally jeopardize, destroy or otherwise assist others in jeopardizing such protective measures unless otherwise permitted under law. The regulations also provide that permission from and compensation to the copyright owner is not required in the case of limited dissemination to teaching or research staff for the purpose of school instruction or scientific research only.

We have established policies related to intellectual property rights protection in accordance with applicable PRC laws and regulations.

Regulations on Consulting Services for Overseas Studies

With respect to intermediate and consulting business activities relating to self-funded overseas studies, the Education Commission of Beijing and Beijing Administration for Industry and Commerce jointly issued the Beijing Measures of Supervisions and Recognition of Intermediate Services for Self-Funded Overseas Studies (Trial) on September 30, 2015, which require that any intermediate service organization engaged in such services in Beijing shall satisfy certain requirements set up therein, including having employees with experience in educational services, having established stable and cooperative relations with an overseas educational institution, and having sufficient funds to protect the rights and interests of customers. The intermediate service organizations which satisfy such requirements may apply with the Education Commission of Beijing for the Recognition on the Intermediate Service Organization for Self-funded Overseas Studies. Organizations or individuals without such Recognition from the Education Commission of Beijing are not allowed to engage in any intermediate and consulting business activities relating to self-funded overseas studies.

Guidelines for Overseas Study Tour participated by the Primary and Middle School Students (Trial)

In July 2014, the MoE promulgated the Guidelines for Overseas Study Tour participated by the Primary and Middle School Students (Trial). Under the guidelines, overseas study tours participated in by primary and middle school students means, by adapting to the characteristics and educational needs of the primary and middle school students, programs that organize such students to travel overseas in the manner of group travel and group accommodation, either during the academic semesters or vacations, to learn foreign languages and other short-term curriculum, perform art shows, compete in contests, visit schools, attend summer/winter school programs, or take part in other similar activities. During these tours, the proportion of study, in terms of both content and duration, must be no less than half of all activities on these tours. The organizer must choose legitimate and qualified institutions to cooperate with, stress the importance of education on safety, and appoint a guiding teacher for each group. The organizer must apply the rules of cost accounting, notify the students and their guardians of the composition of the fees and expenses, and enter into agreements as required by law. Schools and school personnel must not seek any economic benefit from organizing its own students to attend an overseas study tour.

Regulation on Tourism

Tourism Law of the People's Republic of China, which was promulgated by Standing Committee of the NPC on April 25, 2013 and came into effect on October 1, 2013, provides that, among other things, to engage in the businesses of outbound tourism, a travel agency shall obtain corresponding business permit, and the specific conditions shall be provided for by the State Council and that when organizing an outbound touring group, or organizing or receiving an inbound touring group, a travel agency shall, in accordance with the relevant provisions, arrange for a tour leader or tour guide to accompany the touring group in the whole tour. Regulations on Travel Agencies promulgated by the State Council, which came into effect on May 1, 2009 and was revised on February 6, 2016, and the implementation rules of Regulations on Travel Agencies, provide that, among other things, travel agent shall mean any entity that engages in the business of attracting, organizing, and receiving tourists, providing tourism services for tourists and operating domestic, outbound or border tourism; the aforementioned business shall include but not limit to arranging for transport services, arranging for accommodation services, providing services for tour guides or team leaders, providing services of tourism consultation and tourism activities design. According to the Regulations on Travel Agencies and its implementation rules, any tourism agent engages in the outbound tourism shall apply for a permit to engage in the outbound tourism from the administrative department of tourism under the State Council, the people's governments of provinces, autonomous regions, or municipalities.

Regulations on Commercial Franchises

The State Council promulgated the Regulation on the Administration of Commercial Franchises on January 31, 2007, which became effective on May 1, 2007. Among other things, it provides that: (i) "commercial franchise" (hereinafter referred to as "franchise") refers to such business operations by which an enterprise owning a registered trademark, enterprise mark, patent, know-how or any other business resource (hereinafter referred to as "Franchiser") confers the said business resource to any other business operator (hereinafter referred to as "Franchisee") by contract, and the Franchisee undertakes business operations under the uniform business model as provided in the contract, and pay franchising fees to the Franchiser; (ii) a Franchiser that engages in franchise activities shall possess a mature business model and the ability to provide long-term business guidance, technical support, business training and other services to the Franchisee; (iii) a Franchiser that engages in franchise activities shall have at least two direct sales stores, and have undertaken the business for more than a year; and (iv) a Franchiser shall, within 15 days after having concluded a franchise contract for the first time, file to the commercial administrative department where if a Franchiser engages in any franchised operations within the scope of a province, autonomous region, or municipality directly under the central government, it shall file with the commercial administrative department of the province, autonomous region or municipality directly under the central government and if a franchiser engages in any franchised operations within the scope of two or more provinces, autonomous regions, or municipalities directly under the central government it shall file with the commercial administrative department of the State Council. According to the Administrative Measures for Archival Filing of Commercial Franchises, which was issued by the Ministry of Commerce on November 7, 2011 and came into effective on February 1, 2012, the filing shall be conducted on the commercial franchise information management system established by the Ministry of Commerce. In addition, the Regulation on the Administration of Commercial Franchises provides that the Franchiser and the Franchisee shall conclude a franchise contract in writing, and the term of such franchise contract shall not less than 3 years except the Franchisee otherwise agrees.

On January 18, 2012, Ministry of Commerce issued Administrative Measures for Commercial Franchise Information Disclosure, which came into effect on April 1, 2012. It provides that the Franchisers shall, as required by the Regulation on the Administration of Commercial Franchises, disclose the following information to Franchisees in writing not later than 30 days prior to the conclusion of franchise contracts, unless such contracts are renewed under the original terms: (i) the basic information of the Franchisers and its franchise business, (ii) the basic information of the business resource of the Franchiser, (iii) the basic information of the franchise fee, (iv) the basic information of the price, conditions and other information related to the products, services, and equipment provided to the Franchisee, (v) the follow-up service provided to the Franchisee, (vi) the methods and contents of guidance and supervisions provided by the Franchiser on the Franchisee related to the business; (vii) the investment budget of the sales stores, (viii) the relevant information about the franchisees within PRC, which includes the amount, geographical distributions, scope of authorities, whether there is any exclusive authorized region, and the basic situation of their franchise business; (ix) the record of materially illegal business, including any fine over 30 thousand RMB imposed by competent authority and any criminal liability of the Franchiser and its legal representative; and the (x) agreement of franchise. However, this Administrative Measures for Commercial Franchise Information Disclosure provides that the Franchiser has right to require the Franchisee enter into a confidential agreement with the Franchiser prior to the disclosure of the aforementioned information; and if the Franchisee knows any commercial secret of Franchiser due to the contractual relationship between the Franchisee and the Franchiser, the Franchisee still have the obligation to keep such commercial secret confidential even though there is no confidential agreement between the Franchiser and the Franchisee after the termination of relevant contractual relationship between them.

On August 17, 2012, in order to further effectively conduct the administration of commercial franchise, the General Office of Ministry of Commerce issued Notice of the General Office of the Ministry of Commerce on Further Effectively Conducting the Administration of Commercial Franchise, which provides directions and requirements for the local commerce departments in administrative work related to establishing sound working system, improving the management and services in franchise filing, facilitating the brand construction of franchise enterprises, administrating franchise business in accordance with law and the promotion and construction of credit record and credit evaluation system in franchise business.

Regulations on Intellectual Property Rights Protection

China has adopted legislation governing intellectual property rights, including copyrights and trademarks. China is a signatory to major international conventions on intellectual property rights and is subject to the Agreement on Trade Related Aspects of Intellectual Property Rights as a result of its accession to the World Trade Organization in December 2001.

Copyright. The National People's Congress amended the Copyright Law in 2001 and 2010 to widen the scope of works and rights that are eligible for copyright protection. The amended Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

To address copyright infringement related to content posted or transmitted over the Internet, the National Copyright Administration and the MII jointly promulgated the Administrative Measures for Copyright Protection Related to the Internet on April 30, 2005. These measures became effective on May 30, 2005.

Trademark. The PRC Trademark Law, adopted in 1982 and revised in 2001 and 2013 (the 2013 revised version has been promulgated August 30, 2013 and became effective on May 1, 2014), protects the proprietary rights to registered trademarks. The Trademark Office under the SAIC handles trademark registrations and may grant a term of ten years for registered trademarks, which may be extended for another ten years upon request. Trademark license agreements must be filed with the Trademark Office for record. In addition, if a registered trademark is recognized as a well-known trademark, the protection of the proprietary right of the trademark holder may reach beyond the specific sector of the relevant products or services. The transfer of registered trademarks shall be registered with the Trademark Office.

Patent. The PRC Patent Law was adopted in 1984, and most recently amended in 2008. Under the PRC Patent Law, a patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Council is responsible for receiving, examining and approving patent applications. An invention patent is valid for 20 years, and a utility model or design patent is valid for 10 years, starting from the application date. A third-party user must obtain consent or a proper license from the patent owner to use the patent except for certain specific circumstances provided by law.

Domain names. Internet domain name registration and related matters are primarily regulated by (i) the Implementing Rules on Registration of Domain Names, which was issued by China Internet Network Information Centre on September 25, 2002 and was amended on June 5, 2009 and May 28, 2012 (the 2012 amended version became effective on May 29, 2012), (ii) the Measures on Administration of Domain Names for the PRC Internet, issued by the MII on November 5, 2004 and became effective as of December 20, 2004, and (iii) the Measures on Domain Name Disputes Resolution for the PRC Internet issued by the China Internet Network Information Centre on May 28, 2012 and became effective as of June 28, 2012. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration. We have registered many domain names with China Internet Network Information Centre.

The Draft PRC Foreign Investment Law

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

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

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

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

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents.

The Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular 75, requires PRC residents to register with the relevant local branch of the SAFE before establishing or controlling any company outside China, referred to as an offshore special purpose company, for the purpose of raising funds from overseas to acquire or exchange the assets of, or acquiring equity interests in, PRC entities held by such PRC residents and to update such registration in the event of any significant changes with respect to that offshore company.

The SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced SAFE Circular 75. SAFE Circular 37 requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle". The term "control" under SAFE Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions.

We believe that all of our shareholders who are PRC citizens or residents completed their required registrations with the SAFE in accordance with SAFE Circular 75 prior to, and immediately after, the completion of our initial public offering in October 2010, and we have filed with the SAFE amendments related to our listing on the New York Stock Exchange.

Regulations on Loans to and Direct Investment in the PRC Entities by Offshore Holding Companies

According to the Implementation Rules for the Provisional Regulations on Statistics and Supervision of Foreign Debt promulgated by the SAFE on September 24, 1997 and the Interim Provisions on the Management of Foreign Debts, or the Provisions, promulgated by the SAFE, the National Development and Reform Commission and the Ministry of Finance, which was effective from March 1, 2003, loans by foreign companies to their subsidiaries in China, which are foreign-invested enterprises, are considered foreign debt, and such loans must be registered with the local branches of the SAFE. Under the Provisions, these foreign-invested enterprises must submit registration applications to the local branches of the SAFE within 15 days following execution of foreign loan agreements, and the registration should be completed within 20 business days from the date of receipt of the application. In addition, the total amount of accumulated medium-term and long-term foreign debt and the balance of short-term debt borrowed by a foreign-invested enterprise is limited to the difference between the total investment and the registered capital of the foreign-invested enterprise. Total investment of a foreign-invested enterprise is the total amount of capital that can be used for the operation of the foreign-invested enterprise, as approved by the MoC or its local branch, and may be increased or decreased upon approval by the MoC or its local branch. Registered capital of a foreign-invested enterprise is the total amount of capital contributions to the foreign-invested enterprise by its foreign holding company or owners, as approved by the MoC or its local branch and registered at the SAIC or its local branch.

According to applicable PRC regulations on foreign-invested enterprises, capital contributions from a foreign holding company to its PRC subsidiaries, which are considered foreign-invested enterprises, may only be made when approval by the MoC or its local branch has been obtained. In approving such capital contributions, the MoC or its local branch examines the business scope of each foreign invested enterprise under review to ensure it complies with the Foreign-Investment Industrial Guidance Catalog, which classifies industries in China into three categories, namely "encouraged foreign investment industries," "restricted foreign investment industries" and "prohibited foreign investment industries." Industries not listed in the Foreign-Investment Industrial Guidance Catalog are generally open to foreign investment unless specifically restricted by other PRC regulations. On March 10, 2015, a new Foreign-Investment Industrial Guidance Catalog was issued to become effective on April 10, 2015 and to replace the previous one issued in 2011.

Each of our PRC subsidiaries is a foreign-invested enterprise, is not engaged in any prohibited or restricted businesses listed in either the previous or the current Foreign-Investment Industrial Guidance Catalog and has not incurred any foreign debt.

Regulations on Labor

Pursuant to the PRC Labor Law which was promulgated by the Standing Committee of the National People's Congress on July 5, 1994 and became effective on January 1, 1995 and subsequently amended on August 27, 2009, the PRC Labor Contract Law which was promulgated Standing Committee of the National People's Congress on June 29, 2007 and became effective on January 1, 2008 and subsequently amended on December 28, 2012 and became effective on July 1, 2013 and its Implementing Regulations of the Employment Contracts Law which was promulgated by the State Council and became effective on September 18, 2008, labor contracts in written form shall be executed to establish labor relationships between employers and employees. Wages cannot be lower than local minimum wage. The employer must establish a system for labor safety and sanitation, strictly abide by state standards, and provide relevant education to its employees. Employees are also required to work in safe and sanitary conditions meeting State rules and standards, and carry out regular health examinations of employees engaged in hazardous occupations.

In the respect of the employment of foreigner in PRC, Provision on the Employment of Foreigners in China, which was promulgated on May 1, 1996 and was revised on November 12, 2010, provides that, among other things, to employ a foreigner who does not have Chinese nationality, an employer shall apply for an employment license for such foreigner, and may only employ him or her after such foreigner obtains an Foreigners' Employment License of the People's Republic of China (hereinafter referred to as "Employment License"); prior to obtaining employment in China, a foreigner shall enter China with an employment visa (or in accordance with an agreement on mutual exemption of visas if there is such an agreement); and after entering China, such foreigner shall obtain an Employment Permit for Foreigners (hereinafter referred to as "Employment Permit") and a residence permit for foreigners, save that the foreigners holding the Foreign Expert Permit issued by the State Administration of Foreign Experts Affairs are not required to hold Employment Licenses and Employment Permit. Provision on the Employment of Foreigners in China also provides that the Employment License is valid only in the area defined by the authority which issued such license; the actual employer of a foreigner shall be consistent with the employer recorded on the Employment License; if the actual employer changed but the foreigner is employed in a similar job by another employer within the same area defined by the authority which issued such license, the foreigner shall file with such authority to change information on the Employment License.

According to the Notice of Issues Related to the Management of Employment of Foreigners in China, which was promulgated by Ministry of Labor and Social Security on December 7, 1998 and became effective on December 7, 1998, provided that, among other things, the Ministry of Labor and Social Security should cooperate with Ministry of Public Security to carry out regular and irregular investigation on the entities that employ relatively large number of foreigners about their employment of foreigners.

In the respect of hiring foreigners as teachers in schools, State Administration of Foreign Experts Affairs, promulgated a Notice of Issuing Regulations for Foreign Experts to Apply Permit to Work in China and Other Regulations, or the SAFEA Circular No. [2004] 139 on September 30, 2004. SAFEA Circular No. [2004] 139 provides that foreign experts shall obtain Foreign Expert Permit. Any foreign expert that apply the Foreign Expert Permit shall obey the laws and regulations of PRC, shall be healthy, shall have no criminal record, and shall meet one of the following requirement: (i) such foreign expert is employed to work in China in order to perform agreements between governments or international organizations, or to perform economic or trade agreements between Chinese party(s) and foreign party(s) as a professional person with foreign nationality who has technology or management skills; (ii) such foreign expert is employed to perform the work in the fields of education, scientific research, press, publication, culture, arts, health, or sport as a professional person with foreign nationality; (iii) such foreign expert is employed to perform a position higher than vice president of an domestic enterprise or equivalent position as a professional person with foreign nationality who has technology or management skills; (iv) such foreign expert is a representative with foreign nationality, who is a PRC representative office of a experts association or recruitment agent approved by State Administration of Foreign Experts Affairs; or (v) such foreign expert is employed to perform the work in the fields of economy, technology, engineering, trade, finance, accounting, tax, tourism who possesses specialty as a professional person with foreign nationality in urgent need with technology or management skills. According to the SAFEA Circular No. [2004] 139, to apply a Foreign Expert Permit as a foreign expert to perform the work in the field of education, the applicant shall submit the application together with a copy of the employer's Certificate of Employing Foreign Experts and the agreement entered by such applicant and its employer to the provincial Administration of Foreign Experts Affairs where the employer located, provided that if the employer is the ministry, commission directly under the State Council, the authority directly under the State Council, the public institution or the professional corporation, the applicant shall submit the application to the State Administration of Foreign Experts Affairs. SAFEA Circular No. [2004] 139 also provides that entity shall obtain Certificate of Employing Foreign Experts to employ foreign experts and the application of Certificate of Employing Foreign Experts shall submit to the provincial Administration of Foreign Experts Affairs where the employer located, provided that the non-educational public institution located in Beijing that is directly under the ministry, commission of the State Council, the authority directly under the state council, the application shall submit to the State Administration of Foreign Experts Affairs. According to the SAFEA Circular No. [2004] 139, the Administration of Foreign Experts Affairs will carry out annual inspection on the entity that has obtained Certificate of Employing Foreign Experts in January of each year.

In addition, State Administration of Foreign Experts Affairs promulgated an Opinion on Further Regulating the Employment of Foreign Experts in Education and Culture on September 3, 2009, provided that, among other things, any entity that dispatches and introduce foreign experts in education and culture to work in China shall obtain Certificate of Employing Foreign Experts; the entity that dispatches the foreign experts, the dispatched foreign expert and the entity that employs the dispatched expert shall enter into an agreement to confirm each party's obligations and rights related to the employment of such foreign expert, and the entity that dispatches the foreign expert and the entity that employs the foreigner expert shall have the joint liability in the management of such foreign expert. Such Opinion on Further Regulating the Employment of Foreign Experts in Education and Culture also provides that any entity that engages in dispatching foreign expert in education and culture with Certificate of Employing Foreign Experts shall not introduce foreign experts working in the entity that without Certificate of Employing Foreign Experts, the provincial and regional Administration of Foreign Experts Affairs shall cooperate with the public security authorities and their exit-entry administration divisions to investigate and handle the illegal employment of foreign experts under applicable laws.

If the employment of foreigners is not in compliance with the above relevant regulations, the employer may become subject to penalties, fines or an order to terminate such employment and to bear all the expenses and costs arising from the repatriation of such foreigner.

Regulations on Employee Share Incentive Awards Granted by Listed Companies

The Operating Procedures for Administration of PRC Individuals Participating in the Employee Share Ownership Plan of Offshore Listed Companies, or SAFE Circular 78, regulate the foreign exchange matters associated with employee stock ownership plans granted to PRC residents by companies whose shares are listed on overseas stock exchanges. PRC individuals who are granted share incentive awards by companies listed on overseas stock exchanges based on an employee stock ownership plan are required to register with the SAFE or its local branches. Pursuant to SAFE Circular 78, PRC individuals participating in the employee stock ownership plans of the foreign-listed companies shall entrust their employers, including foreign-listed companies and their subsidiaries or branch offices, or engage PRC agents, to handle various foreign exchange matters associated with their employee stock ownership plans. The PRC agents or the employers shall, on behalf of the PRC individuals who have the right to exercise the employee share options, apply annually to the SAFE or its local branches for a quota for conversion and/or payment of foreign currencies in connection with the PRC individuals' exercise of the employee share options if necessary. The foreign exchange proceeds received by the PRC individuals from the sale of shares under the stock ownership plans granted by the foreign-listed companies must be remitted to bank accounts in China opened by their employers or PRC agents.

Further, a notice concerning individual income tax on earnings from employee share incentive awards, jointly issued by the Ministry of Finance and the SAT, provides that companies that implement employee stock ownership programs shall file the employee stock ownership plans and other relevant documents with the local tax authorities having jurisdiction over such companies before implementing such plans, and shall file share option exercise notices and other relevant documents with local tax authorities before exercise by their employees of any share options, and clarify whether the shares issuable under the employee share options referenced in the notice are shares of publicly listed companies.

On February 15, 2012, the SAFE issued the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in a Stock Incentive Plan of an Overseas Publicly-Listed Company, or SAFE Circular 7, which terminated both SAFE Circular 78 and the Notice on Relinquishing Power of Approving the First-time Application of Foreign Exchange Purchase Quotas, Opening of Special Bank Accounts issued by the SAFE on January 7, 2008. According to SAFE Circular 7, if “domestic individuals” (meaning both PRC residents and non-PRC residents who reside in China for a continuous period of not less than one year, excluding the foreign diplomatic personnel and representatives of international organizations) participate in any stock incentive plan of an overseas listed company, a qualified PRC domestic agent, which could be the PRC subsidiaries of such overseas listed company, shall, among other things, file, on behalf of such individuals, an application with the SAFE to conduct the SAFE registration with respect to such stock incentive plan, and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the stock purchase or stock option exercise. Such PRC individuals’ foreign exchange income received from the sale of stocks and dividends distributed by the overseas listed company and any other income shall be fully remitted into a collective foreign currency account in China opened and managed by the PRC domestic agent before distribution to such individuals. In addition, such domestic individuals must also retain an overseas entrusted institution to handle matters in connection with the exercise of their stock options and their purchase and sale of stock. The PRC domestic agent also needs to update registration with the SAFE within three months after the overseas-listed company materially changes its stock incentive plan or make any new stock incentive plans.

Prior to the issuance of SAFE Circular 7, we received approval from the SAFE’s Beijing branch in January 2012 in regards to applications we had submitted on behalf of certain of our employees who hold a significant number of restricted shares. Upon the issuance of SAFE Circular 7, SAFE Circular 78 ceased to be applicable for such registration. From time to time, we need to make applications or update our registration with the SAFE or its local branches on behalf of our employees who are affected by our new share incentive plan or material changes in our current share incentive plan. However, we may not always be able to make applications or update our registration on behalf of our employees who hold our restricted shares or other types of share incentive awards in compliance with SAFE Circular 7, nor can we ensure you that such applications or update of registration will be successful. If we or the participants of our share incentive plan who are PRC citizens fail to comply with SAFE Circular 7, we and/or such participants of our share incentive plan may be subject to fines and legal sanctions, there may be additional restrictions on the ability of such participants to exercise their stock options or remit proceeds gained from sale of their stock into China, and we may be prevented from further granting share incentive awards under our share incentive plan to our employees who are PRC citizens.

M&A Regulations

On August 8, 2006, six PRC regulatory agencies, namely the MoC, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC, and the SAFE, jointly adopted the M&A Rules, which became effective on September 8, 2006 and amended on June 22, 2009. The M&A Rules establish procedures and requirements that could make some acquisitions of PRC companies by foreign investors more time-consuming and complex, including requirements in some instances that the MoC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise where any of the following situations exist: (i) the transaction involves an important industry in China, (ii) the transaction may affect national “economic security,” or (iii) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. Complying with the requirements of the M&A Rules to complete acquisitions of PRC companies by foreign investors could be time-consuming, and any required approval processes, including obtaining approval from the MoC, may delay or inhibit the ability to complete such transactions.

Regulations on Foreign Currency Exchange

Pursuant to applicable PRC regulations on foreign currency exchange, the Renminbi is freely convertible to foreign currencies for current account items only, such as trade-related receipts and payments, interest and dividends. Conversion of Renminbi to foreign exchange for capital account items, such as direct equity investments, loans and repatriation of investments, are subject to the prior approval of the SAFE or its local branches or prior registration with banks. Payments for transactions that take place within China must be made in RMB. Domestic companies or individuals can repatriate payments received from abroad in foreign currencies or deposit those payments abroad subject to the requirement that such payments be repatriated within a certain period of time. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks. Foreign exchange on the current account can be either retained or sold to financial institutions that have foreign exchange settlement or sales business without prior approval from the SAFE, subject to certain regulations. Foreign exchange on the capital account can be retained or sold to financial institutions that have foreign exchange settlement and sales business with prior approval of the SAFE, unless otherwise provided.

In utilizing the proceeds we received from our initial public offering and other financing activities, such as the issuance of convertible senior notes, as an offshore holding company with PRC subsidiaries, we may (i) make additional capital contributions to our PRC subsidiaries, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiaries or our Consolidated Affiliated Entities, or (iv) acquire offshore entities with business operations in China in an offshore transaction. However, most of these uses are subject to PRC regulations and approvals. For example:

- capital contributions to our subsidiaries in China, whether existing ones or newly established ones, must be approved by the MoC or its local branches and must also be registered with the local bank authorized by SAFE;
- loans by us to our 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 SAFE or its local branches; and
- loans by us to our Consolidated Affiliated Entities, which are domestic PRC entities, must be registered with the National Development and Reform Commission and must also be registered with the SAFE or its local branches.

In addition, on August 29, 2008, the SAFE promulgated a notice regulating the conversion by a foreign-invested company of its capital contribution in foreign currency into Renminbi, or SAFE Circular 142, which restricts the use of RMB funds converted from foreign exchange. It requires that RMB converted from foreign currency-denominated capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the relevant government authority and may not be used to make equity investments in China, unless specifically provided otherwise. Moreover, the approved use of such RMB funds may not be changed without approval from the SAFE. RMB funds converted from foreign exchange may not be used to repay loans in RMB if the proceeds of such loans have not yet been used. Any violation of SAFE Circular 142 may result in severe penalties, including substantial fines. On March 30, 2015, the SAFE promulgated the Notice on Reforming the Management Method relating to Conversion of the Capital Contribution of Foreign Invested Company from Foreign Exchange to Renminbi, or SAFE Circular 19. Although SAFE Circular 142 was abolished when SAFE Circular 19 became effective on June 1, 2015, the foregoing rules have been retained in SAFE Circular 19. On February 13, 2015, the SAFE promulgated the Notice on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, or SAFE Circular 13, which was effective on June 1, 2015. Pursuant to SAFE Circular 13, annual foreign exchange inspection of direct investment is not required anymore and the registration of existing equity is required. SAFE Circular 13 also grants the authority to banks to examine and process foreign exchange registration with respect to both domestic and overseas direct investment.

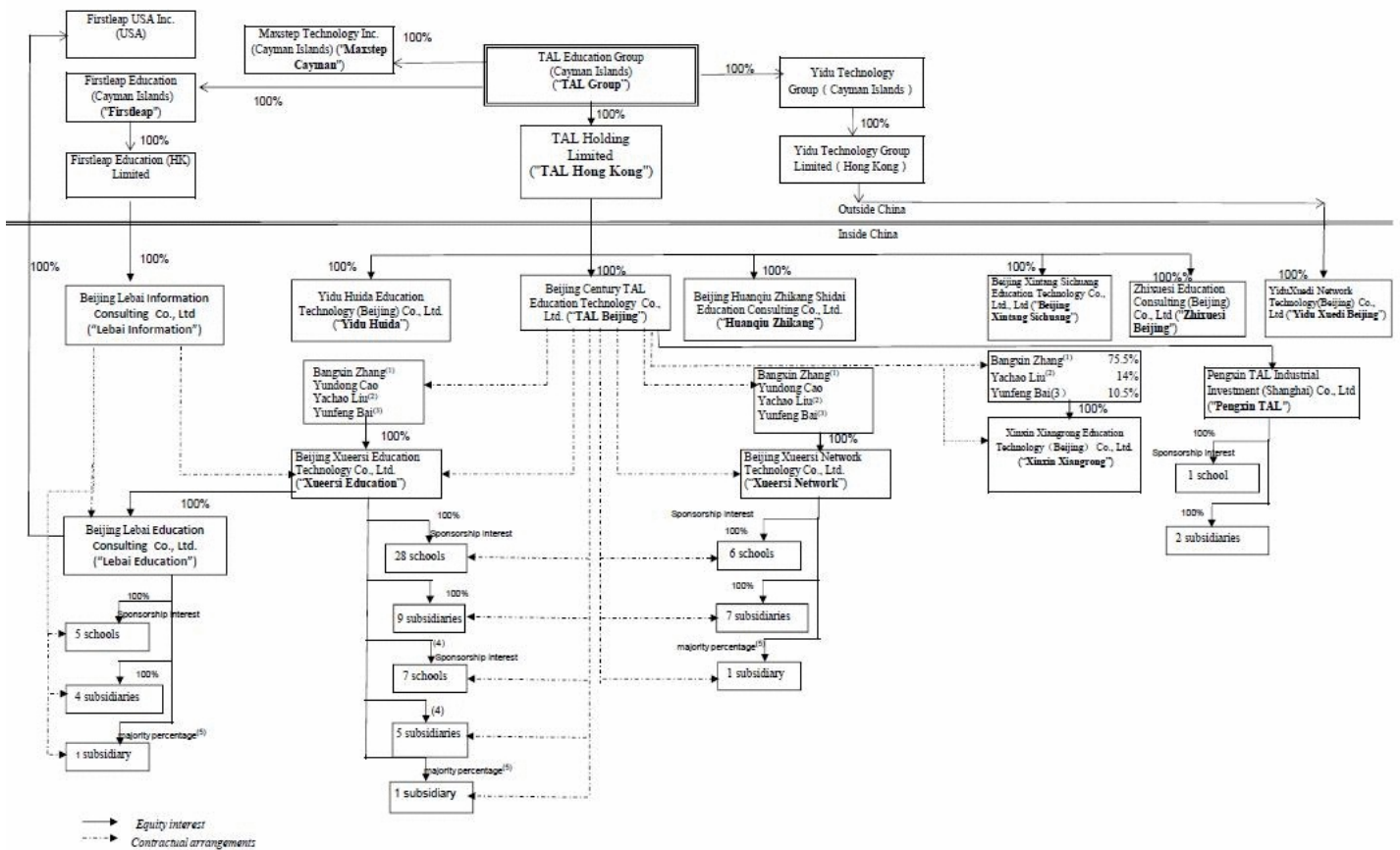
We expect that PRC regulations concerning loans and direct investment by offshore holding companies to PRC entities will continue to limit our use of proceeds from offshore offerings. There are no costs associated with registering loans or capital contributions with relevant PRC authorities, other than nominal processing charges. Under PRC laws and regulations, the PRC government authorities are required to process such approvals or registrations or deny our application within a maximum of 90 days. The actual time taken, however, may be longer due to administrative delay. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future plans to use the U.S. dollar proceeds we received from offshore offerings for our expansion and operations in China. If we fail to receive such registrations or approvals, our ability to use the proceeds from our offshore offerings and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and ability to fund and expand our business.

Regulations on Dividend Distribution

Under applicable PRC laws and regulations, companies in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, companies in China are required to allocate at least 10% of their accumulated profits each year, if any, to fund statutory reserves of up to 50% of the registered capital of the enterprise. Statutory reserves are not distributable as cash dividends. Each of our subsidiaries, VIEs and VIEs' subsidiaries in China are required to comply with this statutory reserves funding requirement. Although the statutory surplus reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. In addition, at the end of each fiscal year, each of our affiliated schools in China is required to allocate a certain amount out of its annual net income, if any, to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. For our 30 private schools which have elected to require reasonable returns, this amount shall be no less than 25% of the annual net income of the school, and for the remaining 17 private schools which have elected not to require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase in the net assets of the school, if any. As a result of these PRC laws and regulations, as of February 29, 2016, we had \$23.0 million in statutory surplus reserves and development fund, or 5.2% of total equity, that are not distributable as cash dividends. We do not expect that the statutory surplus reserve requirement will materially limit our ability to pay dividends to our shareholders or our plan to expand our business because we are to date only required to set aside an additional \$9.7 million to satisfy the maximum requirement of statutory surplus reserves for all of our PRC subsidiaries and our Consolidated Affiliated Entities.

C. Organizational Structure

The following diagram sets out details of our significant subsidiaries and Consolidated Affiliated Entities as of April 30, 2016:



Note:

- (1) Mr. Bangxin Zhang is our chairman and chief executive officer. He owned 36.8% of the common shares and 74.0% of the voting power of TAL Education Group as of April 30, 2016.
- (2) Mr. Yachao Liu is our senior vice president. He owned 5.5% of the common shares and 11.0% of the voting power of TAL Education Group as of April 30, 2016.
- (3) Mr. Yunfeng Bai is our senior vice president. He owned 1.9% of the common shares and 3.8% of voting power of TAL Education Group as of April 30, 2016.
- (4) Xueersi Education directly or indirectly holds majority ownership and Xueersi Network directly or indirectly holds the remaining minority ownership. We evaluated the sponsorship interest in the schools for consolidation under the asset, lease, variable interest entity and voting interest models. After consideration, we consolidated the schools under the variable interest model.
- (5) We hold majority ownership with the minority ownership held by third parties.

VIE Contractual Arrangements

Due to PRC legal restrictions on foreign ownership and investment in the education business in China, aside from our personalized premium tutoring services in Beijing conducted by our PRC subsidiaries, Huanqiu Zhikang and Zhixuesi Beijing, substantially all of our education business in China is conducted through the VIE Contractual Arrangements. The VIE Contractual Arrangements, which are summarized below, enable us, through TAL Beijing and Lebai Information, to direct the activities of our VIEs that most significantly affect the VIEs' economic performance and to receive substantially all the benefits from our Consolidated Affiliated Entities.

Exclusive Business Service Agreements. Pursuant to the Exclusive Business Cooperation Agreement entered into in June 2010 by and among TAL Beijing, Xueersi Education, Xueersi Network, the shareholders, subsidiaries and schools of Xueersi Education and Xueersi Network, or the Agreement of Xueersi Education and Xueersi Network, which supersedes all agreements among parties with respect to subject matters thereof, TAL Beijing or its designated affiliates have the exclusive right to provide each of Xueersi Education and Xueersi Network and their subsidiaries and schools comprehensive intellectual property licensing and various technical and business support services. Pursuant to the Exclusive Business Service Agreement entered into by and among TAL Beijing, Xinxin Xiangrong and its shareholders on August 4, 2015, or the Agreement of Xinxin Xiangrong, TAL Beijing and its designated affiliates have the exclusive right to provide Xinxin Xiangrong and its subsidiaries and schools (if any) comprehensive intellectual property licensing and various technical and business support services. Lebai Information, Lebai Education and its sole shareholder, subsidiaries and schools have entered into an Exclusive Business Service Agreement on October 26, 2015, or the Agreement of Lebai Education, the terms of which are substantially the same as the Agreement of Xinxin Xiangrong summarized above. The services under each of these agreements include, but are not limited to, employee training, technology development, transfer and consulting services, public relation services, market survey, research and consulting services, market development and planning services, human resource and internal information management, network development, upgrade and ordinary maintenance services, and software and trademark licensing and other additional services as the parties may mutually agree from time to time. Without the prior written consent of TAL Beijing or Lebai Information, none of the VIEs or their respective subsidiaries or schools may accept services provided by any third party which are covered by the agreements set forth above. TAL Beijing and Lebai Information or their designated affiliates owns the exclusive intellectual property rights created as a result of the performance of these agreements. With respect to the Agreement of Xueersi Education and Xueersi Network, the relevant Consolidated Affiliated Entities agree to pay annual service fees to TAL Beijing or its designated affiliates and adjust the service fee rates from time to time at TAL Beijing's discretion. Such agreement will not expire unless terminated pursuant by a mutual agreement of parties. With respect to the Agreement of Xinxin Xiangrong, the relevant Consolidated Affiliated Entities agree to pay service fees regularly to TAL Beijing or its designated affiliates and adjust the service fee rates from time to time at TAL Beijing's discretion. Such agreement will not expire unless terminated pursuant by a mutual agreement of parties. With respect to the Agreement of Lebai Education, the relevant Consolidated Affiliated Entities agree to pay service fees regularly to Lebai Information or its designated affiliates and adjust the service fee rates from time to time at Lebai Information's discretion. The term of such agreement is 10 years and will be renewed for another 10 years at Lebai Information's discretion. Each of these agreements entitle TAL Beijing or its designated affiliates and Lebai Information to charge our Consolidated Affiliated Entities service fees regularly that amount to substantially all of the net income of the Consolidated Affiliated Entities before the service fees.

Call Option Agreement. Pursuant to a call option agreement, dated February 12, 2009, by and among TAL Beijing, Xueersi Education, Xueersi Network and the respective shareholders of Xueersi Education and Xueersi Network, the respective shareholders of Xueersi Education and Xueersi Network unconditionally and irrevocably granted TAL Beijing or its designated party an exclusive option to purchase from the shareholders part or all of the equity interests in Xueersi Education and Xueersi Network, as the case may be, for the minimum amount of consideration permitted by the applicable PRC laws and regulations under the circumstances where TAL Beijing or its designated party is permitted under PRC laws and regulations to own all or part of the equity interests of Xueersi Education and Xueersi Network or where we otherwise deem it necessary or appropriate to exercise the option. TAL Beijing, Xinxin Xiangrong and the shareholders of Xinxin Xiangrong have entered into a call option agreement on August 4, 2015, and Lebai Information, Lebai Education and the sole shareholder of Lebai Education have entered into a call option agreement on October 26, 2015, the terms of which are substantially the same as the call option agreement summarized above. These agreements become effective on the date of execution and terminate when all of the obligations and rights under such agreement are completely performed. Under each of these agreements, TAL Beijing or Lebai Information has sole discretion to decide when to exercise the option, and whether to exercise the option in part or in full. The key factor for us to decide whether to exercise the option is whether the current regulatory restrictions on foreign investment in the educational service business will be removed in the future, the likelihood of which we are not in a position to know or comment on.

Equity Pledge Agreement. Pursuant to an equity pledge agreement, dated February 12, 2009, by and among TAL Beijing, Xueersi Education, Xueersi Network and the respective shareholders of Xueersi Education and Xueersi Network, and supplemental agreements, dated June 2010, by and among TAL Beijing, Xueersi Education, Xueersi Network and their respective shareholders, the respective shareholders of Xueersi Education and Xueersi Network unconditionally and irrevocably pledged all of their equity interests in Xueersi Education and Xueersi Network to TAL Beijing to guarantee performance of the obligations of Xueersi Education and Xueersi Network and their respective subsidiaries and schools under the technology support and service agreements with TAL Beijing. The shareholders of Xueersi Education and Xueersi Network agree that, without the prior written consent of TAL Beijing, they will not transfer or dispose the pledged equity interests or create or allow any encumbrance on the pledged equity interests that would prejudice TAL Beijing's interest.

TAL Beijing, Xinxin Xiangrong and the shareholders of Xinxin Xiangrong have entered into an equity pledge agreement on August 4, 2015, and Lebai Information, Lebai Education and the sole shareholder of Lebai Education have entered into an equity pledge agreement on October 26, 2015, the terms of which are substantially the same as the agreement summarized above. These agreements are effective on the date of execution and terminate when all the secured rights under the relevant agreements, as the case may be, are completely fulfilled or terminated in accordance thereof. The above pledges of the equity interests in Xueersi Education, Xueersi Network and Xinxin Xiangrong have been registered with the relevant local branch of the SAIC while the pledge of the equity interests in Lebai Education shall be registered with the local branch of the SAIC in due course.

Letter of Undertaking. All of the shareholders of Xueersi Education and Xueersi Network have executed a letter of undertaking on September 8, 2010 to covenant with and undertake to TAL Beijing that, if, as the respective shareholders of Xueersi Education and Xueersi Network, such shareholders receive any dividends, interests, other distributions or remnant assets upon liquidation from Xueersi Education and Xueersi Network, such shareholders shall, to the extent permitted by applicable laws, regulations and legal procedures, remit all such income after payment of any applicable tax and other expenses required by laws and regulations to TAL Beijing without any compensation therefore. All of the shareholders of Xinxin Xiangrong have made similar undertakings in a letter of undertaking on August 4, 2015. The sole shareholder of Lebai Education has made similar undertakings in the power of attorney described below.

Power of Attorney. Each of the shareholders of Xueersi Education and Xueersi Network has executed an irrevocable power of attorney on August 12, 2009, appointing TAL Beijing, or any person designated by TAL Beijing as their attorney-in-fact to vote on their behalf on all matters of Xueersi Education and Xueersi Network requiring shareholder approval under PRC laws and regulations and the articles of association of Xueersi Education and Xueersi Network. Each of the shareholders of Xinxin Xiangrong has executed an irrevocable power of attorney on August 4, 2015, and the sole shareholder of Lebai Education has executed an irrevocable power of attorney on October 26, 2015, the terms of which are substantially the same as the power of attorney of Xueersi Education and Xueersi Network summarized above. The power of attorney remains effective as long as the relevant person remains a shareholder of the VIE.

The articles of association of each of our VIEs states that the major rights of the shareholders in a shareholders' meeting include the power to approve the operating strategy and investment plan, elect the members of board of directors and approve their compensation and review and approve the annual budget and earning distribution plan. Therefore, through the irrevocable power of attorney arrangement, TAL Beijing and Lebai Information has the ability to exercise effective control over each of our VIEs respectively through shareholder votes and, through such votes, to also control the composition of the board of directors. In addition, the senior management team of each of our VIEs is the same as that of, or is appointed and controlled by, TAL Beijing and Lebai Information, as applicable. As a result of these contractual rights, we have the power to direct the activities of each of our VIEs that most significantly impact their economic performance.

Spousal consent letter: The spouse of each shareholder, who is a natural person, of our VIEs has entered into a spousal consent letter to acknowledge that she is aware of, and consents to, the execution by her spouse of the call option agreement described above. Each such spouse further agrees that she will not take any actions or raise any claims to interfere with performance by her spouse of the obligations under the above mentioned agreements.

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

- the ownership structures of our Consolidated Affiliated Entities and wholly owned subsidiaries in China are in compliance with existing PRC laws and regulations; and
- the VIE Contractual Arrangements are valid, binding and enforceable under, and will not result in any violation of, PRC laws or regulations currently in effect.

We have been advised by our PRC counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to the above opinion of our PRC counsel. We have been further advised by our PRC counsel that if the PRC government finds that the agreements that establish the structure for operating our PRC education business do not comply with PRC government restrictions on foreign investment in the education business, we could be subject to severe penalties, which could include the PRC government:

- revoking our business and operating licenses;
- requiring us to discontinue or restrict our operations;
- limit our business expansion in China by way of entering into contractual arrangements;
- restricting our right to collect revenues;
- blocking our websites;
- requiring us to restructure our operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- imposing additional conditions or requirements with which we may not be able to comply; or
- taking other regulatory or enforcement actions against us that could be harmful to our business.

The imposition of any of these penalties could result in a material adverse effect on our ability to conduct our business. See “Item 3.D.—Key Information—Risk Factors—Risks Related to Our Corporate Structure—If the PRC government determines that the agreements that establish the structure for operating our business in China are not in compliance with applicable PRC laws and regulations, we could be subject to severe penalties” and “Item 3.D.—Key Information—Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could have a material adverse effect on us.”

In addition to the VIE Contractual Arrangements, we have entered into a deed of undertaking on June 24, 2013 and a side letter dated July 29, 2013 with Mr. Bangxin Zhang, our Chairman of the Board of Directors and Chief Executive Officer (collectively, the “Deed”). Pursuant to the Deed, Mr. Zhang has irrevocably covenanted and undertaken to us that:

- as long as Mr. Bangxin Zhang owns shares in our company, whether legally or beneficially, and directly or indirectly (including shares held through Mr. Bangxin Zhang’s personal holding company Bright Unison Limited or any other company, trust, nominee or agent, if any), representing more than 50% of the aggregate voting power of the then total issued and outstanding shares of our company, Mr. Bangxin Zhang will not, directly or indirectly, (i) requisition or call any meeting of our shareholders for the purpose of removing or replacing any of our existing directors or appointing any new director, or (ii) propose any resolution at any of our shareholders meetings to remove or replace any of our existing directors or appoint any new director;
- should any meeting of our shareholders be called by the board of directors or requisitioned or called by our shareholders for the purpose of removing or replacing any of the directors or appointing any new director, or if any resolution is proposed at any of our shareholder meetings to remove or replace any of the directors or appoint any new director, the maximum number of votes which Mr. Bangxin Zhang will be permitted to exercise shall be equal to the total aggregate number of votes of the then total issued and outstanding shares of our company held by all members of our company, other than shares which are owned, whether legally or beneficially, and directly or indirectly by Mr. Bangxin Zhang, less one vote; and
- Mr. Bangxin Zhang will not cast any votes he has as a director or shareholder (if applicable) on any resolutions or matters concerning enforcing, amending or otherwise relating to the Deed being considered or voted upon by our board of directors or our shareholders, as the case may be.

In the opinion of Maples and Calder, our Cayman Islands legal counsel, the deed of undertaking constitutes the legal, valid and binding obligations of Mr. Bangxin Zhang, which cannot be unilaterally revoked by Mr. Bangxin Zhang, and is enforceable in accordance with its terms under existing Cayman Islands laws.

TAL Beijing, Beijing Dongfangrenli and its original shareholders entered into a series of contractual arrangements on December 27, 2011. In August 2015, all of the equity interests of Beijing Dongfangrenli were transferred as part of our consideration in a purchase agreement for a long-term investment. Thus TAL Beijing, Beijing Dongfangrenli and its original shareholders entered into a VIE Termination Agreement in July 2015. TAL Beijing approved to sign the VIE Termination Agreement by a written resolution. The pledges of the equity interests in Beijing Dongfangrenli were deregistered with the relevant local branch of the SAIC on August 3, 2015. As a result, the ownership structure of Beijing Dongfangrenli and TAL Beijing have been legally terminated.

D. Property, Plants and Equipment

Facilities

Our headquarters are located in Beijing, China. As of February 29, 2016, we leased approximately 165,400 square meters in Beijing, consisting of approximately 134,300 square meters of learning center and service center space and approximately 31,100 square meters of office space. As of February 29, 2016, we owned 7,582 square meters of office space in Beijing, which we purchased in July 2011 for a total cash consideration (including related taxes) of approximately \$62.5 million, and the renovation of which was completed in January 2013.

In addition to our learning center and service center space and office space leased in Beijing, as of February 29, 2016, we leased an aggregate of approximately 356,400 square meters of learning center and service center space and an aggregate of approximately 22,300 square meters of office space in 24 other cities throughout China.

For more information concerning the usage of our learning centers and service centers, please see “Item 4.B. Information on the Company—Business Overview—Our Network.”

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the consolidated financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3.D. Key Information—Risk Factors” and elsewhere in this annual report.

A. Operating Results

Overview

Our extensive network of learning centers and service centers has increased from 274 and 251, respectively, in the fiscal year ended February 28, 2014, to 363 and 292, respectively, in the fiscal year ended February 29, 2016. Our student enrollments increased from approximately 1,073,950 in the fiscal year ended February 28, 2014 to approximately 2,309,830 in the fiscal year ended February 29, 2016, representing a CAGR of 46.7%.

We have experienced significant growth in our business in recent years. Our total net revenues increased from \$313.9 million in the fiscal year ended February 28, 2014 to \$619.9 million in the fiscal year ended February 29, 2016, representing a CAGR of 40.5%. Our net income increased from \$60.6 million in the fiscal year ended February 28, 2014 to \$102.9 million in the fiscal year ended February 29, 2016, representing a CAGR of 30.3%.

Factors Affecting Our Results of Operations

We have benefited significantly from the overall economic growth, the increase in household disposable income, the rising household spending on private education and the intense competition for quality education in China, which has caused the K-12 after-school tutoring market in China to grow in recent years. We anticipate that the demand for K-12 after-school tutoring services will continue to grow. However, any adverse changes in the economic conditions in China that adversely affect the K-12 after-school tutoring service market in China may harm our business and results of operations.

Our results of operations are also affected by the education system or policies relating to the after-school tutoring service market in China. Due to PRC legal restrictions on foreign ownership and investment in education businesses in China, aside from our personalized premium tutoring services in Beijing conducted by our PRC subsidiaries, Huanqiu Zhikang and Zhixuesi Beijing, substantially all of our education business in China is conducted through the VIE Contractual Arrangements. We do not have equity interests in our VIEs. However, as a result of the VIE Contractual Arrangements, we are the primary beneficiary of these entities and treat them as our variable interest entities under U.S. GAAP. In the opinion of Tian Yuan Law Firm, our PRC counsel, (i) the ownership structures of our Consolidated Affiliated Entities and wholly owned subsidiaries in China are in compliance with existing PRC laws and regulations, and (ii) the VIE Contractual Arrangements are valid, binding and enforceable under, and will not result in any violation of, PRC laws or regulations currently in effect. We have been advised by our PRC counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. See “Item 3.D.—Key Information—Risk Factors—Risks Related to Our Corporate Structure—If the PRC government determines that the agreements that establish the structure for operating our business in China are not in compliance with applicable PRC laws and regulations, we could be subject to severe penalties” and “Item 3.D.—Key Information—Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could have a material adverse effect on us.”

While our business is influenced by factors affecting the private education industry in China generally and by conditions in each of the geographic markets covered by our service network, we believe that our results of operations are more directly affected by company-specific factors, including the number of student enrollments, the pricing of our tutoring services and the amount of our costs and expenses.

Number of Student Enrollments

Our revenue growth is primarily driven by the increase in the number of student enrollments, which is directly affected by the number of our learning centers, the number and varieties of our courses and service offerings, including both our center-based and online courses offerings, our student retention rate, our ability to attract new students and the effectiveness of our cross-selling efforts.

In recent years, we have opened new learning centers to further penetrate our existing markets and enter new markets. The number of our learning centers grew from 274 in 16 cities as of February 28, 2014, to 363 in 25 cities as of February 29, 2016. We plan to open additional learning centers in these existing cities and explore opportunities to open learning centers in other targeted geographic markets in China in order to continue to attract new student enrollments.

In addition, in recent years, we have significantly expanded our course offerings to cover new subjects and additional grade levels. In Beijing, we grew from primarily offering tutoring classes in mathematics to becoming a comprehensive after-school tutoring service provider, covering all core subjects in PRC school curricula at each grade level of the K-12 system. We initially offered only small-class tutoring services, and then added personalized premium services in September 2007 and began offering online courses through www.xueersi.com in January 2010. Our expansion of courses and service offerings allows us to better attract new students with different needs and provides us greater cross-selling opportunities with respect to our existing students.

Pricing

Our results of operations are also affected by the pricing for our tutoring services. We generally charge students based on the hourly rates of our courses and the total number of hours for all the courses taken by each student. We determine hourly rates for our courses primarily based on the demand for our courses, cost of our services, the geographic markets where the courses are offered, and the fees charged by our competitors for the same or similar courses. During the fiscal years ended February 28/29, 2014, 2015 and 2016, we increased hourly rates or number of hours per course for a portion of our small-class offerings.

Costs and Expenses

Our ability to maintain and increase profitability also depends on our ability to effectively control our costs and expenses. A significant component of our cost of revenues is compensation to our teachers. We offer competitive remunerations to our teachers in order to attract and retain top teaching talent. Fees and performance-linked bonuses to our teachers accounted for approximately 21.2%, 20.8% and 23.6% of our net revenues for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. Another important component of our cost of revenues is rental expenses for our learning and service centers, which accounted for approximately 14.1%, 13.9% and 13.6% of our net revenues for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. For the fiscal years ended February 28/29, 2014, 2015 and 2016, we incurred share-based compensation expenses representing approximately 2.7%, 4.2% and 4.2%, respectively, of our net revenues, and we expect to continue to incur share-based compensation expenses in the future.

Our cost of revenues as a percentage of our total net revenues was 48.3%, 46.8% and 49.0% for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. The increase in our cost of revenues as a percentage of our total net revenues from fiscal year 2015 to fiscal year 2016 was largely a result of the increase in teacher fees and performance-linked bonuses.

Our operating expenses include two key components, selling and marketing expenses and general and administrative expenses. Our total operating expenses as a percentage of our total net revenues was 33.8%, 37.8% and 37.8% for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. Relative to the growth of our net revenues, the increase of our selling and marketing expenses and general and administrative expenses was flat from the fiscal year ended February 28, 2015, but still higher than the fiscal year ended February 28, 2014. The absolute value of our selling and marketing expenses and our general and administrative expenses each grew over this time period. Our selling and marketing expenses grew primarily due to an increase in the number of our sales and marketing personnel and their respective salaries to support a greater number of program and service offerings. Our general and administrative expenses grew primarily due to increases in the number of our general and administrative personnel, in particular personnel supporting our online education initiatives and other new programs and service offerings. An increase in the average salaries and benefits provided to our general and administrative staff, an increase in fees paid to our professional advisors and service providers, share-based compensation, and related office expenses. The growth of our selling and marketing expenses and our general administrative expenses has also been a result of the expansion of our learning centers and service centers capacity over the past few years. Going forward, we expect that our total costs and expenses will continue to increase due to the expansion of our services and operations, including our online education initiatives and other new programs and service offerings, as well as costs and ongoing expenses associated with being a public company; however, such increase is likely to be partially offset by our increasing economies of scale and improved operating efficiency.

Key Components of Results of Operations

Net Revenues

In the fiscal years ended February 28/29, 2014, 2015 and 2016, we generated total net revenues of \$313.9 million, \$434.0 million and \$619.9 million, respectively. We derive substantially all of our revenues from tutoring services, including small-class offerings and personalized premium services. Revenues generated from our online course offerings through www.xueersi.com contributed 3.0%, 3.6% and 4.0% of our total net revenues in the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. Our revenues are presented net of business tax.

We generally collect course fees in advance, which we initially record as deferred revenues. We recognize course fees as revenues proportionately as the tutoring courses are delivered. We had deferred revenues in the amounts of \$132.4 million, \$177.6 million and \$289.3 million, as of February 28/29, 2014, 2015 and 2016, respectively.

Cost of Revenues and Operating Expenses

The following table sets forth, for the periods indicated, our cost of revenues and operating expenses, in absolute amounts and as percentages of the total net revenues:

	For the Years Ended February 28/29,					
	2014		2015		2016	
	\$	%	\$	%	\$	%
	(in thousands of \$, except percentages)					
Net revenues	\$ 313,895	100.0%	\$ 433,970	100.0%	\$ 619,949	100.0%
Total cost of revenues ⁽¹⁾	(151,543)	(48.3)%	(203,074)	(46.8)%	(303,635)	(49.0)%
Operating expenses:						
Selling and marketing ⁽²⁾	(35,761)	(11.4)%	(53,882)	(12.4)%	(73,568)	(11.9)%
General and administrative ⁽³⁾	(70,300)	(22.4)%	(110,230)	(25.4)%	(161,022)	(26.0)%
Total operating expenses	\$ (106,061)	(33.8)%	\$ (164,112)	(37.8)%	\$ (234,590)	(37.8)%

(1) Includes share-based compensation expenses of \$47.9 thousand, \$47.8 thousand and \$42.7 thousand for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively.

(2) Includes share-based compensation expenses of \$1.2 million, \$2.1 million and \$2.5 million for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively.

(3) Includes share-based compensation expenses of \$7.1 million, \$16.3 million and \$23.3 million for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively.

Cost of Revenues

Our cost of revenues primarily consists of teaching fees, performance-linked bonuses and other compensations for our teachers and rental cost for our learning centers and service centers, compensation to personnel providing educational service support, and to a lesser extent, depreciation and amortization of property and equipment used in the provision of educational services, costs of course materials, and other office supplies. We expect our cost of revenues to increase as we further expand our network and operations by opening new learning centers and service centers and hiring additional teachers.

Operating Expenses

Our operating expenses consist primarily of selling and marketing expenses and general and administrative expenses.

Our selling and marketing expenses primarily consist of compensation to our personnel involved in sales and marketing expenses relating to our marketing and branding promotion activities, rental and utilities expenses relating to selling and marketing functions and, to a lesser extent, depreciation and amortization of property and equipment used in our selling and marketing activities. Our selling and marketing expenses as a percentage of net revenues was 11.4%, 12.4% and 11.9% for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. Our selling and marketing expenses remained relatively stable as a percentage of net revenues as we increased the number of and salaries for our sales and marketing personnel to support a greater number of program and service offerings while on the other hand controlling our budget and maintaining economies of scale.

Our general and administrative expenses primarily consist of compensation paid to our management and administrative personnel, costs of third-party professional services, rental and utilities expenses relating to office and administrative functions, and, to a lesser extent, depreciation and amortization of property and equipment used in our administrative activities. Our general and administrative expenses as a percentage of our total net revenues was 22.4%, 25.4% and 26.0% for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. We expect that our general and administrative expenses will continue to increase in the near term as we hire additional personnel and incur additional expenses in connection with the expansion of our business operations, in particular in connection with our online education initiatives and other new programs and service offerings, enhancing our internal controls, establish our internal management system and providing share-based compensation to our employees, and other expenses associated with our having become a publicly traded company.

Taxation

Cayman Islands

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

Hong Kong

Each of our Hong Kong subsidiaries, namely TAL Hong Kong, Yidu Technology Group Limited and Firstleap Education (HK) Limited, is subject to Hong Kong profits tax on its activities conducted in Hong Kong. No provision for Hong Kong profits tax has been made in our consolidated financial statements, as TAL Hong Kong, Yidu Technology Group Limited and Firstleap Education (HK) Limited have no assessable income for the fiscal years ended February 28/29, 2014, 2015 and 2016.

PRC

Our subsidiaries in China are companies incorporated under PRC law and, as such, are subject to PRC enterprise income tax on their taxable income in accordance with the relevant PRC income tax laws. Pursuant to the EIT Law, which became effective on January 1, 2008, a uniform 25% enterprise income tax rate is generally applicable to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies.

From January 1, 2011, Xueersi Education was eligible for retention of High and New Technology Enterprise status and was therefore entitled to a preferential tax rate of 15% until the end of calendar year 2013. From January 1, 2014, Xueersi Education was again eligible for retention of High and New Technology Enterprise status and is therefore entitled to a preferential tax rate of 15% until the end of calendar year 2016. Our wholly owned subsidiary, TAL Beijing, was qualified as a Newly Established Software Enterprise under the EIT Law and therefore entitled to a two-year exemption from the enterprise income tax from calendar year 2009 to 2010 and a further tax reduction to 50% of the applicable rate from calendar year 2011 to 2013. Moreover, TAL Beijing was qualified as a High and New Technology from January 1, 2014, and is therefore entitled to a preferential tax rate of 15% from calendar year 2014 to 2016. Our wholly owned subsidiary, Yidu Huida, was qualified as a Newly Established Software Enterprise under the EIT Law, and was therefore entitled to a two-year exemption from the enterprise income tax from calendar year 2011 to 2012 and enjoys a further tax reduction to 50% of the applicable rate from calendar year 2013 to 2015. Moreover, Yidu Huida was qualified as a High and New Technology Enterprise from January 1, 2015, and is therefore entitled to a preferential tax rate of 15% from calendar year 2015 to 2017. Our wholly owned subsidiary Beijing Xintang Sichuang was also qualified as a Newly Established Software Enterprise under the EIT Law and was therefore entitled to a two-year exemption from the enterprise income tax from calendar year 2013 to 2014 and enjoys a further reduction to a tax rate of 12.5% from calendar year 2015 to 2017.

Preferential tax treatments granted to our Consolidated Affiliated Entities in China by local governmental authorities are subject to review and may be adjusted or revoked at any time. The software enterprises which enjoy preferential tax treatments shall also provide filing documents with respect to preferential tax treatments to the relevant tax authority when filing annual enterprise income tax returns for the settlement of tax payments. The discontinuation of any preferential tax treatments currently available to us, will cause our effective tax rate to increase, which could have a material adverse effect on our results of operations.

As a Cayman Islands holding company, we may receive dividends from our PRC operating subsidiaries through TAL Hong Kong. The EIT Law and its implementing rules provide that dividends paid by a PRC entity to a non-resident enterprise for income tax purposes is subject to PRC withholding tax at a rate of 10%, subject to reduction by an applicable tax treaty with China. According to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion, dividends paid to shareholders residing in Hong Kong are subject to a reduced 5% rate of tax withholding provided the Hong Kong residents' equity interests in the mainland dividend issuer is above 25%. However, the SAT promulgated SAT Circular 601 on October 27, 2009, which provides guidance for determining whether a resident of a contracting state is the "beneficial owner" of an item of income under PRC tax treaties and tax arrangements. According to SAT Circular 601, a beneficial owner generally must engage in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. A conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. Although we may use our Hong Kong subsidiaries as a platform to expand our business in the future, our Hong Kong subsidiaries currently do not engage in any substantive business activities and thus it is possible that our Hong Kong subsidiaries may not be regarded as "beneficial owners" for the purposes of SAT Circular 601 and the dividends they receive from our PRC subsidiaries would be subject to withholding tax at a rate of 10%. In addition, our Hong Kong subsidiaries may be considered PRC resident enterprises for enterprise income tax purposes if the relevant PRC tax authorities determine that our Hong Kong subsidiaries' "de facto management bodies" are within China, in which case dividends received by them from our PRC subsidiaries would be exempt from PRC withholding tax because such income is exempted under the EIT Law for a PRC resident enterprise recipient. As there remain uncertainties regarding the interpretation and implementation of the EIT Law and its implementation rules, it is uncertain whether, if we are deemed a PRC resident enterprise, any dividends to be distributed by us to our non-PRC shareholders and ADS holders would be subject to any PRC withholding tax. For a detailed discussion of PRC tax issues related to resident enterprise status, see "Item 3.D.—Key Information—Risk Factors—Risks Related to Doing Business in China—Under the EIT Law, we may be classified as a PRC "resident enterprise". Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders."

Critical Accounting Policies

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

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

Consolidation of our VIEs

We, through TAL Beijing and Lebai Information, our wholly owned foreign enterprise, have executed the VIE Contractual Arrangements. See “Item 4.C.—Information on the Company—Organizational Structure—Contractual Arrangements with Our Consolidated Affiliated Entities.” The VIE Contractual Arrangements do not provide TAL Beijing or Lebai Information with an equity interest, in legal form, in the respective VIEs, however. As we hold no legal form of equity ownership in the VIEs, we applied the variable interest entity consolidation model as set forth in Accounting Standards Codification 810, Consolidation, (“ASC 810”) instead of the voting interest model of consolidation.

By design, the VIE Contractual Arrangements provide TAL Beijing and Lebai Information with a right to receive benefits equal to substantially all of the net income of the respective VIEs, and thus under ASC 810 the interests held by TAL Beijing and Lebai Information under the VIE Contractual Arrangements are considered variable interests. Subsequent to identifying any variable interests, any party holding such variable interests must determine if the entity in which the interest is held is a variable interest entity and subsequently which reporting entity is the primary beneficiary of, and should therefore consolidate, the variable interest entity. Among other reasons, an entity is considered a variable interest entity if the holders of the equity investment at risk in the entity, as a group, lack any one of the following characteristics of a controlling financial interest:

- the power, through voting rights or similar rights, to direct the activities of the entity that most significantly impact the entity’s economic performance
- the obligation to absorb the entity’s expected losses, or
- the right to receive the entity’s expected residual returns

A reporting entity is considered to be the primary beneficiary, and thus the accounting parent, of a variable interest entity if it possesses both: (a) the power to direct the activities that most significantly impact the economic performance of the variable interest entity and (b) the obligation to absorb losses and/or the right to receive benefits from the entity that could potentially be significant to the variable interest entity.

As a result of the VIE Contractual Arrangements, the nominee shareholders of the VIEs lack the characteristics of a controlling financial interest in the VIEs and therefore the VIEs are considered to be variable interest entities under ASC 810. The VIE Contractual Arrangements, by design, provide TAL Beijing and Lebai Information with the power to direct the activities that most significantly impact the economic performance of the respective VIEs and the right to receive substantially all the benefits of the VIEs, which causes TAL Beijing and Lebai Information to be the primary beneficiaries of the respective VIEs, and accordingly TAL Beijing and Lebai Information consolidates their operations.

Determining whether TAL Beijing and Lebai Information are the primary beneficiaries require a careful evaluation of the facts and circumstances, including whether the VIE Contractual Arrangements are substantive under the applicable legal and financial reporting frameworks, i.e. PRC law and U.S. GAAP. We continually review our corporate governance arrangements to ensure that the VIE Contractual Arrangements are indeed substantive.

We have determined that the VIE Contractual Arrangements are in fact valid and legally enforceable. Such arrangements were entered into in order to comply with the underlying legal and/or regulatory restrictions that govern the ownership of a direct equity interest in the VIEs. In the opinion of our PRC counsel, Tian Yuan Law Firm, the contracts are legally enforceable under PRC law. See “Item 4.C.—Information on the Company—Organizational Structure—VIE Contractual Arrangements.”

We have considered the existence of related party relationships, e.g. ownership of an equity interest in TAL Education Group and the VIEs, and the effect that might have on the enforceability of the VIE Contractual Arrangements and in turn whether the VIE Contractual Arrangements are substantive. We believe there are no barriers to exercise our rights under the contracts and therefore they are substantive and appropriately considered in our consolidation analysis in accordance with ASC 810. In assessing the shareholdings of certain individual parties in TAL Education Group and in the VIEs, specifically Mr. Bangxin Zhang, we acknowledge that from November 23, 2011, Mr. Bangxin Zhang, a majority nominee shareholder in the VIEs, also held a majority voting interest in TAL Education Group, which resulted from certain shareholders converting their Class B common shares with ten votes per share to Class A common shares with one vote per share. Therefore, we have reassessed the consolidation of the VIEs.

Although the VIE Contractual Arrangements between TAL Beijing and its VIEs were designed to provide TAL Beijing with the characteristics of a controlling financial interest regardless of the respective shareholdings of Mr. Bangxin Zhang, during the period between November 23, 2011 and June 24, 2013, Mr. Bangxin Zhang's majority voting interest in us, when combined with his status as a majority nominee shareholder in the VIEs, could have constrained our ability to exercise the rights under the VIE Contractual Arrangements. This is due to the fact that Mr. Bangxin Zhang's majority voting interest in TAL Education Group provided him with the legal ability to control the composition of a majority of the board of directors and therefore may have provided him with the legal ability to affect whether or not we could exercise the rights contained in the VIE Contractual Arrangements. Mr. Bangxin Zhang did not exercise this power at any time during the period in which he held a majority voting interest in TAL Education Group and during such period, in fact, there was no change in the composition of the board of directors or in our day-to-day operations.

On June 24, 2013 and July 29, 2013, our company and Mr. Bangxin Zhang executed the Deed. Pursuant to the terms of the Deed, as long as Mr. Bangxin Zhang owns a majority voting interest, whether legally or beneficially, and directly or indirectly, in our company, (1) Mr. Bangxin Zhang cannot requisition or call a meeting of our shareholders or propose a shareholders resolution to appoint or remove a director, (2) if shareholders are asked to appoint or remove a director, the maximum number of votes which Mr. Bangxin Zhang will be permitted to exercise in connection with such shareholder approval is equal to the total aggregate number of votes of the then total issued and outstanding shares of our company held by all members of our company, other than shares which are owned, whether legally or beneficially, and directly or indirectly by Mr. Bangxin Zhang, less one vote and (3) if shareholders or our board of directors are asked to consider or approve any matter related to the Deed, Mr. Bangxin Zhang cannot exercise his voting power.

Upon execution of the Deed, despite his ownership of and as long as he holds a majority voting interest, whether legally or beneficially, and directly or indirectly, in our company, Mr. Bangxin Zhang will (1) not be permitted to requisition or call a meeting of our shareholders or propose a shareholders resolution to appoint or remove a director, (2) in relation to any shareholder approvals to appoint or remove a director, only be permitted to exercise up to the number of votes equal to the total aggregate number of votes of the then total issued and outstanding shares of our company held by all members of our company, other than shares which are owned, whether legally or beneficially, and directly or indirectly by Mr. Bangxin Zhang, less one vote and (3) in relation to our shareholders' or our board of directors' consideration or approval of any matter related to the Deed, Mr. Bangxin Zhang cannot exercise his voting power. The terms of the Deed prevents Mr. Bangxin Zhang from controlling the rights of our company as it relates to our contractual agreements, and accordingly, our company retains a controlling financial interest in the VIEs and would consolidate them as the VIEs' primary beneficiary.

Please see the consolidated financial statements Note 1 for the presentation of our abbreviated financial information with and without the VIEs, after elimination of intercompany activity.

Revenue recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Revenue is reported net of business tax.

We derive substantially all of our revenues from tutoring services, including small-class offerings (including Xueersi Peiyou, Mobby courses and Firstleap small-class), personalized premium services and online courses. Tuition revenue is generally collected in advance and is initially recorded as deferred revenue. Tuition revenue is then recognized proportionately as the tutoring classes are delivered.

Generally, for Xueersi Peiyou small class courses consisting of more than seven classes per course, we offer refunds for any remaining classes to students who decide to withdraw from a course, provided the course is less than two-thirds completed at the time of withdrawal. The refund is equal to and limited to the amount related to the undelivered classes. After two-thirds of a Xueersi Peiyou small class course is delivered, no refund will be provided. For Xueersi Peiyou small class courses with less than seven classes, no refund will be provided after the commencement of the courses. In a few cities, we offer refunds equal to and limited to the amount related to all the undelivered classes regardless of the length of the courses.

For Mobby courses, we offer refunds of 60% of courses fees received to students that withdraw from a course, provided the course is less than one-third completed at the time of withdrawal. After one-third of the course is completed, no refund will be provided. For Firstleap, we offer refunds of 50% of courses fees received to students that withdraw from a course, provided the course is less than one-third completed at the time of withdrawal. After one-third of the course is completed but less than half of the courses completed at the time of withdrawal, one-third of the courses fees could be refunded. After half of the course is completed, no refund will be provided. For personalized premium services, a student can withdraw at any time and receive a refund equal to and limited to the amount related to the undelivered classes. The refund is recorded as a reduction of the related deferred revenue and has no impact on the recognized revenue. Historically, we have not experienced material refunds on the recognized revenue, and as such, no accrual for estimated refunds is deemed necessary.

We send out coupons to attract both existing and prospective students to enroll in our courses. The coupon has fixed dollar amounts and can only be used against future courses. The coupon is accounted for as a reduction of revenue when the relevant revenue is recognized in the consolidated statements of operations.

We have a sales incentive plan effective from September 1, 2013 for after-school one-on-one tutoring services. Under the sales incentive plan, students can get certain number of free classes in the future based on the amounts of tuition fees they deposit and consume. Revenue is recognized proportionately as the tutoring sessions are delivered by applying the related discount rates based on the deposited amounts. If there are any changes in the discount rates due to additional tuition fee payment or tuition fee refund, changes in revenue are recognized using a cumulative catch-up method.

Students enroll for online courses through www.xueersi.com by the use of prepaid study cards or payment to our online accounts. The proceeds collected are initially recorded as deferred revenue. For live class, revenues are recognized proportionately as the tutoring sessions are delivered. For pre-recorded course content, revenues are recognized on a straight line basis over the subscription period from the date in which the students activate the courses to the date in which the subscribed courses end. Refunds are provided to the students who decide to withdraw from the subscribed courses within the course offer period, which generally ranges from five to fifteen months, and a proportional refund is based on the percentage of untaken courses to the total courses offered. Historically, we have not experienced material refunds on the recognized revenue, and as such, no accrual for estimated refunds is deemed necessary.

We sell educational materials to students at our service centers. Also, we have several online platforms through which they provide online advertising services. Revenue is recognized after a contract is signed, the price is fixed or determinable, educational materials or advertising services are delivered and collection of the receivables is reasonably assured.

Business combinations

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any noncontrolling interests of the acquiree at the acquisition date, if any, are measured at their fair values as of the acquisition date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree and fair value of previously held equity interest in the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as at the date of acquisition.

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

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

Goodwill and impairment of Long-lived assets

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheets as goodwill. Goodwill is not amortized, but tested for impairment annually or more frequently if event and circumstances indicate that it might be impaired.

ASC 350-20 permits us to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Absent from any impairment indicators, we perform our annual impairment test on the last day of each fiscal year.

We do not choose to perform the assessment of qualitative factors for goodwill impairment and performed its annual impairment test using a two-step approach. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test measures the amount of the impairment loss, if any, by comparing the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. The implied fair value of goodwill is calculated in the same manner that goodwill is calculated in a business combination, whereby the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit, with the excess purchase price over the amounts assigned to assets and liabilities representing the implied fair value of goodwill.

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, we measure impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would recognize an impairment loss based on the fair value of the assets.

Long-term investments

Our long-term investments consist of cost method investments, equity method investments, available-for-sale investments and fair value option investments.

Cost method investments

For investee companies over which we neither have significant influence nor control through investment in common shares or in-substance common shares and which do not have readily determinable fair value, We account for the investments in cost method, under which we carry the investments at cost and recognize as income for any dividend received from distribution of the investee's earnings.

We review our cost method investments for impairment whenever an event or circumstance indicates that an other-than-temporary impairment has occurred. We consider available quantitative and qualitative evidence in evaluating potential impairment of its cost method investments. An impairment charge is recorded if the cost of an investment exceeds its fair value and such excess is determined to be other-than temporary.

Equity method investments

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

Under the equity method, we initially records its investment at cost and subsequently recognizes our proportionate share of each equity investee's net income or loss after the date of investment into earnings and accordingly adjusts the carrying amount of the investment. If financial statements of an investee cannot be made available within a reasonable period of time, we record our share of the net income or loss of an investee on a quarter lag basis in accordance with ASC 323-10-35-6.

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

Available-for-sale investments

For investments in investees' preferred shares which are determined to be debt securities, we account for them as available-for-sale investments when they are not classified as either trading or held-to-maturity investments. Available-for-sale investments are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income as a component of shareholders' equity. Realized gains and losses and provision for decline in value judged to be other than temporary, if any, are recognized in the consolidated statements of operations.

Fair value option investments

We elected the fair value option to account for certain investments whereby the change in fair value is recognized in the consolidated statements of operations.

Income Taxes

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

We account for income taxes using the asset and liability approach. Under this method, deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net of operating loss carry forwards and credits, by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws and regulations applicable to the Group as enacted by the relevant tax authorities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities.

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

Uncertainties exist with respect to how the EIT Law applies to our overall operations, and more specifically, with regard to our tax residency status. The EIT Law includes a provision specifying that legal entities organized outside China will be considered residents for PRC income tax purposes if their “de facto management bodies” are within China. The Implementation Rules define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, we do not believe that our legal entities organized outside China should be treated as residents under the EIT Law. In addition, we are not aware of any offshore holding companies with a similar corporate structure as our company’s ever having been deemed to be PRC “resident enterprises” by the PRC tax authorities. Therefore, we believe that none of TAL Education Group, TAL Hong Kong, Yidu Technology Group, Yidu Technology Group Limited, Firstleap Education and Firstleap Education (HK) Limited should be treated as a “resident enterprise” for PRC tax purposes. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities, there are uncertainties and risks associated with this issue. See “Item 3.D.—Key Information—Risk Factors—Risks Related to Doing Business in China—Under the EIT Law, we may be classified as a PRC “resident enterprise”. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.”

Share-Based Compensation

We adopted a share incentive plan in June 2010 that permits granting of options to purchase our Class A common shares, restricted shares, restricted share units, share appreciation rights, dividend equivalent rights and other instruments as deemed appropriate by the administrator under the plan. In August 2013, we amended and restated our 2010 Share Incentive Plan. Pursuant to the amended and restated 2010 Share Incentive Plan, the maximum aggregate number of Class A common shares that may be issued pursuant to all awards under our share incentive plan is equal to five percent (5%) of the total issued and outstanding shares as of the date of the amended and restated 2010 Share Incentive Plan. However, the shares reserved may be increased automatically if and whenever the unissued share reserve accounts for less than one percent (1%) of the total then issued and outstanding shares, so that after the increase, the shares unissued and reserved under this plan immediately after each such increase shall equal five percent(5%) of the then issued and outstanding shares.

As of April 30, 2016, 14,389,068 non-vested restricted Class A common shares and 1,172,546 share options to purchase 1,172,546 Class A common shares under our share incentive plan previously granted to our employees, directors and consultants are outstanding. We had share-based compensation expenses of \$8.3 million, \$18.4 million and \$25.8 million for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. As of February 29, 2016, the unrecognized compensation expenses related to the non-vested restricted shares and share options amounted to \$187.0 million, which will be recognized over a weighted-average period of 4.0 years.

We recognize share-based compensation expenses based on the fair value of equity awards on the date of the grant, using a straight-line method, net of estimated forfeitures, over the requisite service periods of the awards, which are generally the vesting periods.

For non-vested restricted shares granted after our initial public offering, the fair value of our ordinary shares on the grant date is determined by the closing quoted market price.

For share options, we use the Black-Scholes valuation model to determine the estimated fair value. The volatility assumption was estimated based on historical volatility of the Company’s share price.

The estimate of forfeitures is based on historical turnover rate and will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will impact the amount of share-based compensation expense to be recognized in future periods.

Results of Operations

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

	For the Years Ended February 28/29,					
	2014		2015		2016	
	\$	%	\$	%	\$	%
	(in thousands of \$, except percentages)					
Net revenues	\$ 313,895	100.0%	\$ 433,970	100.0%	\$ 619,949	100.0%
Cost of revenues ⁽¹⁾	(151,543)	(48.3)	(203,074)	(46.8)	(303,635)	(49.0)
Gross profit	162,352	51.7	230,896	53.2	316,314	51.0
Operating expenses						
Selling and marketing ⁽²⁾	(35,761)	(11.4)	(53,882)	(12.4)	(73,568)	(11.9)
General and administrative ⁽³⁾	(70,300)	(22.4)	(110,230)	(25.4)	(161,022)	(26.0)
Total operating expenses	(106,061)	(33.8)	(164,112)	(37.8)	(234,590)	(37.8)
Government subsidies	1,105	0.4	464	0.1	3,327	0.5
Income from operations	57,396	18.3	67,248	15.5	85,051	13.7
Interest income	9,438	3.0	16,614	3.8	17,733	2.9
Interest expense	—	—	(5,811)	(1.3)	(7,499)	(1.2)
Other income/(expenses)	399	0.1	(2,010)	(0.5)	(2,522)	(0.4)
Impairment loss on long-term investments	—	—	—	—	(7,504)	(1.2)
Gain from sales of available-for-sale securities	53	0.0	—	—	—	—
Gain from disposal of components	—	—	—	—	50,377	8.1
Gain on fair value change of long-term investments	—	—	1,202	0.3	1,266	0.2
Income before provision for income tax and loss from equity method investments	67,286	21.4	77,243	17.8	136,902	22.1
Provision for income tax	(6,680)	(2.1)	(9,369)	(2.1)	(33,483)	(5.4)
Loss from equity method investments	—	—	(730)	(0.2)	(663)	(0.1)
Net income	\$ 60,606	19.3%	\$ 67,144	15.5%	\$ 102,756	16.6%

(1) Includes share-based compensation expenses of \$47.9 thousand, \$47.8 thousand and \$42.7 thousand for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively.

(2) Includes share-based compensation expenses of \$1.2 million, \$2.1 million and \$2.5 million for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively.

(3) Includes share-based compensation expenses of \$7.1 million, \$16.3 million and \$23.3 million for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively.

Fiscal Year Ended February 29, 2016 Compared to Fiscal Year Ended February 28, 2015

Net Revenues

Our total net revenues increased by 42.9% to \$619.9 million for the fiscal year ended February 29, 2016 from \$434.0 million for the fiscal year ended February 28, 2015. The increase was mainly driven by an increase in total student enrollments. Total student enrollments increased by 54.6% to approximately 2,309,830 as of February 29, 2016 from approximately 1,494,430 as of February 28, 2015. The increase in total student enrollments resulted primarily from an increase in enrollments in our small-class offerings and online courses. Average selling price decreased to \$268 in fiscal year 2016 from \$290 in fiscal year 2015. The decrease of average selling price was mainly due to more enrollment contribution from online courses and small-class offerings as well as foreign exchange rate fluctuation, and was partially offset by an increase in the hourly rate of small-class offerings.

Cost of Revenues

Our cost of revenues increased by 49.5% to \$303.6 million for the fiscal year ended February 29, 2016 from \$203.1 million for the fiscal year ended February 28, 2015. This increase was largely due to the increase in teacher fees and performance-linked bonuses to \$146.1 million for the fiscal year ended February 29, 2016 from \$90.1 million for the fiscal year ended February 28, 2015, primarily because the number of our full-time teachers increased to 6,594 for the fiscal year ending February 29, 2016 from 4,367 for the fiscal year ended February 28, 2015, and average teacher fees and performance-linked bonuses also increased. The number of contract teachers increased slightly from 1,158 to 1,794 during the same period. Staff costs, which primarily consist of salaries, benefits and performance-linked bonuses for personnel providing educational service support and base salaries and other compensation for full-time teachers, increased to \$34.0 million for the fiscal year ended February 29, 2016 from \$26.1 million for the fiscal year ended February 28, 2015. This increase was mainly due to an increase in the number of our staff to expand our network and operations by opening new learning centers and service centers and an increase in the average salaries of our existing personnel who provide educational service support. Rental costs for our facilities increased to \$84.4 million for the fiscal year ended February 29, 2016 from \$60.4 million for the fiscal year ended February 28, 2015, primarily due to the increase in the leased space of learning centers and service centers from approximately 317,000 square meters as of February 28, 2015 to approximately 491,000 square meters as of February 29, 2016. To a lesser extent, the increase in our cost of revenues was due to increases in the costs of course material and teaching appliance, which was primarily a result of the expansion of our learning centers and the continuous improvement in teaching quality. Cost of revenues for the fiscal year ended February 29, 2016 included \$42.7 thousand in share-based compensation expenses, as compared to \$47.8 thousand for the fiscal year ended February 28, 2015.

Gross Profit

As a result of the foregoing, our gross profit increased by 37.0% to \$316.3 million for the fiscal year ended February 29, 2016 from \$230.9 million for the fiscal year ended February 28, 2015. Our gross profit margin decreased to 51.0% for the fiscal year ended February 29, 2016 from 53.2% for the fiscal year ended February 28, 2015. Our gross profit margin decreased in the fiscal year ended February 29, 2016 as costs incurred in the expansion of our business and our physical network of learning centers and service centers increased faster than our revenues.

Operating Expenses

Our operating expenses increased by 42.9% to \$234.6 million for the fiscal year ended February 29, 2016 from \$164.1 million for the fiscal year ended February 28, 2015. This increase primarily resulted from increases in both our selling and marketing expenses and general and administrative expenses.

Selling and Marketing Expenses. Our selling and marketing expenses increased by 36.5% to \$73.6 million for the fiscal year ended February 29, 2016 from \$53.9 million for the fiscal year ended February 28, 2015. This increase was primarily due to an increase in salaries and benefits for our selling and marketing personnel to \$47.2 million for the fiscal year ended February 29, 2016 from \$34.1 million for the fiscal year ended February 28, 2015. We increased the number of our sales and marketing personnel and also increased salaries for many of our existing sales and marketing personnel during the fiscal year ended February 29, 2016 to support a greater number of program and service offerings and larger learning center network. Selling and marketing expenses for the fiscal year ended February 29, 2016 also included \$2.5 million in share-based compensation expenses, as compared to \$2.1 million for the fiscal year ended February 28, 2015.

General and Administrative Expenses. Our general and administrative expenses increased by 46.1% to \$161.0 million for the fiscal year ended February 29, 2016 from \$110.2 million for the fiscal year ended February 28, 2015. This increase was primarily due to an increase in compensation for our general and administrative personnel to \$78.7 million for the fiscal year ended February 29, 2016 from \$54.5 million for the fiscal year ended February 28, 2015. This increase was primarily due to an increase in the number of general and administrative staff and average salaries and benefits provided to them, in particular personnel supporting our online education initiatives and other new programs and service offerings, an increase in the headcount of our full-time teachers who are also engaged in content development and teacher training in addition to their class hour commitments, as well as the expansion of our office spaces as we increased the scale of our business. General and administrative expenses for the fiscal year ended February 29, 2016 included \$23.3 million in share-based compensation expenses, as compared to \$16.3 million for the fiscal year ended February 28, 2015.

Interest Income

We had interest income of \$17.7 million for the fiscal year ended February 29, 2016, compared to \$16.6 million for the fiscal year ended February 28, 2015. Our interest income in both fiscal years consisted primarily of interest earned on our cash and cash equivalents deposited in commercial banks.

Government Subsidies

We received government subsidies related to government sponsored projects and recorded such government subsidies as a liability when such government subsidies were received and recorded it as other operating income when there was no further performance obligation. We received government subsidies of \$3.3 million for the fiscal year ended February 29, 2016, compared to \$0.4 million for the fiscal year ended February 28, 2015. We recorded \$0.5 million and \$3.3 million government subsidies as other operating income for the fiscal years ended February 28/29, 2015 and 2016, respectively.

Other Expenses

We incurred other expenses of \$2.5 million for the fiscal year ended February 29, 2016, compared to \$2.0 million for the fiscal year ended February 28, 2015. The increase was mainly due to an increase in exchange losses arising from the more significant depreciation of RMB against U.S. dollar in fiscal year 2016, partially offset by a gain from transfer of a nonfinancial asset and a gain on re-measurement of fair value of a noncontrolling equity investment in connection with a business acquisition. As we had been holding a significant portion of our cash balance denominated in RMB and reported in US dollars, until the majority of the cash balance in RMB were converted into U.S. dollar in the fourth quarter of fiscal year 2016, we had been benefiting from exchange gains in times of relative strength of the RMB and incurring exchange losses in times of relative strength of the U.S. dollar.

Impairment loss on long-term investments

We incurred \$7.5 million of impairment loss on long-term investments in fiscal year 2016, because there were other-than-temporary declines in the value of long-term investments in several investees, primarily due to significant deteriorations in their operations, earnings performance and abilities to continue as a going concern.

Gain from disposal of components

We had \$50.4 million of gain from disposal of components in fiscal year 2016, which was mainly derived from a transaction in which we transferred our one-on-one business component in Guangzhou in exchange for noncontrolling equity interest in a third party. We accrued \$12.6 million of income tax expenses in connection with the gain from disposal of components by applying applicable EIT rates.

Provision for Income Tax

We had \$33.5 million of provision for income tax in fiscal year 2016, compared to \$9.4 million in fiscal year 2015. The increase was mainly due to the one-off income tax expense of \$12.5 million accrued in connection with the gain from disposal of our one-on-one business component in Guangzhou and an increase of \$7.3 million in income tax expense due to the expiration of an EIT exemption period for one of our subsidiaries, Beijing Xintang Sichuang, upon which the subsidiary became subject to an EIT rate of 12.5%.

Net Income

As a result of the foregoing, our net income increased by 53.0% to \$102.8 million for the fiscal year ended February 29, 2016 from \$67.1 million for the fiscal year ended February 28, 2015.

Fiscal Year Ended February 28, 2015 Compared to Fiscal Year Ended February 28, 2014

Net Revenues

Our total net revenues increased by 38.3% from \$313.9 million for the fiscal year ended February 28, 2014 to \$434.0 million for the fiscal year ended February 28, 2015. This increase was primarily due to the increase in both the number of total student enrollments and the average selling price per enrollment. Average selling price per enrollment remained stable from \$292 for the fiscal year ended February 28, 2014 to \$290 for the fiscal year ended February 28, 2015, primarily affected by foreign exchange rate fluctuation, while the increases in hourly rate of small-class offerings were offset by more enrollment contribution from online courses. The number of total student enrollments grew from approximately 1,073,950 as of February 28, 2014 to approximately 1,494,430 as of February 28, 2015, primarily due to an increase in enrollments in our small-class offerings. In addition, revenues from cities other than Beijing and Shanghai grew from \$106.9 million, or 34.1% of our total net revenues, for the fiscal year ended February 28, 2014, to \$191.5 million, or 44.1% of our total net revenues, for the fiscal year ended February 28, 2015.

Cost of Revenues

Our cost of revenues increased by 34.0% from \$151.5 million for the fiscal year ended February 28, 2014 to \$203.1 million for the fiscal year ended February 28, 2015. This increase was largely due to the increase in teacher fees and performance-linked bonuses from \$66.7 million for the fiscal year ended February 28, 2014 to \$90.1 million for the fiscal year ended February 28, 2015, primarily because the number of our full-time teachers increased from 3,364 for the fiscal year ending February 28, 2014 to 4,367 for the fiscal year ended February 28, 2015, and average teacher fees and performance-linked bonuses also increased. The number of contract teachers decreased slightly from 1,282 to 1,158 during the same period. Staff costs, which primarily consist of salaries, benefits and performance-linked bonuses for personnel providing educational service support and base salaries and other compensation for full-time teachers, increased from \$21.6 million for the fiscal year ended February 28, 2014 to \$26.1 million for the fiscal year ended February 28, 2015. This increase was mainly due to an increase in the number of our staff to expand our network and operations by opening new learning centers and service centers and an increase in the average salaries of our existing personnel who provide educational service support. Rental costs for our facilities increased from \$44.0 million for the fiscal year ended February 28, 2014 to \$60.4 million for the fiscal year ended February 28, 2015, primarily due to the increase in the leased space of learning centers and service centers from approximately 242,100 square meters as of February 28, 2014 to approximately 317,000 square meters as of February 28, 2015. To a lesser extent, the increase in our cost of revenues was due to increases in the depreciation and amortization costs of our property and equipment, which was primarily a result of the expansion of our learning centers. Cost of revenues for the fiscal year ended February 28, 2015 included \$47.8 thousand in share-based compensation expenses, as compared to \$47.9 thousand for the fiscal year ended February 28, 2014.

Gross Profit

As a result of the foregoing, our gross profit increased by 42.2% from \$162.4 million for the fiscal year ended February 28, 2014 to \$230.9 million for the fiscal year ended February 28, 2015. Our gross profit margin increased from 51.7% for the fiscal year ended February 28, 2014 to 53.2% for the fiscal year ended February 28, 2015. The increase in our gross profit margin in the fiscal year ended February 28, 2015 was primarily due to an increase in net revenues for the fiscal year ended February 28, 2015 resulting primarily from an enrollments increase from approximately 1,073,950 as of February 28, 2014 to approximately 1,494,430 as of February 28, 2015, the improvement of our teachers and facility utilization rates and tighter control of other costs.

Operating Expenses

Our operating expenses increased by 54.7% from \$106.1 million for the fiscal year ended February 28, 2014 to \$164.1 million for the fiscal year ended February 28, 2015. This increase primarily resulted from increases in both our selling and marketing expenses and general and administrative expenses.

Selling and Marketing Expenses. Our selling and marketing expenses increased by 50.7% from \$35.8 million for the fiscal year ended February 28, 2014 to \$53.9 million for the fiscal year ended February 28, 2015. This increase was primarily due to an increase in salaries and benefits for our selling and marketing personnel from \$23.2 million for the fiscal year ended February 28, 2014 to \$34.1 million for the fiscal year ended February 28, 2015. We increased the number of our sales and marketing personnel by approximately 520 and also increased salaries for many of our existing sales and marketing personnel during the fiscal year ended February 28, 2015 to support a greater number of program and service offerings and larger learning center network. Advertising expenses for marketing promotion increased from \$4.5 million for the fiscal year ended February 28, 2014 to \$4.7 million for the fiscal year ended February 28, 2015. Selling and marketing expenses for the fiscal year ended February 28, 2015 also included \$2.1 million in share-based compensation expenses, as compared to \$1.2 million for the fiscal year ended February 28, 2014.

General and Administrative Expenses. Our general and administrative expenses increased by 56.8% from \$70.3 million for the fiscal year ended February 28, 2014 to \$110.2 million for the fiscal year ended February 28, 2015. This increase was primarily due to an increase in compensation for our general and administrative personnel from \$36.2 million for the fiscal year ended February 28, 2014 to \$54.5 million for the fiscal year ended February 28, 2015. This increase was primarily due to an increase in the number of general and administrative staff and average salaries and benefits provided to them, in particular personnel supporting our online education initiatives and other new programs and service offerings, an increase in the headcount of our full-time teachers who are also engaged in content development and teacher training in addition to their class hour commitments, as well as the expansion of our office spaces as we increased the scale of our business. General and administrative expenses for the fiscal year ended February 28, 2015 included \$16.3 million in share-based compensation expenses, as compared to \$7.1 million for the fiscal year ended February 28, 2014.

Interest Income

We had interest income of \$16.6 million for the fiscal year ended February 28, 2015, compared to \$9.4 million for the fiscal year ended February 28, 2014. Our interest income in both fiscal years consisted primarily of interest earned on our cash and cash equivalents deposited in commercial banks.

Government Subsidies

We received government subsidies related to government sponsored projects and recorded such government subsidies as a liability when such government subsidies were received and recorded it as other operating income when there was no further performance obligation. We received government subsidies of \$0.4 million for the fiscal year ended February 28, 2015, compared to \$1.1 million for the fiscal year ended February 28, 2014. We recorded \$1.1 million and \$0.5 million government subsidies as other operating income for the fiscal years ended February 28, 2014 and 2015, respectively.

Other Income/(Expenses)

We incurred other expenses of \$2.0 million for the fiscal year ended February 28, 2015, compared to \$0.1 million of other income for the fiscal year ended February 28, 2014. Our other expenses for the fiscal year 2015 was mainly due to foreign exchange losses. As we hold a significant portion of our cash balance in RMB and report in U.S. dollars, we benefit from exchange gains in times of relative strength of the Renminbi and incur exchange losses in times of relative strength of the U.S. dollar.

Provision for Income Tax

Our provision for income tax increased from \$6.7 million for the fiscal year ended February 28, 2014 to \$9.4 million for the fiscal year ended February 28, 2015, primarily due to the increase of income before income taxes.

Net Income

As a result of the foregoing, our net income increased by 10.8% from \$60.6 million for the fiscal year ended February 28, 2014 to \$67.1 million for the fiscal year ended February 28, 2015.

Inflation

According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index in China for February 2014, 2015 and 2016 were increases of 2.0%, 1.4% and 2.3% respectively. Inflation has had some impact on our operations in recent years, in the form of higher salaries for our teachers and other staff and higher rental payments for certain of the office space and service center and learning center space we lease. We can provide no assurance that we will not continue to be affected in the future by higher rates of inflation in China, or that we will be able to adjust our tuition rates to mitigate the impact of inflation on our results of operations.

Recently Adopted Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board, or FASB, issued a new pronouncement which amends to change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure will provide users with information about the ongoing trends in a reporting organization's results from continuing operations. The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2014. Early adoption is permitted. We adopted this ASU on March 1, 2015 and the effects of the pronouncement have been reflected in the consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued a new pronouncement which affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted.

An entity should apply the amendments in this ASU using one of the following two methods:

1. Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:
 - For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
 - For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
 - For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.
2. Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:
 - The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
 - An explanation of the reasons for significant changes.

We are in the process of evaluating the impact of this pronouncement to its consolidated financial statements.

In June 2014, the FASB issued a new pronouncement which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation—Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved.

The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted.

Entities may apply the amendments in this ASU either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. In addition, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. We do not expect the adoption of this pronouncement will have a significant effect on our consolidated financial position or results of operations.

In February 2015, the FASB issued the ASU 2015-02, "Amendments to the Consolidation Analysis". The objective of issuing the amendments is to change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments are an improvement to current U.S. GAAP because they simplify the Codification and reduce the number of consolidation models through the elimination of the indefinite deferral of Statement 167 and because they place more emphasis on risk of loss when determining a controlling financial interest. The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the amendments in this ASU using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. We plan to apply this standard beginning in fiscal year 2017 and do not expect this guidance to have a material impact on our consolidated financial statements.

In May 2015, the FASB issued a pronouncement which provides amendments on the disclosure for fair value measured investments in certain entities that calculate net asset value per share (or its equivalent). The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments apply to reporting entities that elect to measure the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. We do not expect the adoption of this pronouncement will have a significant effect on our consolidated financial position or results of operations.

In September 2015, the FASB issued a new pronouncement ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments eliminate the requirement to retrospectively account for those adjustments. Under this ASU, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The ASU must be applied prospectively to adjustments to provisional amounts that occur after the effective date. Early adoption is permitted for financial statements that have not been issued. We do not expect the adoption of this guidance to have a significant effect on our consolidated financial statements.

In November 2015, the FASB issued a new pronouncement ASU 2015-17 which changes how deferred taxes are classified on organizations' balance sheets. The ASU eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. This ASU may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We do not expect the adoption of this guidance to have a significant effect on our consolidated financial statements.

In January 2016, the FASB issued a new pronouncement ASU 2016-01 which is intended to improve the recognition and measurement of financial instruments. The ASU affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities.

The new guidance makes targeted improvements to existing U.S. GAAP by:

- requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;
- requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;
- eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities;
- eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and
- requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new guidance permits early adoption of the own credit provision. Adoption of the amendment must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, except for amendments related to equity instruments that do not have readily determinable fair values which should be applied prospectively. We do not expect the adoption of this guidance to have a significant effect on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In transition, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. We are in the process of evaluating the impact that this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, Contingent Put and Call Options in Debt Instruments. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. The Amendments clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts, which is one of the criteria for bifurcating an embedded derivative. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The amendments are an improvement to GAAP because they eliminate diversity in practice in assessing embedded contingent call (put) options in debt instruments. For public companies, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. An entity should apply the amendments on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. We do not expect the adoption of this pronouncement to have a significant effect on our consolidated financial position or results of operations.

In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting. The amendments eliminate the requirement that when an investment qualified for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previous held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increase in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. We do not expect the adoption of this pronouncement to have a significant effect on our consolidated financial position or results of operations.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). The new guidance simplifies certain aspects related to income taxes, statement of cash flows, and forfeitures when accounting for share-based payment transactions. This new guidance will be effective for the Company for the first reporting period beginning after December 15, 2016, with earlier adoption permitted. Certain of the amendments related to timing of the recognition of tax benefits and tax withholding requirements should be applied using a modified retrospective transition method. Amendments related to the presentation of the statement of cash flows should be applied retrospectively. All other provisions may be applied on a prospective or modified retrospective basis. For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application will be permitted. We are in the process of evaluating the impacts of the adoption of this ASU.

B. Liquidity and Capital Resources

Cash Flows and Working Capital

In recent years, we have financed our operations and the expansion of our business primarily through cash flows from operations, proceeds from our initial public offering in October 2010 and our offering of convertible senior note in May 2014. As of February 29, 2016, we had \$434.0 million in cash and cash equivalents, \$17.3 million in bank term deposits and no bank borrowings. Our cash and cash equivalents consist of cash on hand and bank deposits that are placed with banks and other financial institutions and which are either unrestricted as to withdrawal or use, or have remaining maturities of three months or less when purchased.

The following table sets forth a summary of our cash and cash equivalents, bank deposits and restricted cash inside and outside China as of February 29, 2016.

	Cash and cash equivalents in RMB	Cash and cash equivalents in U.S. dollars	Total cash and cash equivalents	Term deposits in RMB	Term deposits in U.S. dollars	Total term deposits	Restricted cash in RMB	Restricted cash in U.S. dollars	Total restricted cash
	(in thousands)								
Entities outside China	213	82,845	83,058	—	—	—	—	—	—
VIEs in China	239,200	—	239,200	8,090	—	8,090	4,966	—	4,966
Non-VIEs in China	110,330	1,454	111,784	9,203	—	9,203	—	—	—
Entities inside China	349,530	1,454	350,984	17,293	—	17,293	4,966	—	4,966
Total	<u>349,743</u>	<u>84,299</u>	<u>434,042</u>	<u>17,293</u>	<u>—</u>	<u>17,293</u>	<u>4,966</u>	<u>—</u>	<u>4,966</u>

Although we consolidate the results of our VIEs, our access to our Consolidated Affiliated Entities is only through the VIE Contractual Arrangements. See “Item 4.C.—Information on the Company—Organizational Structure—VIE Contractual Arrangements.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “—Holding Company Structure.”

We believe that our current cash and cash equivalents, term deposits and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs to support our organic growth, including our cash needs for working capital and capital expenditures, for at least the next 12 months. However, we may need additional cash resources in the future if we experience changed business conditions or other developments or if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we determine that our cash requirements exceed our cash and cash equivalents on hand, we may seek to issue debt or equity securities or obtain a credit facility. Any issuance of equity securities could cause dilution to our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. In addition, there can be no assurance that when we need additional cash resources, financing will be available to us on commercially acceptable terms and amount, or at all.

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

	For the Years Ended February 28/29,		
	2014	2015	2016
	(in thousands of \$)		
Net cash provided by operating activities	\$ 101,558	\$ 147,578	\$ 187,718
Net cash used in investing activities	(17,403)	(145,785)	(215,352)
Net cash provided by financing activities	—	201,838	646
Effect of foreign exchange rate changes	695	(3,405)	(9,127)
Net increase / (decrease) in cash and cash equivalents	84,850	200,226	(36,115)
Cash and cash equivalents at the beginning of the period	185,081	269,931	470,157
Cash and cash equivalents at end of the period	\$ 269,931	\$ 470,157	\$ 434,042

Operating Activities

Net cash provided by operating activities amounted to \$187.7 million in the fiscal year ended February 29, 2016, as compared to \$147.6 million in the fiscal year ended February 28, 2015. Net cash provided by operating activities in the fiscal year ended February 29, 2016 reflected net income of \$102.8 million, adjusted by certain non-cash expenses, mainly including gain from disposal of components of \$50.4 million, share-based compensation expenses of \$25.8 million, depreciation of property and equipment of \$18.2 million, and impairment loss on long-term investments of \$7.5 million. Additional major factors affecting operating cash flow in the fiscal year ended February 29, 2016 mainly included an increase in deferred revenues of \$66.4 million due to the increased amount of course fees received during the period.

Net cash provided by operating activities amounted to \$147.6 million in the fiscal year ended February 28, 2015, as compared to \$101.6 million in the fiscal year ended February 28, 2014. Net cash provided by operating activities in the fiscal year ended February 28, 2015 reflected net income of \$67.1 million, adjusted by certain non-cash expenses, including share-based compensation expenses of \$18.4 million, depreciation of property and equipment of \$11.7 million, gain on fair value change of long-term investment of \$1.2 million, loss from equity method investment of \$0.7 million, and amortization of intangible assets of \$0.7 million. Additional major factors affecting operating cash flow in the fiscal year ended February 28, 2015 included an increase in deferred revenues of \$45.2 million due to the increased amount of course fees received during the period, an increase in accrued expenses and other current liabilities of \$10.3 million, primarily due to an increase in accrued employee salary expenses and welfare benefits; an increase in prepaid expenses and other current assets of \$8.3 million, an decrease in income tax receivable of \$6.6 million and an increase in rental deposit of \$3.7 million.

Net cash provided by operating activities amounted to \$101.6 million in the fiscal year ended February 28, 2014, as compared to \$65.4 million in the fiscal year ended February 28, 2013. Net cash provided by operating activities in the fiscal year ended February 28, 2014 reflected net income of \$60.6 million, adjusted by certain non-cash expenses, including depreciation of property and equipment of \$9.5 million, amortization of intangible assets of \$0.5 million, share-based compensation expenses of \$8.3 million and gain on sales of investment in Century Mingde of \$0.3 million. Additional major factors affecting operating cash flow in the fiscal year ended February 28, 2014 included an increase in deferred revenues in the amount of \$29.9 million due to the increased amount of course fees received during the period, an increase in accrued expenses and other current liabilities of \$8.5 million, primarily due to an increase in accrued employee salary expenses and welfare benefits; an increase in our prepaid expenses and other current assets in the amount of \$5.4 million, an increase in our income tax receivable in the amount of \$9.8 million and an increase in our income tax payable in the amount of \$1.7 million.

Investing Activities

Net cash used in investing activities amounted to \$215.4 million in the fiscal year ended February 29, 2016, as compared to \$145.8 million in the fiscal year ended February 28, 2015. Net cash used in investing activities in the fiscal year ended February 29, 2016 primarily related to payments of \$140.4 million for business acquisitions and long-term investments and purchase of property and equipment of \$35.1 million in connection with the expansion of our learning centers, as well as our network and research and development activities.

Net cash used in investing activities amounted to \$145.8 million in the fiscal year ended February 28, 2015, as compared to \$17.4 million in the fiscal year ended February 28, 2014. Net cash used in investing activities in the fiscal year ended February 28, 2015 primarily related to purchase of property and equipment of \$30.7 million (mainly for leasehold improvement of the learning centers and service centers, purchase of computers, office equipment and other equipment), term deposit of \$21.2 million, minority equity investment of \$18.0 million in Minerva, minority equity investment of \$15.0 million in Guokr, loans to third parties of \$9.7 million, payment of \$6.1 million for an online to offline community service platform, payment of \$6.0 million for Muchong.com and other acquisitions, payment of \$5.0 million for a third-party technology company, payment of \$4.3 million for an online education company, and payment of \$27.0 million for other long-term investments.

Net cash used in investing activities amounted to \$17.4 million in the fiscal year ended February 28, 2014, as compared to \$28.1 million in the fiscal year ended February 28, 2013. Net cash used in investing activities in the fiscal year ended February 28, 2014 primarily related to proceeds of term deposit of \$24.1 million, purchase of property and equipment of \$10.8 million, which was mainly related to leasehold improvement of the learning centers and service centers, purchase of computers, office equipment and other equipment, proceeds from sales of investment in Century Mingde of \$2.7 million, \$8.2 million in payment for Kaoyan.com, \$23.5 million in payment for BabyTree Inc. and \$1.6 million in payment for long-term investments, which was mainly related to minority investments in three private education companies.

Financing Activities

Net cash provided by financing activities amounted to \$0.6 million in the fiscal year ended February 29, 2016, as compared to \$201.8 million in the fiscal year ended February 28, 2015. Net cash provided by financing activities in the fiscal year ended February 29, 2016 was attributable to proceeds from exercise of share options of \$0.6 million.

Net cash provided by financing activities amounted to \$201.8 million in the fiscal year ended February 28, 2015, as compared to nil in the fiscal year ended February 28, 2014. Net cash provided by financing activities in the fiscal year ended February 28, 2015 was attributable to the proceeds of \$224.7 million from the issuance of convertible senior notes, net of issuance costs, and partially offset by the payment of \$22.9 million for capped call options.

Net cash used in financing activities amounted to nil in the fiscal year ended February 28, 2014, as compared to net cash used in financing activities in the amount of \$41.5 million in the fiscal year ended February 28, 2013.

Holding Company Structure

Overview

We are a holding company with no material operations of our own. Aside from our personalized premium tutoring services in Beijing conducted by our PRC subsidiaries, Huanqiu Zhikang and Zhixuesi Beijing, substantially all of our education business in China is conducted through the VIE Contractual Arrangements. See “Item 4.C.—Information on the Company—Organizational Structure—VIE Contractual Arrangements”. In the fiscal years ended February 28/29, 2014, 2015 and 2016, our Consolidated Affiliated Entities contributed 86.7%, 90.6% and 93.2%, respectively, of our total net revenues, and Huanqiu Zhikang and Zhixuesi Beijing contributed 13.3%, 9.4% and 6.8%, respectively, of our total net revenues.

Conducting most of our operations through the VIE Contractual Arrangements entails a risk that we may lose effective control over our Consolidated Affiliated Entities, which may result in our being unable to consolidate their financial results with our results and may impair our access to their cash flow from operations and thereby reduce our liquidity. See “Item 3.D.—Risk Factors—Risks Related to Our Corporate Structure” for more information, including the risk factors titled “If the PRC government determines that the agreements that establish the structure for operating our business in China are not in compliance with applicable PRC laws and regulations, we could be subject to severe penalties” and “We rely on the VIE Contractual Arrangements for our PRC operations, which may not be as effective in providing operational control as direct ownership.”

Dividend Distributions

As a holding company, our ability to pay dividends and other cash distributions to our shareholders depends upon dividends and other distributions paid to us by our PRC subsidiaries. The amount of dividends paid by our PRC subsidiaries to us primarily depends on the service fees paid to our PRC subsidiaries from our Consolidated Affiliated Entities, and, to a lesser degree, our PRC subsidiaries' retained earnings. In the fiscal years ended February 28/29, 2014, 2015 and 2016, TAL Beijing, Lebai Information and their designated PRC subsidiaries collectively charged \$74.1 million, \$97.6 million and \$151.9 million in service fees, respectively, to our Consolidated Affiliated Entities. The Consolidated Affiliated Entities collectively paid \$66.5 million, \$99.5 million and \$152.7 million in service fees to TAL Beijing, Lebai Information and its designated PRC subsidiaries in the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively. As of fiscal year end February 28/29, 2014, 2015 and 2016, the balance of the amount payable for the fees was \$20.6 million, \$18.7 million and \$17.9 million, respectively.

Under PRC law, each of our PRC subsidiaries and Consolidated Affiliated Entities in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory surplus reserve until such reserve reaches 50% of its registered capital and to further set aside a portion of its after-tax profit to fund the reserve fund at the discretion of our board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. In addition, at the end of each fiscal year, each of the private schools our company owns in China is required to allocate a certain amount out of its annual net income, if any, to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. For our 30 private schools which have elected to require reasonable returns, this amount shall be no less than 25% of the annual net income of the school, and for the remaining 17 private schools which have elected not to require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase in the net assets of the school, if any. Our PRC subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations.

Pursuant to the VIE Contractual Arrangements, the earnings and cash of each of our VIEs (including dividends received from their respective subsidiaries and schools) are used to pay service fees in RMB to TAL Beijing or Lebai Information or its designated affiliates, as applicable, in the manner and amount set forth in the VIE Contractual Arrangements. After paying the applicable withholding taxes, making appropriations for its statutory reserve requirement and retaining any profits from accumulated profits, the remaining net profits of TAL Beijing and its designated affiliates would be available for distribution to TAL Hong Kong, and the remaining net profits of Lebai Information and its designated affiliates would be available for distribution to Firstleap Education (HK) Limited then to Firstleap Education, and from TAL Hong Kong and Firstleap Education to our company. Please see "Item 3.D.—Key Information—Risk Factors—Risks Related to Doing Business in China—Dividends we receive from our operating subsidiaries located in China may be subject to PRC withholding tax." and "Item 5.A.—Operating Results—Taxation—PRC" for detailed discussions on withholding taxes; and see "Item 4.B.—Business Overview—PRC Regulation—Regulations on Dividend Distribution" for a detailed discussion on statutory reserve requirement. As of February 29, 2016, the net assets of our PRC subsidiaries and Consolidated Affiliated Entities which were restricted due to statutory reserve requirements and other applicable laws and regulations, and thus not available for distribution, was in aggregate \$23.0 million, and the net assets of our PRC subsidiaries and Consolidated Affiliated Entities which were unrestricted and thus available for distribution was in aggregate \$362.5 million.

We do not believe that these restrictions on the distribution of our net assets will have a significant impact on our ability to timely meet our financial obligations in the future. See "Item 3.D.—Risk Factors—Risks Related to Doing Business in China—We may rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could limit our ability to pay dividends to holders of our ADSs and common shares" for more information.

Furthermore, cash transfers from our PRC subsidiaries to our subsidiaries in Hong Kong are subject to PRC government control of currency conversion. Restrictions on the availability of foreign currency may affect the ability of our PRC subsidiaries and our Consolidated Affiliated Entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. See "Item 3.D.—Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may affect the value of your investment."

Capital Expenditures

For the fiscal years 2014 to 2016, our primary capital expenditures were mainly related to leasehold improvements and purchase of servers, computers, network equipment, and software systems. Our capital expenditures were \$10.9 million, \$30.7 million and \$35.1 million for the fiscal years ended February 28/29, 2014, 2015 and 2016, respectively, representing 3.5%, 7.1% and 5.7% of our total net revenues for such year, respectively. Please see “Item 4.D.—Information on the Company—Property, Plants and Equipment” for more information.

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

Our competitive advantages in the PRC after-school tutoring service market is supported by our up-to-date technology platform, our strong in-house ability in developing curricular and course materials, and a range of our intellectual property rights. In addition, we operate *www.jzb.com* (formerly *www.eduu.com*), a leading online education platform in China. The website serves as a gateway to our online courses, primarily offered through our website *www.xueersi.com*, and other websites dedicated to specific topics and offerings. We also offer select educational content through mobile applications. Our online platform facilitates direct and frequent communications with and among our existing and prospective students, which forms an important part of our efforts to provide a supportive learning environment to our students and support our overall sales and marketing activities. For detailed information about our online course offering, see “Item 4.B.—Information on the Company—Business Overview—Our Tutoring Services—Online Courses.” We have a strong in-house team responsible for developing, updating and improving our curricula and course materials, and substantially all of our education content for our non-English subject areas is developed in-house. See “Item 4.B.—Information on the Company—Business Overview—Our Curricula and Course Materials” for detailed information. Our online platform, course contents and our other intellectual property rights are protected by a combination of PRC laws and regulations that protect trademarks, copyrights, domain names, know-how and trade secrets, as well as confidentiality agreements. For more information about our brands and intellectual property rights, see “Item 4.B. Information on the Company—Business Overview—Intellectual Property.”

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the fiscal year ended February 29, 2016 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders’ equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of February 29, 2016:

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousand \$)				
Operating lease obligations ⁽¹⁾	\$ 408,267	\$ 94,343	\$ 161,255	\$ 94,000	\$ 58,669
Purchase of property and equipment obligations	2,500	2,500	—	—	—
Acquisitions and investments obligations ⁽²⁾	1,129	1,129	—	—	—
Other commitment ⁽³⁾	8,625	5,750	2,875	—	—
Total	<u>\$ 420,521</u>	<u>\$ 103,722</u>	<u>\$ 164,130</u>	<u>\$ 94,000</u>	<u>\$ 58,669</u>

Notes:

- (1) Represents our non-cancelable leases for our offices, learning centers and service centers.
- (2) Represents obligations in connection with several investments and acquisitions as of February 29, 2016.
- (3) Represents interests to be paid for convertible bond issued in May 2014.

G. Safe Harbor

See “Forward Looking Statements” on page 2 of this annual report.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

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

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Bangxin Zhang	35	Chairman of the Board of Directors and Chief Executive Officer
Joseph Kauffman	38	Director
Jane Jie Sun	47	Independent Director
Wei Wang	47	Independent Director
Weiru Chen	45	Independent Director
Rong Luo	34	Chief Financial Officer
Yachao Liu	34	Senior Vice President
Yunfeng Bai	34	Senior Vice President

Bangxin Zhang is one of our founders and has served as our chairman and chief executive officer since our inception. Mr. Zhang has been instrumental to the development and success of our business. Mr. Zhang provides vision, overall management, and strategic decision-making relating to marketing, investment planning, and corporate development. Mr. Zhang received his bachelor’s degree in Life Sciences from Sichuan University in 2001, was in the postgraduate program of the Life Science School of Peking University from 2002 to 2007, and received an EMBA degree from China Europe International Business School in 2009.

Joseph Kauffman has served as our director since October 2014, and was our chief financial officer from June 2010 to October 2014. Mr. Kauffman currently also serves as the chief financial officer of Credit Karma, Inc. Prior to joining us in 2010, Mr. Kauffman headed business development and strategic investment at New Oriental Education & Technology Group Inc., where he joined the senior management team before its initial public offering on the New York Stock Exchange in 2006. Between 1999 and 2004, Mr. Kauffman held various corporate development, strategy, and operating roles at The Coca-Cola Company in China. Mr. Kauffman received his bachelor’s degree from Williams College in 1999 and an MBA degree from the Harvard Business School in 2006.

Jane Jie Sun has served as our independent director since October 2010. Ms. Sun has extensive experience in SEC reporting, finance and accounting. She has been the Co-President of Ctrip.com International, Ltd, or Ctrip, a NASDAQ-listed company since March 2015. She has also served as the chief operating officer of Ctrip since May 2012, and as chief financial officer of Ctrip from December 2005 to April 2012. Prior to joining Ctrip, Ms. Sun served as the head of the SEC and External Reporting Division of Applied Materials, Inc., where she worked from 1997 to 2005. Prior to joining Applied Materials, Inc., Ms. Sun worked with KPMG LLP in Silicon Valley, California for five years. Ms. Sun is a member of the American Institute of Certified Public Accountants and a member of the State of California Certified Public Accountants. Ms. Sun received her bachelor's degree from the Business School of the University of Florida with High Honors. She also attended the undergraduate program at Beijing University Law School from 1987 to 1989.

Wei Wang has served as our independent director since June 2011. Mr. Wang, also known by his pen name, Nian Chen, is the founder, chairman and chief executive officer of Vancle Corporation, a leading lifestyle brand and online retailer in China. Before founding Vancle in 2005, Mr. Wang co-founded Uooyoo.com, a mobile phone software company. Prior to his move into mobile phone software, Mr. Wang was involved in online bookselling, co-founding Joyo.com in 2000. Joyo.com was sold to Amazon in 2004, becoming known as Amazon China. Before Joyo.com, Mr. Wang founded the Book Review in 1998 and co-founded the Xishu Book Club, now Xishu Books, a major online book retailer, in 1997. Prior to these entrepreneurial activities, Mr. Wang was a reporter and columnist for the Beijing Youth Daily newspaper from 1995 to 1997. Mr. Wang studied international trade at the Dalian College of Economics and Management from 1988 to 1990.

Weiru Chen has served as our independent director since June 2015. Mr. Chen has been associate professor of strategy at China Europe International Business School ("CEIBS") since July 2011. Prior to joining CEIBS, he served as assistant professor of strategy at INSEAD Business School from 2003 to 2011. Mr. Chen's research is centered on firms' technological search behaviors, strategic dynamics, and across-boarder business model transfer. Mr. Chen received a Ph.D in Management from Purdue University in 2003.

Rong Luo has served as our chief financial officer since November 2014 and has been in charge of our strategic investments since February 2015. Mr. Luo has served as an independent director of the Jiangsu Phoenix Pressing Media Co., Ltd, a leading PRC media group listed on Shanghai Stock Exchange since March 2016. Prior to joining us, Mr. Luo was the chief financial officer of eLong Inc, a NASDAQ-listed online travel agency company, from 2013 to 2014. Before that, Mr. Luo was finance senior manager (China) for the Lenovo Group. Prior to Lenovo, Mr. Luo held a number of positions in Beijing and Seattle in the finance function of the Microsoft Corporation, including analyst, manager and senior manager. Mr. Luo holds a double major bachelor's degree in economics and information management & systems from Peking University, a master's degree in management science and engineering from Tsinghua University.

Yachao Liu has served as our senior vice president since April 2011 and has been in charge of our Kaoyan business and certain new businesses since February 2015. Dr. Liu was in charge of our strategic investments from November 2014 to January 2015. From February 2013 to October 2014, Dr. Liu was in charge of our online course offerings. From May 2012 to January 2013, Dr. Liu was in charge of our enterprise planning division and information management center in addition to our online course offerings. From April 2011 to April 2012, Dr. Liu was in charge of our teaching and research division, teachers' training school, information management center and network operation center. From January 2008 to April 2011, Dr. Liu was our vice president and was in charge of our online course offerings. From September 2005 to January 2008, Dr. Liu was director of our middle school division. Dr. Liu received his bachelor's degree in Mechanics from Peking University in 2003 and Ph.D. from the Institute of Mechanics of the Chinese Academy of Science in 2008.

Yunfeng Bai has served as our senior vice president since April 2011 and has been in charge of our Xueersi Peiyou business. He also took charge of certain of our new businesses since February 2016. From June 2008 to April 2011, Mr. Bai served oversaw our personalized premium services. Mr. Bai founded our high school division in 2005 and was the director of our Beijing operations from June 2006 through May 2008. Mr. Bai received his bachelor's degree in Engineering Automation from Beijing University of Aeronautics and Astronautics in 2003, attended the CEO class of Guanghua Management School of Peking University between 2008 and 2009 and graduated from the EMBA program of China Europe International Business School in 2012.

Employment Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our senior executive officers is employed for a specified time period. We may terminate employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. We may also terminate an executive officer's employment without cause upon one-month advance written notice. The executive officer may terminate the employment at any time with a one-month advance written notice under certain circumstances.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice and to assign all right, title and interest in them to us, and assist us in obtaining patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and for half a year following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our clients, customers or contacts or other persons or entities introduced to the executive officer for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination.

B. Compensation

For the fiscal year ended February 29, 2016, the aggregate cash compensation we paid to our executive officers as a group was approximately \$1.4 million. We do not pay our non-executive directors in cash for their services on our board. For the fiscal year ended February 28, 2014, we granted a total of 800,000 non-vested restricted Class A common shares to our executive directors or our executive officers. For the fiscal year ended February 28, 2015, we granted 899,000 non-vested restricted Class A common shares to our executive officers and non-executive directors. For the fiscal year ended February 29, 2016, we granted 219,000 non-vested restricted Class A common shares and 60,000 share options to purchase 60,000 Class A common shares to our executive officers and non-executive directors. For the fiscal year ended February 29, 2016, we recognized a total share-based compensation expense of \$3.4 million for our executive officers and non-executive directors. For more information, see "Item 6.B.—Directors, Senior Management and Employees—Compensation—Share Incentive Plan."

Starting from January 2015, we offer a housing benefit plan to employees who have been employed by us for three years or more and meet certain performance standard. Under this benefit plan, we offer eligible participants interest-free loans for purposes of home purchases. Each loan has a term of four years and must be repaid by equal annual installments.

Share Incentive Plan

In June 2010, we adopted our 2010 Share Incentive Plan in order to attract and retain the qualified personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. The plan permits the grant of options to purchase our Class A common shares, restricted shares, restricted share units, share appreciation rights, dividend equivalent rights and other instruments as deemed appropriate by the administrator under the plan. In August 2013, we amended and restated the 2010 Share Incentive Plan. Pursuant to the amended and restated 2010 Share Incentive Plan, the maximum aggregate number of Class A common shares that may be issued pursuant to all awards under our share incentive plan is equal to five percent (5%) of the total issued and outstanding shares as of the date when the amended and restated 2010 Share Incentive Plan became effective; provided that, the shares reserved shall be increased automatically if and whenever the unissued shares reserved accounts for less than one percent (1%) of the total then issued and outstanding shares, as a result of which increase the shares unissued and reserved in the Award Pool immediately after each such increase shall equal to five percent (5%) of the then issued and outstanding shares.

As of April 30, 2016, 14,389,068 non-vested restricted Class A common shares and 1,172,546 share options to purchase 1,172,546 Class A common shares under our share incentive plan previously granted to our employees, directors and consultants are outstanding. The following table summarizes, as of April 30, 2016, the share options and non-vested restricted shares granted and outstanding under our share incentive plan to our directors and executive officers and to other individuals as a group.

Name	Number of Class A Common Shares Underlying Share Options and Class A Restricted Shares	Exercise Price (\$/share)	Date of Grant	Date of Expiration
Joseph Kauffman	*(1)	—	July 26, 2010/October 26, 2014	10 years from the date of the grant
Jane Jie Sun	*(1)	—	April 8, 2011/ June 13, 2011/October 26, 2014	10 years from the date of the grant
Wei Wang	*(1)	—	June 13, 2011/October 26, 2014	10 years from the date of the grant
Weiru Chen	*(1)	—	June 26, 2015	10 years from the date of the grant
Rong Luo	*(1)	—	October 26, 2014/April 26, 2015/ April 26, 2015	10 years from the date of the grant 10 years from the date of the grant
Yachao Liu	*(2)	\$16.095	July 26, 2010/October 25, 2013/March 1, 2014	10 years from the date of the grant
Yunfeng Bai	*(1)	—	July 26 2010/October 25, 2013/March 1, 2014	10 years from the date of the grant
Other individuals as a group	12,926,620(1)	—	—	10 years from the date of the grant
	1,122,546(2)	from \$14.5 to \$22.165	—	10 or 12 years from the date of the grant

* Less than 1% of the outstanding common shares.

(1) Non-vested restricted shares.

(2) Share options.

The following paragraphs describe the principal terms of our share incentive plan:

Plan Administration. The plan is administered by our board of directors or our compensation committee. The compensation committee or the full board of directors, as appropriate, determines the provisions and terms and conditions of each award grant except for grants below a certain threshold in which the Board has delegated authority to the Chief Executive Officer of the Company.

Awards and Award Agreement. Pursuant to our amended and restated 2010 Share Incentive Plan, we may grant options, restricted shares, restricted share units, share appreciation rights, dividend equivalent rights or other instruments to our directors, employees or consultants. Awards granted under our plan are evidenced by award agreements that set forth the terms, conditions and limitations for each award, which may include the term of an award, the provisions applicable in the event the participant's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

Option Exercise Price. The exercise price of an option is determined by the plan administrator and set forth in the award agreement and may be a fixed or variable price related to the fair market value of the shares, to the extent not prohibited by applicable laws. Subject to certain limits set forth in the plan, the exercise price may be amended or adjusted in the absolute discretion of the plan administrator, the determination of which shall be final, binding and conclusive. To the extent not prohibited by applicable laws or any exchange rule, a downward adjustment of the exercise prices of options shall be effective without the approval of the shareholders or the approval of the affected participants.

Eligibility. We may grant awards to our employees, directors and consultants or those of any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership interest, as determined by our plan administrator. Awards other than incentive share options may be granted to our employees, directors and consultants. Incentive share options may be granted only to employees of our company or a parent or a subsidiary of our company.

Term of the Awards. The term of each award grant is determined by our plan administrator, provided that the term shall not exceed ten years from the date of the grant.

Vesting Schedule. In general, the plan administrator determines, or the award agreement specifies, the vesting schedule. We have the right to repurchase the restricted shares until vested.

Transfer Restrictions. Except as otherwise provided by our plan administrator, an award may not be transferred or otherwise disposed of by a participant other than by will or the laws of descent and distribution. Our plan administrator by express provision in the award or an amendment may permit an award (other than an incentive share option) to be transferred to or exercised by certain persons related to the participant.

Corporate Transactions. Except as may be provided otherwise in an individual award agreement or any other written agreement entered into by a participant and us, in the event of a change-of-control or other corporate transactions, our plan administrator may determine to provide for one or more of the following: (i) each award outstanding under the plan to terminate at a specific time in the future and give each participant the right to exercise the vested portion of the awards during a period of time as determined by our plan administrator; or (ii) termination of any award in exchange for an amount of cash equal to the amount that could have been attained upon the exercise of the award; or (iii) the replacement of such award with other rights or property selected by our plan administrator; or (iv) the assumption of or substitution of such award by our successor, parent or subsidiary, with appropriate adjustments; or (v) payment of an award in cash based on the value of shares on the date of the corporate transaction plus reasonable interest on the award.

Amendment and Termination of the Plan. With the approval of our board, our plan administrator may, at any time and from time to time, amend, modify or terminate the plan, provided, however, that no such amendment shall be made without the approval of our shareholders to the extent such approval is required by applicable laws, or in the event that such amendment increases the number of shares available under our plan, permits our plan administrator to extend the term of our plan or the exercise period for an option beyond ten years from the date of grant, or results in a material increase in benefits or a change in eligibility requirements, unless we decides to follow home country practice.

C. Board Practices

Composition of Board of Directors

Our board of directors consists of five directors. A director is not required to hold any shares in our company by way of qualification. A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with our company must declare the nature of his interest at a meeting of our directors. A director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at the board meeting at which such contract or proposed contract or arrangement is considered. Subject to our memorandum and articles of association, the directors may exercise all the powers of our company to borrow money and to mortgage its undertaking, property and uncalled capital or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of our company or of any third party.

Code of Business Conduct and Ethics

Our code of business conduct and ethics provides that our directors and officers are expected to avoid any action, position or interest that conflicts with the interests of our company or gives the appearance of a conflict. Directors and officers have an obligation under our code of business conduct and ethics to advance our company's interests when the opportunity to do so arises.

Duties of Directors

Under Cayman Islands law, our directors owe to us fiduciary duties, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our directors also have a duty to exercise the skill they possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company has the right to seek damages if a duty owed by our directors is breached.

Terms of Directors and Executive Officers

Our officers are elected by and serve at the discretion of our board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by an ordinary resolution passed at a shareholder meeting, or in the absence of a shareholder meeting by a unanimous written resolution of our shareholders. In addition, the office of a director will be vacated if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind, (iii) resigns his office by notice in writing to our company, or (iv) without special leave of absence from our board, is absent from three consecutive meetings of our board, and our board resolves that his office be vacated.

Committees of the Board of Directors

Our board of directors has three committees, namely the audit committee, the compensation committee and the nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee. Our audit committee consists of Ms. Jane Jie Sun, Mr. Weiru Chen and Mr. Wei Wang. Ms. Sun, Mr. Chen and Mr. Wang satisfy the "independence" requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange and Rule 10A-3 under the Exchange Act. Ms. Sun is the chair of our audit committee. Our board of directors has determined that Ms. Sun is an audit committee financial expert as defined in the instructions to Item 16A of Form 20-F. Each of Mr. Chen and Mr. Wang are financially literate. The purpose of the audit committee is to assist our board of directors with its oversight responsibilities regarding: (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence and (iv) the performance of our internal audit function and independent auditor. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of Mr. Weiru Chen, Mr. Wei Wang and Ms. Jane Jie Sun. Mr. Chen, Mr. Wang and Ms. Sun satisfy the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. Mr. Chen is the chair of our compensation committee. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors; and
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Mr. Wei Wang, Mr. Weiru Chen and Ms. Jane Jie Sun. Mr. Wang, Mr. Chen and Ms. Sun satisfy the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. Mr. Wang is the chair of our nominating and corporate governance committee. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

D. Employees

We had 6,375, 8,254 and 12,115 full-time employees as of February 28/29, 2014, 2015 and 2016, respectively. Of our total number of full-time employees as of February 29, 2016, 5,459 were located in Beijing, 899 were located in Shanghai and 5,757 were located in other places in China.

In addition to full-time employees, from time to time, we also employ contract teachers, contract labor and engage independent consultants to support our teaching and curriculum and course material development activities. We remunerate our employees with basic salaries as well as performance-based bonuses. None of our employees are represented by collective bargaining arrangements. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our common shares (including shares represented by our ADSs), as of April 30, 2016, by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our common shares.

	Shares Beneficially Owned		
	Number ⁽¹⁾	% ⁽²⁾	% of Voting Power ⁽³⁾
Directors and Executive Officers:			
Bangxin Zhang ⁽⁴⁾	59,550,000	36.8%	74.0%
Joseph Kauffman ⁽⁵⁾	*		
Jane Jie Sun ⁽⁶⁾	*		
Wei Wang ⁽⁷⁾	*		
Weiru Chen ⁽⁸⁾	*		
Rong Luo	*		
Yachao Liu ⁽⁹⁾	8,883,018	5.5%	11.0%
Yunfeng Bai ⁽¹⁰⁾	3,093,500	1.9%	3.8%
All directors and executive officers as a group	71,561,176	44.2%	88.8%
Principal Shareholders:			
Bright Unison Limited ⁽¹¹⁾	59,550,000	36.8%	74.0%
UBS Global Asset Management division of UBS Group AG ⁽¹²⁾	11,634,212	7.2%	1.4%
Perfect Wisdom International Limited ⁽¹³⁾	8,812,500	5.4%	10.9%

* Less than 1% of our total outstanding shares.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant, restricted shares or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.
- (2) For each person and group included in this column, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of (1) 161,765,532, being the number of common shares issued as of April 30, 2016, and (2) the number of shares such person or group has the right to acquire or receive within 60 days after April 30, 2016.

- (3) Percentage of total voting power represents voting power with respect to all of our Class A and Class B common shares, as a single class. As of April 30, 2016, our issued and outstanding share capital consisted of 90,309,532 Class A common shares and 71,456,000 Class B common shares. Each holder of our Class B common shares is entitled to ten votes per Class B common share and each holder of Class A common shares is entitled to one vote per Class A common share held by our shareholders on all matters submitted to them for a vote. Our Class A common shares and Class B common shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Our Class B common shares are convertible at any time by the holder into Class A common shares on a 1:1 basis.
- (4) Consists of 59,550,000 Class B common shares held by Bright Unison Limited, a British Virgin Islands company. Bangxin Zhang is the sole shareholder and the sole director of Bright Unison Limited. Bangxin Zhang's business address is 12/F, Danling SOHO, 6 Danling Street, Haidian District, Beijing 100080, People's Republic of China.
- (5) The business address of Mr. Kauffman is 1000 Mountain Home Rd, Woodside, California 94062.
- (6) The business address of Ms. Sun is 99 Fu Quan Road, Shanghai 200335, People's Republic of China.
- (7) The business address of Mr. Wang is 47 Kechuang Third Street, Daxing District, Beijing 102600, People's Republic of China.
- (8) The business address of Mr. Chen is 699 Hongfeng Road, Pudong New District, Shanghai, 201206, People's Republic of China.
- (9) Consists of (i) 8,812,500 Class B common shares held by Perfect Wisdom International Limited, a British Virgin Islands company and (ii) 70,518 Class A common shares in the form of ADS held by Mr. Liu. Yachao Liu is the sole shareholder and the sole director of Perfect Wisdom International Limited. Yachao Liu's business address is 12/F, Danling SOHO, 6 Danling Street, Haidian District, Beijing 100080, People's Republic of China.
- (10) Consists of 3,093,500 Class B common shares held by Excellent New Limited, a British Virgin Islands company. Yunfeng Bai is the sole shareholder and the sole director of Excellent New Limited. Yunfeng Bai's business address is 12/F, Danling SOHO, 6 Danling Street, Haidian District, Beijing 100080, People's Republic of China.
- (11) Bright Unison Limited is a company incorporated in the British Virgin Islands. Bangxin Zhang is the sole shareholder and the sole director of Bright Unison Limited. Its registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (12) Based on Schedule 13G filed with the SEC on February 16, 2016 by UBS Group AG (for the benefit and on behalf of the UBS Global Asset Management division of UBS Group AG), and consists of 11,634,212 Class A common shares held by the UBS Global Asset Management division of UBS Group AG and its subsidiaries and affiliates on behalf of clients. The principal business office of UBS Global AG is Bahnhofstrasse 45, Zurich, Switzerland.
- (13) Perfect Wisdom International Limited is a company incorporated in the British Virgin Islands. Yachao Liu is the sole shareholder and the sole director of Perfect Wisdom International Limited. Its registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

Our common shares are divided into Class A common shares and Class B common shares. Holders of Class A common shares are entitled to one vote per share, while holders of Class B common shares are entitled to ten votes per share. Holders of our Class B common shares may choose to convert their Class B common shares into the same number of Class A common shares at any time. See "Item 10.B.—Additional Information—Memorandum and Articles of Association—Common Shares" for a more detailed description of our Class A common shares and Class B common shares.

To our knowledge, as of April 30, 2016, 90,309,532 of our Class A common shares were held by one record holder in the United States, which was JPMorgan Chase Bank, N.A., the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our Class A common shares in the United States.

For the restricted Class A common shares granted to our directors, officers, employees and consultants, please refer to "Item 6.B.—Directors, Senior Management and Employees—Compensation—Share Incentive Plan."

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

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

B. Related Party Transactions

Transactions with Related Investees

We have made loans to three minority interest investees. Accordingly, we had \$2,594,430 of current loans due from related parties and \$1,342,999 of non-current loans due from related parties as of February 29, 2016.

We receive services from certain minority interest investees. We incurred \$426,084 in services fees to related parties for the year ended February 29, 2016. We had \$4,277,896 of current balance due to related parties in connection with service provided by certain investees and advances received on behalf of certain investees as of February 29, 2016.

VIE Contractual Arrangements

Please refer to “Item 4.C.—Information on the Company—Organizational Structure—VIE Contractual Arrangements.”

Employment Agreement

Please refer to “Item 6.A.—Directors, Senior Management and Employees—Directors and Senior Management—Employment Agreements.”

Stock Incentives

Please refer to “Item 6.B.—Directors, Senior Management and Employees—Compensation—Share Incentive Plan.”

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

See “Item 18. Financial Statements.”

Legal Proceedings

See “Item 4.B.—Information on the Company—Business Overview—Legal Proceedings.”

Dividend Policy

In November 2010, we paid a \$30 million cash dividend to our shareholders of record as of September 29, 2010, the date we declared this dividend. In December 2012, we paid a \$39.0 million cash dividend with \$0.25 per share to our shareholders of record at the close of business on December 7, 2012. We expect to source cash for future dividends, if any, from our offshore cash balance, which is more cost-efficient than using onshore cash we hold.

Our board of directors has complete discretion whether to declare dividends, subject to the Companies Law, our articles of association, and the common law of the Cayman Islands. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Even if our board of directors decides to declare dividends, their form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business.

Holders of our ADSs will be entitled to receive dividends, if any, subject to the terms of the deposit agreement, to the same extent as the holders of our Class A common shares. Cash dividends will be paid to the depository of our ADSs in U.S. dollars, which will distribute them to the holders of ADSs after fees according to the terms of the deposit agreement. Other distributions, if any, will be paid by the depository to the holders of ADSs in any means it deems legal, fair and practical.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash needs. To pay dividends to us, our subsidiaries in China shall comply with the current PRC laws and regulations. See “Item 3.D. —Key Information—Risk Factors—Risks Related to Doing Business in China—We may rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could limit our ability to pay dividends to holders of our ADSs and common shares.”

B. Significant Changes

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

Item 9. The Offer and Listing

A. Offering and Listing Details

See “C. Markets”

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing two Class A common shares, have been listed on the New York Stock Exchange since October 20, 2010 and trade under the symbol “XRS.” The following table provides the high and low trading prices for our ADSs on the New York Stock Exchange for the periods indicated.

	Trading Price	
	High	Low
	\$	\$
Annual High and Low		
Fiscal Year Ended February 29, 2012	14.20	8.41
Fiscal Year Ended February 28, 2013	12.00	6.97
Fiscal Year Ended February 28, 2014	26.58	8.50
Fiscal Year Ended February 28, 2015	37.31	19.32
Fiscal Year Ended February 29, 2016	52.51	26.48
Quarterly Highs and Lows		
First Quarter of Fiscal Year Ended February 28, 2015	25.31	19.32
Second Quarter of Fiscal Year Ended February 28, 2015	35.23	22.59
Third Quarter of Fiscal Year Ended February 28, 2015	37.31	30.16
Fourth Quarter of Fiscal Year Ended February 28, 2015	31.73	26.11
First Quarter of Fiscal Year Ended February 29, 2016	39.26	30.20
Second Quarter of Fiscal Year Ended February 29, 2016	38.38	26.48
Third Quarter of Fiscal Year Ended February 29, 2016	44.59	29.85
Fourth Quarter of Fiscal Year Ended February 29, 2016	52.51	41.34
Monthly Highs and Lows		
December 2015	48.84	41.87
January 2016	48.00	41.34
February 2016	52.51	42.64
March 2016	53.75	47.69
April 2016	60.44	48.91
May 2016 (through May 27, 2016)	58.99	52.52

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We are a Cayman Islands company and our affairs are governed by our memorandum and articles of association, as amended from time to time, and the Companies Law (2013 Revision) of the Cayman Islands, which is referred to below as the Companies Law, and the common law of the Cayman Islands.

The following are summaries of material provisions of our Fourth Amended and Restated Memorandum and Articles of Association and the Companies Law insofar as they relate to the material terms of our common shares.

Registered Office and Objects

Our registered office in the Cayman Islands is located at Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands or at such other place within the Cayman Islands as our board of directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law, or any other law of the Cayman Islands.

Board of Directors

See “Item 6.C.—Directors, Senior Management and Employees—Board Practices—Composition of Board of Directors.”

Common Shares

General. Our common shares are divided into Class A common shares and Class B common shares. Holders of our Class A common shares and Class B common shares have the same rights except for voting and conversion rights. Our authorized share capital is \$2,000,000 divided into 500,000,000 Class A common shares, with a par value of \$0.001 each, 500,000,000 Class B common shares of \$0.001 each and 1,000,000,000 undesignated shares with a par value of \$0.001 each. Certificates representing the common shares are issued in registered form. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

Dividends. The holders of our common shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law, our articles of association, and the common law of the Cayman Islands. Our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend on its shares out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business.

Conversion. Each Class B common share is convertible into one Class A common share at any time by the holder thereof. Class A common shares are not convertible into Class B common shares under any circumstances. Upon any transfer of Class B common shares by a holder thereof to any person or entity which is not an affiliate of such holder (as defined in our articles of association), such Class B common shares shall be automatically and immediately converted into an equal number of Class A common shares. In addition, if at any time, any of the persons who held Class B common shares immediately before our initial public offering and their affiliates collectively own less than 5% of the total number of the issued and outstanding Class B common shares, each issued and outstanding Class B common share owned by such Class B holder shall be automatically and immediately converted into one share of Class A common share.

Voting Rights. In respect of matters requiring shareholders' vote, each Class A common share is entitled to one vote, and each Class B common share is entitled to ten votes. Shareholders may attend any shareholders' meeting and vote in person or by proxy, and in the case of a corporation or other non-natural person, by its duly authorized representative or proxy; we currently do not allow shareholders to vote electronically. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of the meeting or by any shareholder holding at least one-tenth of the voting power of our shares given the right to vote at the meeting, present in person or by proxy.

General Meetings and Shareholder Proposals. As a Cayman Islands exempted company, we are not obliged by the Companies Law to call shareholders' annual general meetings. Our memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors. We, however, will hold an annual shareholders' meeting during each fiscal year, as required by the rules of the New York Stock Exchange. To hold a general meeting, at least ten days' notice shall be given specifying the place, the day and the hour of the meeting and the general nature of the business.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association allow our shareholders holding in aggregate not less than one-third of such of our issued shares as carries the right of voting at general meetings of our company to requisition an extraordinary general meeting of the shareholders, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders. In addition, extraordinary general meetings may be convened by our board of directors on its own initiative.

A quorum required for a meeting of shareholders consists of at least one shareholder present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative, and entitled to vote, holding in aggregate not less than one-tenth of the voting power of our shares in issue carrying a right to vote at such meeting. Advance notice of at least ten days is required for the convening of our shareholders' annual general meeting and any extraordinary general meeting of our shareholders.

An ordinary resolution to be passed by the shareholders requires a simple majority of votes cast in a general meeting, while a special resolution requires no less than two-thirds of the votes cast. A special resolution is required for important matters such as a change of name or any amendments to our memorandum or articles of association. Our shareholders may effect certain changes by ordinary resolution, including to appoint, remove, and replace directors, increase the amount of our authorized share capital, to consolidate and divide all or any of our share capital into shares of larger amount than our existing shares, and to cancel any of our authorized but unissued shares.

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

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

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

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

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

Redemption, Repurchase and Surrender of Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by a special resolution of our shareholders. Our company may also repurchase any of our shares provided that the manner of such purchase has been approved by an ordinary resolution of our shareholders, or the manner of purchase is in accordance with the procedures set out in our memorandum and articles of association. Under the Companies Law, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares. Whenever the capital of our company is divided into different classes, the rights attached to any such class may, subject to the rights and restrictions for the time being attached to any class, only be materially adversely varied or abrogated either with the written consent of the holders of a majority of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, subject to any rights or restrictions for the time being attached to the shares of that class, be deemed to be materially adversely varied or abrogated by the creation, allotment or issue of further shares ranking in priority to or *pari passu* with such previously existing shares.

Inspection of Books and Records. Holders of our common shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than copies of our memorandum and articles of association and any special resolutions passed by our shareholders). However, we will provide our shareholders with annual audited financial statements.

C. Material Contracts

For the two years immediately preceding the date of this annual report, we have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report.

D. Exchange Controls

The Cayman Islands currently have no exchange control restrictions. Also see “Item 4.B.—Information on the Company—Business Overview—PRC Regulation—Regulations on Foreign Currency Exchange.”

E. Taxation

Cayman Islands Taxation

We are an exempted company incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. Payments of dividends by our company will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of dividends to any shareholder of our company. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

People’s Republic of China Taxation

PRC EIT Law

Under the PRC EIT Law, an enterprise established outside China with “de facto management body” within China is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes, although the dividends paid to one resident enterprise from another may qualify as “tax-exempt income.” The implementing rules of the EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. A circular issued by the SAT on April 22, 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with its “de facto management body” located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly in China; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in China; and (iv) at least half of the enterprise’s directors with voting right or senior management reside in China.

In addition, the SAT issued a bulletin on August 3, 2011, effective as of September 1, 2011, to provide more guidance on the implementation of the above circular. The bulletin clarified certain matters relating to resident status determination, post-determination administration and competent tax authorities. It also specifies that when provided with a copy of a PRC tax resident determination certificate from a resident PRC-controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the PRC-sourced dividends, interest and royalties to the PRC-controlled offshore incorporated enterprise. Although both the circular and the bulletin only apply to offshore enterprises controlled by PRC enterprises and not those by PRC individuals, the determination criteria set forth in the circular and administration clarification made in the bulletin may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax residency status of offshore enterprises and the administration measures should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals.

In addition, the SAT issued a bulletin on January 29, 2014, to provide more guidance on the implementation of the above circular. This bulletin further provided that, among other things, an entity that is classified as a “resident enterprise” in accordance with the circular shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors registered. From the year in which the entity is determined as a “resident enterprise”, any dividend, profit and other equity investment gain shall be taxed in accordance with the Article 26 of EIT law and the Article 17 and Article 83 of its implementation rules.

Based on the advice of our PRC counsel, Tian Yuan Law Firm, we do not believe that any of our offshore holding companies meets all of the conditions above. In addition, we are not aware of any offshore holding companies with a similar corporate structure as ours ever having been deemed to be PRC “resident enterprises” by the PRC tax authorities. Therefore, based on our PRC counsel’s advice, we believe that none of our offshore holding companies should be treated as a “resident enterprise” for PRC tax purposes. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities, there are uncertainties and risks associated with this issue. If the PRC tax authorities determine that any of our offshore holding companies are “resident enterprises,” a number of unfavorable PRC tax consequences could follow. First, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income. Second, although under the EIT Law and its implementing rules, dividend income between qualified resident enterprises is a “tax-exempt income,” we cannot guarantee that dividends paid to TAL Education Group from our PRC subsidiaries through our Hong Kong subsidiaries would qualify as “tax-exempt income” and will not be subject to withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as “resident enterprises” for PRC enterprise income tax purposes. Finally, the “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC enterprise shareholders and with respect to gains derived by our non-PRC enterprise shareholders from transferring our shares or ADSs, if such income is considered PRC-sourced income by the relevant PRC authorities. This could have the effect of increasing our and our shareholders’ effective income tax rates and may require us to deduct withholding tax from any dividends we pay to our non-PRC shareholders.

In addition to the uncertainty in how the “resident enterprise” classification could apply, it is also possible that the rules may change in the future, possibly with retroactive effect. We are actively monitoring the possibility of “resident enterprise” treatment for the current and future tax years and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

Circular on Strengthening the Administration of Enterprise Income Tax for Share Transfer by Non-PRC Resident Enterprises

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or SAT Circular 698, issued by the SAT on December 10, 2009, where a foreign investor transfers the equity interests of a PRC resident enterprise indirectly via disposing of the equity interests of an overseas holding company, or an “Indirect Transfer,” and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report this Indirect Transfer to the competent tax authority. The PRC tax authority will examine the true nature of the Indirect Transfer, and if the tax authority considers that the foreign investor has adopted an “abusive arrangement” in order to avoid PRC tax, it may disregard the existence of the overseas holding company and re-characterize the Indirect Transfer and as a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%.

On February 6, 2015, the SAT issued the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, or SAT Bulletin 7, which terminated the aforementioned articles of SAT Circular 698. Pursuant to SAT Bulletin 7, where a non-resident enterprise indirectly transfers properties such as equity in PRC resident enterprises without any justifiable business purposes and aiming to avoid the payment of enterprise income tax, such indirect transfer must be reclassified as a direct transfer of equity in PRC resident enterprise. To assess whether an indirect transfer of PRC taxable properties has reasonable commercial purposes, all arrangements related to the indirect transfer must be considered comprehensively and factors set forth in SAT Bulletin 7 must be comprehensively analyzed in light of the actual circumstances. SAT Bulletin 7 also provides that, where a non-PRC resident enterprise transfers its equity interests in a resident enterprise to its related parties at a price lower than the fair market value, the competent tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is little practical experience regarding the application of SAT Bulletin 7 because it was issued in February 2015. During the effective period of SAT Circular 698, some intermediary holding companies were actually looked through by the PRC tax authorities, and consequently the non-PRC resident investors were deemed to have transferred the PRC subsidiaries and PRC corporate taxes were assessed accordingly. It is possible that we or our non-PRC resident investors may become at risk of being taxed under SAT Bulletin 7 and may be required to expend valuable resources to comply with SAT Bulletin 7 or to establish that we or our non-PRC resident investors should not be taxed under SAT Bulletin 7, which may have an adverse effect on our financial condition and results of operations or such non-PRC resident investors' investment in us.

U.S. Federal Income Tax Considerations

The following is a discussion of the U.S. federal income tax consequences of the ownership and disposition of our ADSs or common shares by a U.S. Holder (as defined below) that will hold our ADSs or common shares as "capital assets" (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended (the "Code"). This discussion is based upon existing U.S. federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual investment circumstances, including investors subject to special tax rules that differ significantly from those summarized below (for example, financial institutions, insurance companies, broker-dealers, traders in securities that elect mark-to-market treatment, pension plans, regulated investment companies, real estate investment trusts, cooperatives, and tax-exempt organizations (including private foundations), holders who are not U.S. Holders, holders who own (directly, indirectly, or constructively) 10% or more of our voting stock, investors that will hold their ADSs or common shares as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for U.S. federal income tax purposes, U.S. expatriates, persons liable for alternative minimum tax, or investors that have a functional currency other than the U.S. dollar). In addition, this discussion does not address any non-U.S., state or local tax considerations, or non-income (such as estate, gift or Medicare) tax considerations. Each U.S. Holder is urged to consult its tax advisor regarding the U.S. federal, state, local, non-U.S. income and other tax considerations of an investment in our ADSs or common shares.

General

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of our ADSs or common shares that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in, or organized under the law of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a U.S. person under the Code.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ADSs or common shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partners of a partnership holding our ADSs or common shares are urged to consult their tax advisors regarding an investment in our ADSs or common shares.

For U.S. federal income tax purposes, it is generally expected that a U.S. Holder holds ADSs will generally be treated as the beneficial owner of the underlying ordinary shares represented by those ADSs. The remainder of this discussion assumes that a U.S. Holder of our ADSs will be treated in this manner. Accordingly, deposits or withdrawals of ordinary shares for ADSs will generally not be subject to U.S. federal income tax.

PFIC Considerations

A non-U.S. corporation, such as our company, will be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any taxable year, if either (i) at least 75% of its gross income for such year consists of certain types of “passive” income or (ii) at least 50% of the value of its assets (determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income. Passive income generally includes dividends, interest, royalties, rent, annuities, net gains from the sale or exchange of property producing such income and net foreign currency gains. For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company’s goodwill and other unbooked intangibles are taken into account for determining the value of its assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

Although the law in this regard is unclear, we treat our VIEs and their respective subsidiaries as being owned by us for U.S. federal income tax purposes, not only because we control their management decisions but also because we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate their results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of our VIEs and their respective subsidiaries, as applicable, for U.S. federal income tax purposes, we would likely be treated as a PFIC for the current taxable year and any subsequent taxable year.

Accordingly, assuming that we are the owner of our VIEs and their respective subsidiaries, as applicable, for U.S. federal income tax purposes, we believe that we primarily operate an active after-school tutoring business in China. Based on our income and assets and the market price of our ADSs, we do not believe that we were a PFIC for the taxable year ended February 29, 2016 and do not anticipate becoming a PFIC for the foreseeable future. While we do not anticipate becoming a PFIC for the foreseeable future, no assurance can be given in this regard because the determination of whether we will be or become a PFIC is a fact-intensive inquiry made on an annual basis that depends, in part, on the composition of our income and assets. Fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or subsequent taxable years because the value of assets for the purpose of the asset test, including the value of our goodwill and other unbooked intangibles, may be determined by reference to the market price of our ADSs from time to time (which may be volatile). In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our market capitalization. If our market capitalization becomes less than anticipated, we may be classified as a PFIC for the current or future taxable years.

Furthermore, the determination of whether we will be or become a PFIC may also be affected by how, and how quickly, we use our liquid assets. Under circumstances where our revenue from activities that produce passive income significantly increase relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase. If we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or common shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or common shares unless we cease to be a PFIC and the U.S. Holder makes a “deemed sale” election with respect to the ADSs or ordinary shares.

The discussion below under “Dividends” and “Sale or Other Disposition of ADSs or Common Shares” assumes that we will not be classified as a PFIC for U.S. federal income tax purposes. The U.S. federal income tax rules that apply if we are classified as a PFIC for the current taxable year or any subsequent taxable year are generally discussed below under “PFIC Rules.” Each U.S. Holder is urged to consult with its tax advisor regarding the U.S. federal income tax consequences of an investment in our ADSs or ordinary shares if we are or become classified as a PFIC.

Dividends

Subject to the PFIC rules discussed below, any cash distributions (including the amount of any PRC tax withheld) paid on our ADSs or common shares out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of common shares, or by the Depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution paid will generally be treated as a “dividend” for U.S. federal income tax purposes. A non-corporate recipient of dividend income generally will be subject to tax on dividend income from a “qualified foreign corporation” at a reduced U.S. federal tax rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period requirements are met.

A non-U.S. corporation (other than a corporation that is classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) generally will be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (ii) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Our ADSs are listed on the New York Stock Exchange, which is an established securities market in the United States, and are readily tradable on the New York Stock Exchange. Thus, we believe that dividends we pay on our ADSs will continue to be considered readily tradable on an established securities market in later years, but there can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. Since we do not expect that our ordinary shares will be listed on established securities markets, it is unclear whether dividends that we pay on our ordinary shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. However, in the event that we are deemed to be a resident enterprise under the EIT Law, as discussed above under “—People’s Republic of China Taxation,” we may be eligible for the benefits of the U.S.-PRC income tax treaty (which the U.S. Treasury Department has determined is satisfactory for this purpose) and be treated as a qualified foreign corporation with respect to dividends paid on our ADSs or ordinary shares. Dividends received on our ADSs or common shares will not be eligible for the dividends-received deduction allowed to corporations under the Code. U.S. Holders are urged to consult their tax advisors regarding the availability of the reduced tax rate on dividends in their particular circumstances.

Dividends generally will be treated as income from foreign sources for U.S. foreign tax credit purposes and generally will constitute passive category income. In the event that we are deemed to be a PRC “resident enterprise” under the EIT Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid, if any, on our ADSs or common shares. See “—People’s Republic of China Taxation.” The U.S. Holder may be eligible to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on our ADSs or common shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld is permitted instead to claim a deduction, for U.S. federal income tax purposes, in respect to such withholdings, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex and their outcome depends in large part on the taxpayer’s individual facts and circumstances. Each U.S. Holder is urged to consult its tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Disposition of ADSs or Common Shares

Subject to the PFIC rules discussed below, a U.S. Holder will generally recognize capital gain or loss upon the sale or other disposition of ADSs or common shares in an amount equal to the difference between the amount realized upon the disposition and the U.S. Holder’s adjusted tax basis in such ADSs or common shares. Any capital gain or loss will be long-term if the ADSs or common shares have been held for more than one year and will generally be U.S. source gain or loss for U.S. foreign tax credit purposes. Net long-term capital gains of non-corporate U.S. Holders currently are eligible for reduced rates of taxation. The deductibility of a capital loss may be subject to limitations. In the event that we are deemed to be a “resident enterprise” under the EIT Law and gain from the disposition of the ADSs or common shares is subject to tax in China, such gain may be treated as PRC-source gain for foreign tax credit purposes under the U.S.-PRC income tax treaty. If such gain is not treated as PRC-source gain, however, a U.S. Holder generally will not be able to obtain a U.S. foreign tax credit for any PRC tax withheld or imposed unless such U.S. Holder has other foreign source income in the appropriate category for the applicable tax year. Each U.S. Holder is urged to consult its tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or common shares, including the availability of the foreign tax credit under their particular circumstances.

PFIC Rules

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

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

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or common shares and any of our non-U.S. subsidiaries is also a PFIC (i.e., a lower-tier PFIC), such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the rules described above. Each U.S. Holder is urged to consult its tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, a U.S. Holder of "marketable stock" in a PFIC may make a mark-to-market election with respect to our ADSs, but not our common shares, provided that the ADSs are regularly traded. Our ADSs are expected to qualify as being regularly traded, but no assurances may be given in this regard. If a U.S. Holder makes this election, the U.S. Holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, the U.S. Holder will not be required to take into account the mark-to-market gain or loss described above during any period that such corporation is not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election.

Because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such U.S. Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

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

If a U.S. Holder owns our ADSs or common shares during any taxable year that we are a PFIC, the holder must generally file an annual Internal Revenue Service Form 8261 and provide such other information as may be required by the U.S. Treasury. In the case of a U.S. Holder who has held ADSs or common shares during any taxable year in respect of which we were classified as a PFIC and continues to hold such ADSs or common shares (or any portion thereof) and has not previously determined to make a mark-to-market election, and who later considers making a mark-to-market election, special tax rules may apply relating to purging the PFIC taint of such ADSs or common shares. Each U.S. Holder is urged to consult its tax advisor concerning the U.S. federal income tax consequences of holding and disposing ADSs or common shares if we are or become classified as a PFIC, including the possibility of making a mark-to-market election and the unavailability of the qualified electing fund election.

Information Reporting

Certain U.S. Holders are required to report information to the Internal Revenue Service relating to an interest in “specified foreign financial assets,” including shares issued by a non-U.S. corporation, for any year in which the aggregate value of all specified foreign financial assets exceeds \$50,000 (or a higher amount prescribed by the Internal Revenue Service), subject to certain exceptions (including an exception for shares held in custodial accounts maintained with a U.S. financial institution). These rules also impose penalties if a U.S. Holder is required to submit such information to the Internal Revenue Service and fails to do so.

In addition, U.S. Holders may be subject to information reporting to the Internal Revenue Service with respect to dividends on and proceeds from the sale or other disposition of our ADSs or common shares. Each U.S. Holder is advised to consult with its tax advisor regarding the application of the U.S. information reporting rules to their particular circumstances.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We previously filed with the Securities and Exchange Commission, or SEC, a registration statement on Form F-1 under the Securities Act with respect to our initial public offering of our Class A common shares represented by ADSs.

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC, including the annual filing of a Form 20-F within four months after the end of each fiscal year. Our company’s fiscal year ends on February 28/29. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. Copies of reports and other information, when filed, may also be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish JPMorgan Chase Bank, N.A., the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us. We will file our annual report on Form 20-F, including our audited financial statements, with the SEC. Form 20-F can be accessed on the SEC's website as well the investor relations section of our website. Investors may request a hard copy of our annual report, free of charge, by contacting us.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in liquid investments with original maturities of three months or less and term deposit with maturities of more than three months and less than a year, and the interest expense associated with the issuance of \$230 million 2.50% convertible senior notes due 2019. The notes bear interest at a rate of 2.50% per year, payable semiannually in arrears on May 15 and November 15 of each year, beginning on November 15, 2014. As of February 29, 2016, we had no other short-term or long-term borrowings. We have not used any derivative financial instruments to manage our interest risk exposure. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. However, our future interest income may fluctuate due to changes in market interest rates. On the other hand, our future interest expense may be higher or lower than the market level because the interest rate associated with our convertible senior notes is fixed and may differ from market interest rates in certain future periods.

Foreign Exchange Risk

The value of the RMB against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. In July 2005, the PRC government changed its decades-old policy of pegging the value of the RMB to the U.S. dollar, and the RMB appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

Appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars and earnings from, and the value of, any U.S. dollar-denominated investments we make in the future. Currently, the vast majority of our offshore cash is in RMB, but we have not hedged our RMB exposures with other foreign currency exposure or any other derivative financial instruments. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs is affected by the foreign exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while the ADSs are traded in U.S. dollars.

Moreover, to the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. To the extent that we seek to convert RMB into U.S. dollars, depreciation of the Renminbi against the U.S. dollar would have an adverse effect. Assuming we had converted the U.S. dollar-denominated cash balance of \$84.3 million as of February 29, 2016 into RMB at the exchange rate of \$1.00 for RMB6.5525 as of February 29, 2016, this cash balance would have been RMB552.4 million. Assuming a 1.0% appreciation of the Renminbi against the U.S. dollar, this cash balance would have decreased to RMB546.8 million as of February 29, 2016.

Item 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a share dividend or share split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADRs are cancelled or reduced for any other reason, \$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a share dividend or share split declared by us or an exchange of shares regarding the ADRs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of \$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;
- a fee of up to \$0.05 per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of up to \$0.05 per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- reimbursement of such fees, charges and expenses as are incurred by the depositary and/or any of the depositary's agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the shares or other deposited securities, the delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable law, rule or regulation (which charge shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);

- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depository to those holders entitled thereto;
- share transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of shares;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depository in connection with the conversion of foreign currency into U.S. dollars.

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

Fees and Other Payments Made by the Depository to Us

Our depository has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses and exchange application and listing fees. There are limits on the amount of expenses for which the depository will reimburse us, and the amount of reimbursement available to us is not entirely related to the amounts of fees the depository collects from investors. For the fiscal year ended February 29, 2016, we have received \$0.3 million after tax reimbursement from the depository, which was paid to us for expenses incurred in connection with the establishment and maintenance of the ADS program.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Material Modifications to the Rights of Security Holders

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number 333169650) for our initial public offering of 13,800,000 ADSs representing 27,600,000 Class A common shares, which registration statement was declared effective by the SEC on October 19, 2010. Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. International plc, Piper Jaffray & Co. and Oppenheimer & Co. Inc. were the underwriters for our initial public offering. We have received net proceeds (after deducting underwriting discounts and commissions and other expenses related to the offering) of approximately \$127.0 million from the offering and sale of 13,800,000 ADSs in October 2010.

For the period from the effective date of the Form F-1 to February 29, 2016, we used \$69.0 million in proceeds for dividend distributions, \$8.2 million for the acquisition of Kaoyan.com, \$0.7 million for the acquisition of Yidu Technology Group, \$23.5 million for the investment in BabyTree Inc., \$5.0 million for the acquisition of Muchong.com, \$18.3 million for the investment in several unrelated private companies, \$2.7 million for capital contribution to three newly established subsidiaries, \$2.4 million for share repurchase and \$3.8 million for various other general corporate purposes. As of February 29, 2016, we had used all the net proceeds we received from our initial public offering in 2010 and the interests generated from these net proceeds.

Item 15. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this annual report, our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon this evaluation, our management has concluded that, as of February 29, 2016, our existing disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an assessment of the design and operation effectiveness of our internal control over financial reporting as of February 29, 2016. In making this assessment, we used the criteria established within the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that, as of February 29, 2016, our internal control over financial reporting was effective.

Our independent registered public accounting firm, Deloitte Touche Tohmatsu Certified Public Accountants LLP, has issued an attestation report on our internal control over financial reporting. That attestation report appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TAL EDUCATION GROUP

We have audited the internal control over financial reporting of TAL Education Group (the "Company"), its subsidiaries, its variable interest entities (the "VIEs") and its VIEs' subsidiaries and schools (collectively, the "Group") as of February 29, 2016, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of February 29, 2016, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended February 29, 2016 of the Group and our report dated May 31, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People's Republic of China

May 31, 2016

Changes in Internal Control Over Financial Reporting

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

Item 16. Reserved

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Ms. Jane Jie Sun, an independent director (under the standards set forth in Section 303A of the Corporate Governance Rules of the New York Stock Exchange and Rule 10A-3 under the Exchange Act) qualifies as an "audit committee financial expert."

Item 16B. Code of Ethics

Our board has adopted a code of business conduct and ethics that provides that our directors and officers are expected to avoid any action, position or interest that conflicts with the interests of our company or gives the appearance of a conflict. Directors and officers have an obligation under our code of business conduct and ethics to advance our company's interests when the opportunity to do so arises. We have posted a copy of our code of business conduct and ethics on our website at <http://en.100tal.com>.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP, our principal external auditors, for the periods indicated.

	For the Year Ended February 28/29,	
	2015	2016
Audit fees ⁽¹⁾	1,202,537	1,133,547
Tax fees ⁽²⁾	94,586	136,453
All other fees ⁽³⁾	—	41,859

- (1) "Audit fees" means the aggregate fees in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements or services that are normally provided by the auditors in connection with statutory and regulatory filings or engagements.
- (2) "Tax fees" represents the aggregate fees for professional services rendered by our independent registered public accounting firm for tax compliance, tax advice, and tax planning.
- (3) "All other fees" means the aggregate fees in each of the fiscal years listed for finding and providing U.S. GAAP accounting guidance services rendered by our principal auditors.

All audit and non-audit services provided by our independent auditors must be pre-approved by our audit committee.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On October 24, 2011, our board of directors authorized a share repurchase program, whereby our company may repurchase of up to \$50.0 million of our ADSs during the period from October 24, 2011 through October 23, 2012. The share repurchase program was publicly announced on October 25, 2011.

The table below is a summary of the shares repurchased by us in the open market as of February 29, 2016.

Period	Total Number of ADSs Purchased	Average Price Paid Per ADS(1)	Total Number of ADSs Purchased as Part of Publicly Announced Plan	Approximate U.S. Dollar Value of ADSs that May Yet Be Purchased Under the Plan
July 2012	30,125	\$ 7.69	30,125	49,768,384
August 2012	258,844	\$ 8.48	258,844	47,572,369
Total	288,969	\$ 8.40	288,969	—

- (1) Each ADS represents two Class A common shares.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from the New York Stock Exchange corporate governance listing standards. For example, neither the Companies Law of the Cayman Islands nor our memorandum and articles of association requires a majority of our directors to be independent and we could include non-independent directors as members of our compensation committee and nominating committee, and our independent directors would not necessarily hold regularly scheduled meetings at which only independent directors are present. In addition, under NYSE listing standards, listed companies are required to hold an annual shareholders' meeting during each fiscal year. Under Cayman law, we are not obliged to hold an annual general meeting of shareholders.

Currently, we do not plan to rely on home country practice with respect to our corporate governance. However, if we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would under the New York Stock Exchange corporate governance listing standards applicable to U.S. domestic issuers.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III**Item 17. Financial Statements**

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

Item 18. Financial Statements

The consolidated financial statements of TAL Education Group and its subsidiaries and Consolidated Affiliated Entities are included at the end of this annual report.

Item 19. Exhibits

Exhibit Number	Description of Document
1.1	Fourth Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Amendment to Form F-1 (file No. 333-169650) filed with the Securities and Exchange Commission on October 6, 2010)
2.1	Registrant's Form of Class A common share certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Amendment to Form F-1 Registration Statement (file No. 333-169650) filed with the Securities and Exchange Commission on September 29, 2010)
2.2	Deposit Agreement, dated October 19, 2010, among the Registrant, the depositary and holders of the American Depositary Receipts (incorporated by reference to Exhibit 2.2 to the Registrant's annual report on Form 20-F for the fiscal year ended February 28, 2011 (file No. 001-34900) filed with the Securities and Exchange Commission on July 25, 2011)

Exhibit Number	Description of Document
2.3	Registrant's Specimen American Depositary Receipt (included in Exhibit 2.2 filed with the Registrant's annual report on Form 20-F for the fiscal year ended February 28, 2011 (file No. 001-34900), filed with the Securities and Exchange Commission on July 25, 2011 and which is incorporated herein by reference)
4.1	2010 Share Incentive Plan (incorporated by reference to Exhibit 10.1 of Form F-1 (file No. 333-169650) filed with the Securities and Exchange Commission on September 29, 2010)
4.2	Form of Indemnification Agreement with the Registrant's directors and officers (incorporated by reference to Exhibit 10.5 of Form F-1 (file No. 333-169650) filed with the Securities and Exchange Commission on September 29, 2010)
4.3	Form of Employment Agreement with the Registrant's officers (incorporated by reference to Exhibit 10.6 of Form F-1 (file No. 333-169650) filed with the Securities and Exchange Commission on September 29, 2010)
4.4	English translation of Exclusive Business Cooperation Agreement, dated June 25, 2010, by and among TAL Education Technology (Beijing) Co., Ltd., Beijing Xueersi Education Technology Co., Ltd., Beijing Xueersi Network Technology Co., Ltd., Bangxin Zhang, Yundong Cao, Yachao Liu, Yunfeng Bai, and other parties thereto (incorporated by reference to Exhibit 10.7 of Form F-1 (file No. 333-169650) filed with the Securities and Exchange Commission on September 29, 2010)
4.5	English translation of Call Option Agreement, dated February 12, 2009, by and among TAL Education Technology (Beijing) Co., Ltd., Beijing Xueersi Education Technology Co., Ltd., Beijing Xueersi Network Technology Co., Ltd., Bangxin Zhang, Yundong Cao, Yachao Liu and Yunfeng Bai (incorporated by reference to Exhibit 10.8 of Form F-1 (file No. 333169650) filed with the Securities and Exchange Commission on September 29, 2010)
4.6	English translation of Equity Pledge Supplemental Agreement, dated June 25, 2010, by and among TAL Education Technology (Beijing) Co., Ltd., Beijing Xueersi Education Technology Co., Ltd., Bangxin Zhang, Yundong Cao, Yachao Liu and Yunfeng Bai (incorporated by reference to Exhibit 10.9 of Form F-1 (file No. 333-169650) filed with the Securities and Exchange Commission on September 29, 2010)
4.7	English translation of Equity Pledge Supplemental Agreement, dated June 25, 2010, by and among TAL Education Technology (Beijing) Co., Ltd., Beijing Xueersi Network Technology Ltd., Bangxin Zhang, Yundong Cao, Yachao Liu and Yunfeng Bai (incorporated by reference to Exhibit 10.10 of Form F-1 (file No. 333-169650) filed with the Securities and Exchange Commission on September 29, 2010)
4.8	English translation of Powers of Attorney, dated August 12, 2009, by Bangxin Zhang, Yundong Cao, Yachao Liu and Yunfeng Bai (incorporated by reference to Exhibit 10.11 of Form F-1 (file No. 333-169650) filed with the Securities and Exchange Commission on September 29, 2010)
4.9	English translation of Exclusive Service Agreement, dated December 27, 2011, by and among TAL Education Technology (Beijing) Co., Ltd., Beijing Dongfangrenli Science & Commerce Co., Ltd., Bangxin Zhang, Yachao Liu and Yunfeng Bai (incorporated by reference to Exhibit 4.9 of our annual report on Form 20-F (File No. 001-34900) filed with the Securities and Exchange Commission on June 27, 2012)

Exhibit Number	Description of Document
4.10	English translation of Option Agreement, dated December 27, 2011, by and among TAL Education Technology (Beijing) Co., Ltd., Beijing Dongfangrenli Science & Commerce Co., Ltd., Bangxin Zhang, Yachao Liu and Yunfeng Bai (incorporated by reference to Exhibit 4.10 of our annual report on Form 20-F (File No. 001-34900) filed with the Securities and Exchange Commission on June 27, 2012)
4.11	English translation of Equity Pledge Agreement, dated December 27, 2011, by and among TAL Education Technology (Beijing) Co., Ltd., Beijing Dongfangrenli Science & Commerce Co., Ltd., Bangxin Zhang, Yachao Liu and Yunfeng Bai (incorporated by reference to Exhibit 4.11 of our annual report on Form 20-F (File No. 001-34900) filed with the Securities and Exchange Commission on June 27, 2012)
4.12	English translation of Powers of Attorney, dated December 27, 2011, by Bangxin Zhang, Yachao Liu and Yunfeng Bai (incorporated by reference to Exhibit 4.12 of our annual report on Form 20-F (File No. 001-34900) filed with the Securities and Exchange Commission on June 27, 2012)
4.13	Amended and Restated Shareholders' Agreement among the Registrant, the Series A preferred holder, Tiger Global Five China Holdings and other parties thereto, dated August 12, 2009 (incorporated by reference to Exhibit 4.4 of Form F-1 (file No. 333-169650) filed with the Securities and Exchange Commission on September 29, 2011)
4.14	English translation of Form of Real Property Sale and Purchase Agreement (incorporated by reference to Exhibit 4.10 to the Registrant's annual report on Form 20-F for the fiscal year ended February 28, 2011 (file No. 001-34900) filed with the Securities and Exchange Commission on July 25, 2011)
4.15	Deed of Undertaking executed by and between Bangxin Zhang and TAL Education Group dated June 24, 2013 (incorporated by reference to Exhibit 4.15 to the Registrant's annual report on Form 20-F for the fiscal year ended February 28, 2013 (file No. 001-34900) filed with the Securities and Exchange Commission on June 28, 2013)
4.16	Side letter executed by and between Bangxin Zhang and TAL Education Group dated July 29, 2013 (incorporated by reference to Exhibit 4.16 to the Registrant's annual report on Form 20-F for the fiscal year ended February 28, 2014 (file No. 001-34900) filed with the Securities and Exchange Commission on May 12, 2014)
4.17	Indenture dated May 21, 2014 constituting \$230 million 2.50% convertible senior notes due 2019 (incorporated by reference to Exhibit 4.17 to the Registrant's annual report on Form 20-F for the fiscal year ended February 28, 2015 (file No. 001-34900) filed with the Securities and Exchange Commission on May 28, 2015)
4.18*	English translation of Exclusive Business Cooperation Agreement, dated August 4, 2015, by and among Beijing Century TAL Education Technology Co., Ltd., Beijing Dididaojia Education Technology Co., Ltd., Bangxin Zhang, Yachao Liu and Yunfeng Bai
4.19*	English translation of Option Agreement, dated August 4, 2015, by and among Beijing Century TAL Education Technology Co., Ltd., Beijing Dididaojia Education Technology Co., Ltd., Bangxin Zhang, Yachao Liu and Yunfeng Bai
4.20*	English translation of Equity Pledge Agreement, dated August 4, 2015, by and among Beijing Century TAL Education Technology Co., Ltd., Beijing Dididaojia Education Technology Co., Ltd., Bangxin Zhang, Yachao Liu and Yunfeng Bai

Exhibit Number	Description of Document
4.21*	English translation of Powers of Attorney, dated August 4, 2015, by Bangxin Zhang, Yachao Liu and Yunfeng Bai
4.22*	English translation of Exclusive Business Cooperation Agreement, dated October 26, 2015, by and among Beijing Lebai Information Consulting Co., Ltd., Beijing Lebai Education Consulting Co., Ltd. and Beijing Xueersi Education Technology Co., Ltd.
4.23*	English translation of Option Agreement, dated October 26, 2015, by and among Beijing Lebai Information Consulting Co., Ltd., Beijing Lebai Education Consulting Co., Ltd. and Beijing Xueersi Education Technology Co., Ltd.
4.24*	English translation of Equity Pledge Agreement, dated October 26, 2015, by and among Beijing Lebai Information Consulting Co., Ltd., Beijing Lebai Education Consulting Co., Ltd. and Beijing Xueersi Education Technology Co., Ltd.
4.25*	English translation of Powers of Attorney, dated October 26, 2015, by Beijing Lebai Information Consulting Co., Ltd. and Beijing Xueersi Education Technology Co., Ltd.
4.26*	English translation of Powers of Attorney, dated October 26, 2015, by Beijing Lebai Education Consulting Co., Ltd.
4.27*	English translation of VIE Termination Agreement, dated July 2, 2015, by Beijing Century TAL Education Technology Co., Ltd., Beijing Dongfangrenli Science & Commerce Co., Ltd., Bangxin Zhang, Yachao Liu and Yunfeng Bai.
4.28*	Stock Purchase Agreement, dated September 18, 2015, by the Registrant, Firstleap Education and other parties named therein.
4.29*	Share Sale and Purchase Agreement, dated January 22, 2016, by the Registrant and other parties named therein.
8.1*	List of Subsidiaries and Consolidated Affiliated Entities
11.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 99.1 of the Registrant's Registration Statement on Form F-1 (file No. 333-169650) filed with the Securities and Exchange Commission on September 29, 2010)
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Tian Yuan Law Firm
15.2*	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP
15.3*	Consent of Maples and Calder
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

TAL EDUCATION GROUP

By: /s/ BANGXIN ZHANG

Name: Bangxin Zhang

Title: Chairman and Chief Executive Officer

Date: May 31, 2016

TAL EDUCATION GROUP
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 28, 2014,
2015 AND FEBRUARY 29, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TAL EDUCATION GROUP

We have audited the accompanying consolidated balance sheets of TAL Education Group (the "Company"), its subsidiaries, its variable interest entities (the "VIEs") and its VIEs' subsidiaries and schools (collectively, the "Group") as of February 29, 2016 and February 28, 2015, and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended February 29, 2016. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of February 29, 2016 and February 28, 2015, and the results of its operations and its cash flows for each of the three years in the period ended February 29, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of February 29, 2016, based on the criteria established in Internal Control- Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 31, 2016 expressed an unqualified opinion on the Group's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People's Republic of China
May 31, 2016

TAL EDUCATION GROUP
CONSOLIDATED BALANCE SHEETS
(In U.S. dollars, except share and share related data)

	As of February 28, 2015	As of February 29, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 470,157,430	\$ 434,042,036
Term deposits	21,229,763	17,292,636
Restricted cash-current	606,169	1,083,787
Short-term investments	765,611	27,470,431
Amounts due from related parties-current	159,502	2,594,430
Inventory	544,085	600,441
Deferred tax assets-current	4,562,034	738,406
Income tax receivable	3,222,529	-
Prepaid expenses and other current assets	38,185,411	32,037,407
Total current assets	539,432,534	515,859,574
Restricted cash-non-current	3,773,302	3,881,858
Property and equipment, net	93,575,648	114,629,683
Deferred tax assets-non-current	1,708,212	6,654,778
Rental deposit	11,034,812	17,114,552
Intangible assets, net	3,687,255	15,194,421
Goodwill	12,330,326	87,022,517
Amounts due from related parties-non-current	319,005	1,342,999
Long-term investments	97,359,075	274,356,960
Long-term prepayments and other non-current assets	9,194,468	25,321,691
Total assets	\$ 772,414,637	\$ 1,061,379,033
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable (including accounts payable of the consolidated VIEs without recourse to TAL Education Group of \$4,115,254 and \$9,371,013 as of February 28, 2015 and February 29, 2016, respectively)	\$ 4,705,492	\$ 10,404,047
Deferred revenue-current (including deferred revenue-current of the consolidated VIEs without recourse to TAL Education Group of \$154,982,001 and \$260,137,064 as of February 28, 2015 and February 29, 2016, respectively)	177,639,939	280,934,750
Amounts due to related parties (including amount due to related parties of the consolidated VIEs without recourse to TAL Education Group of \$22,077 and \$4,277,896 as of February 28, 2015 and February 29, 2016, respectively)	22,077	4,277,896
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated VIEs without recourse to TAL Education Group of \$30,106,008 and \$51,183,663 as of February 28, 2015 and February 29, 2016, respectively)	43,988,602	70,267,551
Income tax payable (including income tax payable of the consolidated VIEs without recourse to TAL Education Group of \$4,193,507 and \$15,525,069 as of February 28, 2015 and February 29, 2016, respectively)	6,136,813	17,187,453
Deferred tax liabilities-current (including deferred tax liabilities-current of the consolidated VIEs without recourse to TAL Education Group of \$nil and \$57,230 as of February 28, 2015 and February 29, 2016, respectively)	62,100	91,730
Total current liabilities	232,555,023	383,163,427
Deferred revenue-non-current (including deferred revenue-non-current of the consolidated VIEs without recourse to TAL Education Group of \$nil and \$8,346,457 as of February 28, 2015 and February 29, 2016, respectively)	-	8,346,457

TAL EDUCATION GROUP

CONSOLIDATED BALANCE SHEETS - continued
(In U.S. dollars, except share and share related data)

	<u>As of</u> <u>February 28,</u> <u>2015</u>	<u>As of</u> <u>February 29,</u> <u>2016</u>
Deferred tax liabilities-non-current (including deferred tax liabilities-non-current of the consolidated VIEs without recourse to TAL Education Group of \$215,764 and \$1,164,389 as of February 28, 2015 and February 29, 2016, respectively)	226,792	1,304,361
Bond payable (including bond payable of the consolidated VIEs without recourse to TAL Education Group of \$nil and \$nil as of February 28, 2015 and February 29, 2016, respectively)	<u>226,062,006</u>	<u>227,827,301</u>
Total liabilities	<u>458,843,821</u>	<u>620,641,546</u>
Commitments and contingencies (Note 19)		
Equity		
Class A common shares (\$0.001 par value; 500,000,000 shares authorized, 88,371,876 shares and 90,309,532 shares issued and outstanding as of February 28, 2015 and February 29, 2016, respectively)	88,372	90,310
Class B common shares (\$0.001 par value; 500,000,000 shares authorized, 71,456,000 shares and 71,456,000 shares issued and outstanding as of February 28, 2015 and February 29, 2016, respectively)	71,456	71,456
Additional paid-in capital	82,479,806	108,404,873
Statutory reserve	18,961,627	22,981,900
Retained earnings	207,522,766	306,381,011
Accumulated other comprehensive income/(loss)	<u>4,168,548</u>	<u>(949,647)</u>
Total TAL Education Group's equity	<u>313,292,575</u>	<u>436,979,903</u>
Noncontrolling interest	<u>278,241</u>	<u>3,757,584</u>
Total equity	<u>313,570,816</u>	<u>440,737,487</u>
Total liabilities and equity	<u>\$ 772,414,637</u>	<u>\$ 1,061,379,033</u>

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

TAL EDUCATION GROUP

CONSOLIDATED STATEMENTS OF OPERATIONS
(In U.S. dollars, except share and share related data)

	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Net revenues	\$ 313,895,205	\$ 433,969,569	\$ 619,948,777
Cost of revenues	(151,543,116)	(203,073,957)	(303,634,829)
Gross profit	<u>162,352,089</u>	<u>230,895,612</u>	<u>316,313,948</u>
Operating expenses			
Selling and marketing	(35,761,166)	(53,881,815)	(73,567,617)
General and administrative	(70,299,742)	(110,230,010)	(161,021,637)
Total operating expenses	<u>(106,060,908)</u>	<u>(164,111,825)</u>	<u>(234,589,254)</u>
Government subsidies	<u>1,104,750</u>	<u>464,327</u>	<u>3,327,169</u>
Income from operations	<u>57,395,931</u>	<u>67,248,114</u>	<u>85,051,863</u>
Interest income	9,438,263	16,613,656	17,732,879
Interest expense	-	(5,811,288)	(7,499,323)
Other income/(expense)	398,374	(2,010,109)	(2,522,253)
Gain from disposal of components	-	-	50,377,126
Gain from sales of available-for-sale securities (includes \$39,719, \$nil and \$nil accumulated other comprehensive income reclassifications for unrealized gains on available-for-sale securities for years ended February 28, 2014, 2015 and February 29, 2016, respectively)	52,958	-	-
Gain from fair value change of long-term investments	-	1,202,000	1,265,852
Impairment loss on long-term investments	-	-	(7,503,944)
Income before provision for income tax and loss from equity method investments	<u>67,285,526</u>	<u>77,242,373</u>	<u>136,902,200</u>
Provision for income tax (includes \$13,239, \$nil and \$nil income tax expenses from reclassification items for years ended February 28, 2014, 2015 and February 29, 2016, respectively)	(6,679,754)	(9,368,541)	(33,482,744)
Loss from equity method investments	-	(729,811)	(663,256)
Net income	<u>60,605,772</u>	<u>67,144,021</u>	<u>102,756,200</u>
Add: Net loss attributable to noncontrolling interest	-	12,554	122,318
Net income attributable to TAL Education Group shareholders	<u>\$ 60,605,772</u>	<u>\$ 67,156,575</u>	<u>\$ 102,878,518</u>
Net income per common share			
Basic	\$ 0.39	\$ 0.42	\$ 0.64
Diluted	\$ 0.38	\$ 0.41	\$ 0.60
Weighted average shares used in calculating net income per common share			
Basic	156,726,994	158,381,576	160,109,169
Diluted	<u>159,444,928</u>	<u>163,589,649</u>	<u>183,056,255</u>

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

TAL EDUCATION GROUP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In U.S. dollars, except share and share related data)

	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Net income	\$ 60,605,772	\$ 67,144,021	\$ 102,756,200
Other comprehensive income/(loss), net of tax			
Foreign currency translation adjustment	1,315,561	(5,027,486)	(15,692,855)
Unrealized gains on available-for-sale investments:			
Net unrealized gains on available-for-sale investments, net of tax effect of \$(6,615), \$nil and \$nil for years ended February 28, 2014, 2015 and February 29, 2016, respectively	19,844	1,348,600	10,576,836
Less: Transfer to statements of operations of realized gains on available-for-sale securities, net of tax effect of \$13,239, \$nil and \$nil for years ended February 28, 2014, 2015 and February 29, 2016, respectively	(39,719)	-	-
Other comprehensive income/(loss)	1,295,686	(3,678,886)	(5,116,019)
Comprehensive income	61,901,458	63,465,135	97,640,181
Add: Comprehensive loss attributable to noncontrolling interest	-	13,576	120,142
Comprehensive income attributable to TAL Education Group shareholders	<u>\$ 61,901,458</u>	<u>\$ 63,478,711</u>	<u>\$ 97,760,323</u>

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

TAL EDUCATION GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In U.S. dollars, except share and share related data)

	Class A Common shares		Class B Common shares		Additional paid-in capital	Statutory reserve	Retained Earnings	Accumulated other comprehensive income (loss)	Total TAL Education Group shareholders' equity	Non-controlling interest	Total equity
	Shares	Amount	Shares	Amount							
Balance as of February 28, 2013	68,314,150	\$ 68,314	87,806,000	\$ 87,806	\$ 86,016,387	\$ 12,291,341	\$ 86,430,705	\$ 6,550,726	\$ 191,445,279	-	\$ 191,445,279
Conversion of Class B common shares to Class A common shares	8,275,000	8,275	(8,275,000)	(8,275)	-	-	-	-	-	-	-
Net income	-	-	-	-	-	-	60,605,772	-	60,605,772	-	60,605,772
Provision for statutory reserve	-	-	-	-	-	2,724,483	(2,724,483)	-	-	-	-
Issuance of common shares in connection with vesting of non-vested shares	1,614,996	1,615	-	-	(1,697,241)	-	-	-	(1,695,626)	-	(1,695,626)
Share-based compensation	-	-	-	-	8,345,290	-	-	-	8,345,290	-	8,345,290
Foreign currency translation adjustment	-	-	-	-	-	-	-	1,315,561	1,315,561	-	1,315,561
Net unrealized gains on available-for-sale securities, net of tax effect of \$(6,615)	-	-	-	-	-	-	-	19,844	19,844	-	19,844
Transfer to statements of operations of realized gains on available for sale securities, net of tax effect of \$13,239	-	-	-	-	-	-	-	(39,719)	(39,719)	-	(39,719)
Balance as of February 28, 2014	78,204,146	\$ 78,204	79,531,000	\$ 79,531	\$ 92,664,436	\$ 15,015,824	\$ 144,311,994	\$ 7,846,412	\$ 259,996,401	-	\$ 259,996,401
Conversion of Class B common shares to Class A common shares	8,075,000	8,075	(8,075,000)	(8,075)	-	-	-	-	-	-	-
Net income	-	-	-	-	-	-	67,156,575	-	67,156,575	(12,554)	67,144,021
Provision for statutory reserve	-	-	-	-	-	3,945,803	(3,945,803)	-	-	-	-
Issuance of common shares in connection with vesting of non-vested shares	2,092,730	2,093	-	-	(5,740,706)	-	-	-	(5,738,613)	-	(5,738,613)
Share-based compensation	-	-	-	-	18,441,076	-	-	-	18,441,076	-	18,441,076
Foreign currency translation adjustment	-	-	-	-	-	-	-	(5,026,464)	(5,026,464)	(1,022)	(5,027,486)
Cost of Capped Call Transactions	-	-	-	-	(22,885,000)	-	-	-	(22,885,000)	-	(22,885,000)

Net unrealized gains on available-for-sale investments, net of tax effect of \$nil	-	-	-	-	-	-	-	1,348,600	1,348,600	-	1,348,600
Addition of noncontrolling interest in connection with business acquisition	-	-	-	-	-	-	-	-	-	291,817	291,817
Balance as of February 28, 2015	<u>88,371,876</u>	<u>\$ 88,372</u>	<u>71,456,000</u>	<u>\$ 71,456</u>	<u>\$ 82,479,806</u>	<u>\$18,961,627</u>	<u>\$207,522,766</u>	<u>\$ 4,168,548</u>	<u>\$313,292,575</u>	<u>\$ 278,241</u>	<u>\$313,570,816</u>
Net income	-	-	-	-	-	-	102,878,518	-	102,878,518	(122,318)	102,756,200
Provision for statutory reserve	-	-	-	-	-	4,020,273	(4,020,273)	-	-	-	-
Issuance of common shares in connection with vesting of non-vested shares	1,419,484	1,420	-	-	(9,437,860)	-	-	-	(9,436,440)	-	(9,436,440)
Share-based compensation	-	-	-	-	25,847,497	-	-	-	25,847,497	-	25,847,497
Exercise of share options	40,136	40	-	-	645,949	-	-	-	645,989	-	645,989
Foreign currency translation adjustment	-	-	-	-	-	-	-	(15,695,031)	(15,695,031)	2,176	(15,692,855)
Net unrealized gains on available-for-sale investments, net of tax effect of \$nil	-	-	-	-	-	-	-	10,576,836	10,576,836	-	10,576,836
Issuance of common shares in connection with a business acquisition	478,036	478	-	-	8,869,481	-	-	-	8,869,959	-	8,869,959
Addition of noncontrolling interest in connection with business acquisitions	-	-	-	-	-	-	-	-	-	3,599,485	3,599,485
Balance as of February 29, 2016	<u>90,309,532</u>	<u>\$ 90,310</u>	<u>71,456,000</u>	<u>\$ 71,456</u>	<u>\$108,404,873</u>	<u>\$22,981,900</u>	<u>\$306,381,011</u>	<u>\$ (949,647)</u>	<u>\$436,979,903</u>	<u>\$3,757,584</u>	<u>\$440,737,487</u>

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

TAL EDUCATION GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. dollars, except share and share related data)

	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Cash flows from operating activities			
Net income	\$ 60,605,772	\$ 67,144,021	\$ 102,756,200
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property and equipment	9,549,852	11,728,577	18,156,263
Amortization of intangible assets	461,482	737,203	1,026,761
Loss/(gain) on disposal of property and equipment	28,617	47,148	(313)
Share-based compensation	8,345,290	18,441,076	25,847,497
Provision for doubtful accounts	-	-	315,914
Impairment loss on long-term investments	-	-	7,503,944
Loss from equity method investments	-	729,811	663,256
Gain from fair value change of long-term investments	-	(1,202,000)	(1,265,852)
Gain from remeasuring fair value of previously held equity interest upon business acquisition	-	-	(971,681)
Gain from sales of available-for-sale securities	(52,958)	-	-
Gain from sales of long-term investments	(297,120)	-	(211,818)
Gain from transfer of a nonfinancial asset	-	-	(1,907,669)
Gain from disposal of components	-	-	(50,377,126)
Changes in operating assets and liabilities			
Inventory	228,408	(362,326)	207,006
Amount due from related parties	-	-	(732,545)
Prepaid expenses and other current assets	(5,382,574)	(8,272,425)	1,297,204
Income tax receivable	(9,824,333)	6,601,804	3,222,529
Deferred income taxes	(1,042,182)	(2,340,704)	(787,579)
Rental deposit	(2,143,365)	(3,712,374)	(4,851,215)
Other non-current assets	-	(296,149)	(1,147,644)
Accounts payable	106,728	1,988,729	3,778,512
Deferred revenue	29,887,186	45,172,311	66,443,577
Amount due to related parties	-	22,077	4,255,819
Accrued expenses and other current liabilities	8,532,365	10,347,898	3,446,740
Long-term payable	813,696	(813,696)	-
Income tax payable	1,741,502	1,617,006	11,050,640
Net cash provided by operating activities	101,558,366	147,577,987	187,718,420
Cash flows from investing activities			
Restricted cash	(602,297)	(1,506,905)	(586,174)
Purchase of term deposits	(73,876,136)	(43,384,640)	(87,632,201)
Proceeds from maturity of term deposits	97,986,852	22,154,877	90,652,423
Loan to third parties	(1,301,914)	(10,965,787)	(8,528,718)
Repayment of loan to third parties	-	1,301,914	457,841
Loan to related parties	-	(478,507)	(3,815,338)
Repayment of loan to related parties	-	-	1,068,295
Loan to employees	-	-	(6,470,813)
Purchase of property and equipment	(10,835,726)	(30,696,412)	(35,087,893)
Purchase of short-term investments	-	(765,611)	(27,470,431)
Proceeds from maturity of short-term investments	-	-	765,611
Proceeds from deed tax refund related to purchase of building	1,252,167	-	-
Proceeds from disposal of property and equipment	42,633	91,410	390,925
Acquisitions of businesses, net of cash acquired of \$nil, \$102,988 and \$22,876,868 for the years ended February 28, 2014, 2015 and February 29, 2016, respectively	(8,179,342)	(5,974,001)	(21,825,767)
Purchase of intangible assets	(20,561)	(139,565)	-
Payments for long-term investments	(25,046,693)	(75,421,783)	(118,590,246)
Proceeds from sales of available-for-sale securities	435,275	-	-
Proceeds from disposal of long-term investments	2,742,876	-	1,320,499
Net cash used in investing activities	(17,402,866)	(145,785,010)	(215,351,987)
Cash flows from financing activities			
Proceeds from issuance of convertible bond, net of issuance costs of \$5,277,058	-	224,722,942	-
Payment for cost of Capped Call Transactions	-	(22,885,000)	-
Proceeds from exercise of share options	-	-	645,989
Net cash provided by financing activities	-	201,837,942	645,989

TAL EDUCATION GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS-- continued
(In U.S. dollars, except share and share related data)

	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Effect of exchange rate changes	694,398	(3,404,060)	(9,127,816)
Net increase/(decrease) in cash and cash equivalents	84,849,898	200,226,859	(36,115,394)
Cash and cash equivalents at the beginning of year	185,080,673	269,930,571	470,157,430
Cash and cash equivalents at the end of year	<u>269,930,571</u>	<u>470,157,430</u>	<u>434,042,036</u>
Supplemental disclosure of cash flow information:			
Interest paid	\$ -	\$ 2,779,168	\$ 5,750,000
Income tax paid	<u>15,832,017</u>	<u>12,374,975</u>	<u>21,028,165</u>
Non-cash investing and financing activities:			
Payable for purchase of property and equipment	\$ 730,911	\$ 1,090,554	\$ 3,478,617
Payable for investments and acquisitions	<u>122,054</u>	<u>1,911,031</u>	<u>3,022,079</u>

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

TAL EDUCATION GROUP

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 28, 2014, 2015
AND FEBRUARY 29, 2016**

(In U.S. dollars, except share and share related data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

TAL Education Group (the "Company" or "TAL") was incorporated in the Cayman Islands on January 10, 2008 to be the holding company for a group of companies engaged in the provision of high quality after-school tutoring programs for primary and secondary school students in the People's Republic of China (the "PRC"). At the time of its incorporation and through the VIE arrangements as described below, the ownership interest of the Company was held by Bangxin Zhang, Yundong Cao, Yachao Liu and Yunfeng Bai (collectively, "the founding shareholders").

The Company, its subsidiaries, its consolidated Variable Interest Entities ("VIEs") and VIEs' subsidiaries and schools are collectively referred to as the "Group".

As of February 29, 2016, details of the Company's subsidiaries, its VIEs and VIEs' major subsidiaries and schools are as follows:

Name	Later of date of incorporation or acquisition	Place of incorporation (or establishment) /operation	Percentage of legal ownership	Principal activities
Subsidiaries:				
TAL Holding Limited ("TAL Hong Kong")	March 11, 2008	Hong Kong	100%	Holding company
Beijing Century TAL Education Technology Co., Ltd. ("TAL Beijing")	May 8, 2008	Beijing	100%	Software sales, and consulting service
Beijing Huanqiu Zhikang Shidai Education Consulting Co., Ltd. ("Huanqiu Zhikang")	September 17, 2009	Beijing	100%	Education and management consulting service
Yidu Huida Education Technology (Beijing) Co., Ltd. ("Yidu Huida")	November 11, 2009	Beijing	100%	Software sales and consulting service
Yidu Technology Group ("Yidu Cayman")	February 2, 2012	Cayman Islands	100%	Holding company
Yidu Technology Group Limited ("Yidu Hong Kong")	April 13, 2012	Hong Kong	100%	Holding company
Beijing Xintang Sichuang Education Technology Co., Ltd. ("Beijing Xintang Sichuang")	August 27, 2012	Beijing	100%	Software and Network development, sales, and consulting service
Zhixuesi Education Consulting (Beijing) Co., Ltd. ("Zhixuesi Beijing")	October 23, 2012	Beijing	100%	Software and Network development, sales, and consulting service
YiduXuedi Network Technology (Beijing) Co., Ltd. ("Yidu Xuedi Beijing")	November 30, 2012	Beijing	100%	Software and Network development, sales, and consulting service
Maxstep Technology Inc. ("Maxstep Cayman")	May 13, 2014	Cayman Islands	100%	Holding company
Pengxin TAL Industrial investment (Shanghai) Co., Ltd. ("Pengxin TAL")	June 26, 2014	Shanghai	100%	Investment management and consulting services
Tianjin Dongxuetang Education Information Consulting Co., Ltd ("Tianjin Dongxuetang")	June 15, 2015	Tianjin	100%	Educational information consulting and educational software development
Wuxi TAL Education Consulting Co., Ltd ("Wuxi TAL")	January 12, 2016	Wuxi	100%	Educational information consulting and educational software development
Firstleap Education ("Firstleap") ⁽¹⁾	January 22, 2016	Cayman Islands	100%	Holding company
Firstleap Education (HK) Limited ("Firstleap Hong Kong") ⁽¹⁾	January 22, 2016	Hong Kong	100%	Holding company

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Name	Later of date of incorporation or acquisition	Place of incorporation (or establishment) /operation	Percentage of legal ownership	Principal activities
Subsidiaries - continued:				
Beijing Lebai Information Consulting Co., Ltd. ("Lebai Information") ⁽¹⁾	January 22, 2016	Beijing	100%	Education and management consulting service
Variable interest entities:				
Beijing Xueersi Education Technology Co., Ltd. ("Xueersi Education")	December 31, 2005	Beijing	N/A*	Sales of educational materials and products
Beijing Xueersi Network Technology Co., Ltd. ("Xueersi Network")	August 23, 2007	Beijing	N/A*	Technology development and Educational consulting service
Xinxin Xiangrong Education Technology ⁽⁴⁾ (Beijing) Co., Ltd. ("Xinxin Xiangrong")	June 23, 2015	Beijing	N/A*	Technology development and Educational consulting service
Beijing Lebai Education Consulting Co., Ltd. ("Lebai Education") ⁽¹⁾	January 22, 2016	Beijing	N/A*	Educational consulting service
VIEs' major subsidiaries and schools:				
Beijing Haidian District Xueersi Training School ("Beijing Haidian School")	July 3, 2006	Beijing	N/A*	After-school tutoring for primary and secondary school students
Beijing Dongcheng District Xueersi Training School ("Beijing Dongcheng School")	March 21, 2008	Beijing	N/A*	After-school tutoring for primary and secondary school students
Wuhan Jiangnan District Xueersi English Training School ("Wuhan Jiangnan School")	July 1, 2008	Wuhan	N/A*	Language education
Shanghai Changning District Xueersi Training School ("Shanghai Changning School")	August 1, 2008	Shanghai	N/A*	After-school tutoring for primary and secondary school students
Shanghai Minhang District Xueersi Training School ("Shanghai Minhang School")	August 1, 2008	Shanghai	N/A*	Language education
Nanjing Xueersi Education Training ⁽³⁾ School ("Nanjing Xueersi School")	April 19, 2013	Nanjing	N/A*	After-school tutoring for primary and secondary school students
Tianjin Xueersi Education Information Consulting Co., Ltd. ("Tianjin Education")	August 14, 2009	Tianjin	N/A*	Educational information consulting service
Guangzhou Xueersi Education Technology Co., Ltd. ("Guangzhou Education")	August 16, 2009	Guangzhou	N/A*	Educational technology research and development
Shenzhen Xueersi Education Technology Co., Ltd. ("Shenzhen Education")	December 22, 2009	Shenzhen	N/A*	Teaching software research and development
Tianjin Hexi District Xueersi Training School ("Hexi Xueersi School")	August 3, 2010	Tianjin	N/A*	After-school tutoring for primary and secondary school students

Hangzhou Xueersi Education Consulting Co., Ltd. ("Hangzhou Education")	December 1, 2010	Hangzhou	N/A*	Educational information consulting and educational software development
Xi'an Xueersi Network Technology Co., Ltd. ("Xi'an Network")	February 15, 2011	Xi'an	N/A*	Software sales, and consulting service
Chengdu Xueersi Education Consulting Co., Ltd. ("Chengdu Education")	March 18, 2011	Chengdu	N/A*	Educational information consulting and educational software development
Taiyuan Yingze District Xueersi Training School (" Taiyuan Yingze School")	February 21, 2012	Taiyuan	N/A*	After-school tutoring for primary and secondary school students

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Name	Later of date of incorporation or acquisition	Place of incorporation (or establishment) /operation	Percentage of legal ownership	Principal activities
VIEs' major subsidiaries and schools:				
Suzhou TAL Network Technology Co., Ltd ("Suzhou TAL Network")	February 21, 2012	Suzhou	N/A*	Software sales, and consulting service
Chongqing Shapingba District Xueersi Education Training School ("Chongqing Shapingba School")	February 24, 2012	Chongqing	N/A*	After-school tutoring for primary and secondary school students
Shenyang Xueersi Education Information Consulting Co., Ltd. ("Shenyang Education")	April 12, 2012	Shenyang	N/A*	Educational information consulting service
Zhengzhou Jinshui District Xueersi Shulihua Training Center ("Zhengzhou Jinshui Center")	June 18, 2012	Zhengzhou	N/A*	After-school tutoring for primary and secondary school students
Guangzhou Tianhe District Xueersi Training Center ("Guangzhou Tianhe Center")	July 12, 2012	Guangzhou	N/A*	After-school tutoring for primary and secondary school students
Qingdao Xueersi Education Information Consulting Co., Ltd. ("Qingdao Education")	April 1, 2014	Qingdao	N/A*	Educational information consulting and educational software development
Chongqing Nan'an Xueersi Training School ("Chongqing Nan'an School")	April 11, 2014	Chongqing	N/A*	After-school tutoring for primary and secondary school students
Changsha TAL Education Technology Co., Ltd. ("Changsha Education")	August 1, 2014	Changsha	N/A*	Educational information consulting and educational software development
Jinan Xueersi Education Training School School ("Jinan Xueersi School")	September 2, 2014	Jinan	N/A*	After-school tutoring for primary and secondary school students
Shijiazhuang Qiaoxi District Xueersi Culture Training School ("Shijiazhuang Qiaoxi School")	December 18, 2014	Shijiazhuang	N/A*	After-school tutoring for primary and secondary school students
Xi'an Beilin District Xueersi Education Training Center ("Xi'an Beilin")	April 2, 2015	Xi'an	N/A*	After-school tutoring for primary and secondary school students
Beijing Yinghe Youshi Technology Co., Ltd ("Yinghe Youshi") ⁽²⁾	February 1, 2016	Beijing	N/A*	Educational information consulting service
Hefei Lebai Education Consulting Co., Ltd ("Hefei Lebai") ⁽¹⁾	January 22, 2016	Hefei	N/A*	Educational information consulting service
Shenyang Firstleap Education Training School ("Shenyang Firstleap") ⁽¹⁾	January 22, 2016	Shenyang	N/A*	Tutoring for Children English

* These entities are controlled by the Company pursuant to the contractual arrangements disclosed below.

(1) As disclosed in Note 3, the Group acquired Firstleap Education, its subsidiaries, its consolidated VIE and VIE's subsidiaries and schools on January 22, 2016.

(2) As disclosed in Note 3, the Group acquired Yinghe Youshi on February 1, 2016.

- (3) Previously known as Nanjing Xintangsihuang Education Training School. The name change permit was granted by the governmental authority in June 2015.
- (4) Previously known as Beijing Dididaojia Education Technology Co., Ltd.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The VIE arrangements

Due to PRC legal restrictions on foreign ownership and investment in the education business in China, aside from the Group's personalized premium tutoring services in Beijing conducted by the Company's wholly owned PRC subsidiaries, Huanqiu Zhikang and Zhixuesi Beijing, the Group provides and plans to provide most of its services in the PRC through its VIEs including Xueersi Education, Xueersi Network, Beijing Dongfangrenli Science & Commerce Co., Ltd. ("Beijing Dongfangrenli"), Xinxin Xiangrong, Lebai Education and their subsidiaries and schools. In August 2015, the Group transferred 100% of Beijing Dongfangrenli's equity interest as part of the Group's consideration in a purchase agreement for a long-term investment. The related contractual agreements with Beijing Dongfangrenli were terminated in July 2015.

To provide the Company the power to control and the ability to receive the expected residual returns of the VIEs and their subsidiaries and schools, the Company's wholly owned subsidiary, TAL Beijing, entered into a series of contractual arrangements with Xueersi Education, Xueersi Network and their respective shareholders on February 12, 2009 and August 12, 2009, including exclusive business service agreements, which were superseded by the Exclusive Business Cooperation Agreement entered into on June 25, 2010. TAL Beijing entered into a series of contractual arrangements with Xinxin Xiangrong on August 4, 2015. The Group plans to develop a mobile tutoring platform through Xinxin Xiangrong in the future. Besides, in connection with the Company's acquisition of Firstleap during current fiscal year, Lebai Information, a wholly owned PRC subsidiary of Firstleap, entered into a series of contractual arrangements on October 26, 2015 with Lebai Education and its sole shareholder, Xueersi Education, which is a VIE of the Group.

The VIEs and their subsidiaries and schools hold various licenses upon which the Company's business depends. A substantial majority of the Company's employees who provide the Company's services are hired by the VIEs and their subsidiaries and schools, and the VIEs and their subsidiaries and schools lease a substantial majority of the properties upon which the Company's services are delivered. The net revenue from the VIEs and their subsidiaries and schools accounted for 92.9% of the Company's total net revenue for fiscal year ended February 29, 2016.

Through the below contractual arrangements, TAL Beijing and Lebai Information have (1) the power to direct the activities of the VIEs and their subsidiaries and schools that most significantly affect their economic performance and (2) the right to receive substantially all the benefits from the VIEs and their subsidiaries and schools. They are therefore considered the primary beneficiaries of the VIEs and their subsidiaries and schools, and accordingly, the results of operations, assets and liabilities of the VIEs and their subsidiaries and schools are consolidated in the Group's financial statements.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The VIE arrangements – continued

Series of exclusive technology support and service agreements: Pursuant to Exclusive Business Cooperation Agreement entered into in June 2010, by and among TAL Beijing, Xueersi Education, Xueersi Network, and the shareholders of Xueersi Education and Xueersi Network, TAL Beijing or its designated affiliates have the exclusive right to provide each of Xueersi Education and Xueersi Network and their subsidiaries and schools comprehensive intellectual property licensing and various technical and business support services. Pursuant to the Exclusive Business Service Agreement entered into by and among TAL Beijing, Xinxin Xiangrong and its shareholders on August 4, 2015, TAL Beijing and its designated affiliates have the exclusive right to provide Xinxin Xiangrong and its subsidiaries and schools (if any) comprehensive intellectual property licensing and various technical and business support services. The agreements are effective within the operation term of TAL Beijing, its subsidiaries and schools according to PRC Law, unless earlier terminated by mutual agreement of all parties.

Lebai Information, Lebai Education and its sole shareholder, subsidiaries and schools have entered into an Exclusive Business Service Agreement on October 26, 2015, the terms of which are substantially the same as the agreement of Xinxin Xiangrong summarized above. The term of such agreement is 10 years and will be renewed for another 10 years at Lebai Information's discretion.

The services under each of these agreements include, but are not limited to, employee training, technology development, transfer and consulting services, public relation services, market survey, research and consulting services, market development and planning services, human resource and internal information management, network development, upgrade and ordinary maintenance services, and software and trademark licensing and other additional services as the parties may mutually agree from time to time. TAL Beijing, Lebai Information or their designated affiliates, owns the exclusive intellectual property rights developed in the performance of these agreements. As consideration for these services, TAL Beijing, Lebai Information or their designated affiliates are entitled to charge the VIEs and VIEs' subsidiaries and schools service fees annually or regularly, and adjust the service fee rates from time to time at their discretion.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The VIE arrangements – continued

Call option agreement: Pursuant to the call option agreement entered into in February 2009, by and among TAL Beijing, Xueersi Education, Xueersi Network and their respective shareholders, the respective shareholders of Xueersi Education and Xueersi Network unconditionally and irrevocably granted TAL Beijing or its designated party an exclusive option to purchase from Xueersi Education and Xueersi Network' shareholders, to the extent permitted under PRC law, part of or all the equity interests in Xueersi Education and Xueersi Network, as the case may be, for the minimum amount of consideration permitted by the applicable law without any other conditions.

TAL Beijing, Xinxin Xiangrong and the shareholders of Xinxin Xiangrong have entered into a call option agreement on August 4, 2015. Lebai Information, Lebai Education and the sole shareholder of Lebai Education have entered into a call option agreement on October 26, 2015, the terms of which are substantially the same as the call option agreement summarized above.

Under each of these agreements, TAL Beijing or Lebai Information has sole discretion to decide when to exercise the option, and whether to exercise the option in part or in full. Unless earlier terminated by mutual agreement of all parties, and these agreements shall remain effective until TAL Beijing and Lebai Information exercise their purchase right to purchase all the VIEs' equity interests according to these agreements.

Equity pledge agreement: Pursuant to the equity pledge agreements, dated February 2009, by and among TAL Beijing, Xueersi Education, Xueersi Network and the respective shareholders of Xueersi Education and Xueersi Network, and supplemental agreements, dated June 2010, by and among TAL Beijing, Xueersi Education, Xueersi Network and their respective shareholders, the shareholders of Xueersi Education and Xueersi Network unconditionally and irrevocably pledged all of their equity interests, including the right to receive declared dividends and the voting rights, in the Xueersi Education and Xueersi Network to TAL Beijing to guarantee Xueersi Education and Xueersi Network's performance of their obligations under the exclusive technology support and service agreements. The shareholders of Xueersi Education and Xueersi Network agree that, without prior written consent of TAL Beijing, they will not transfer or dispose the pledged equity interests or create or allow any encumbrance on the pledged equity interests that would prejudice TAL Beijing's interest.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The VIE arrangements - continued

TAL Beijing, Xinxin Xiangrong and the shareholders of Xinxin Xiangrong have entered into an equity pledge agreement on August 4, 2015. Lebai Information, Lebai Education and the sole shareholder of Lebai Education have entered into an equity pledge agreement on October 26, 2015, the terms of which are substantially the same as the agreements summarized above. These agreements are effective on the date of execution and terminate when all the secured rights under the relevant agreements, as the case may be, are completely fulfilled or terminated in accordance thereof.

Letter of Undertaking: All of the shareholders of Xueersi Education and Xueersi Network have executed a letter of undertaking to covenant with and undertake to TAL Beijing that, if, as the respective shareholders of Xueersi Education and Xueersi Network, such shareholders receive any dividends, interests, other distributions or remnant assets upon liquidation from Xueersi Education and Xueersi Network, such shareholders shall, to the extent permitted by applicable laws, regulations and legal procedures, remit all such income after payment of any applicable tax and other expenses required by laws and regulations to TAL Beijing without any compensation therefore. All the shareholders of Xinxin Xiangrong have made similar undertakings in the option agreement dated August 4, 2015, described above. The sole shareholder of Lebai Education has made similar undertakings in the power of attorney, dated October 26, 2015, described below.

Power of attorney: The shareholders of the VIEs have executed an irrevocable power of attorney appointing TAL Beijing or Lebai Information, as applicable, or any person designated by TAL Beijing or Lebai Information as their attorney-in-fact to vote on their behalf on all matters of the VIEs requiring shareholder approval under PRC laws and regulations and the articles of association of each of the VIEs in August 2009, August 2015 and October 2015. These agreements remain effective during the entire period during which they are shareholders of the VIEs.

The articles of associations of each of the VIEs state that the major rights of the shareholders in shareholders' meeting include the power to approve the operating strategy and investment plan, elect the members of board of directors and approve their compensation and review and approve annual budget and earning distribution plan. Therefore, through the irrevocable power of attorney arrangement TAL Beijing or Lebai Information has the ability to exercise effective control over each of the VIEs respectively through shareholder votes and, through such votes, to also control the composition of the board of directors. As a result of these contractual rights, the Company has the power to direct the activities of each of the VIEs that most significantly impact their economic performance.

TAL EDUCATION GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The VIE arrangements - continued

Spousal consent letter: The spouse of each shareholder, who is a natural person, of the VIEs has entered into a spousal consent letter to acknowledge that she is aware of, and consents to, the execution by her spouse of the call option agreement described above. Each spouse further agrees that she will not take any actions or raise any claims to interfere with the performance by her spouse of the obligations under the above mentioned agreements.

Deed of undertaking: On June 24, 2013 and July 29, 2013, the Company and Mr. Bangxin Zhang executed a deed of undertaking dated June 24, 2013 and a side letter dated July 29, 2013, respectively (collectively, the "Deed"). Pursuant to the Deed, Mr. Zhang has irrevocably covenanted and undertaken to the Company that:

- as long as Mr. Bangxin Zhang owns shares in the Company, whether legally or beneficially, and directly or indirectly (including shares held through Mr. Bangxin Zhang's personal holding company Bright Unison Limited or any other company, trust, nominee or agent, if any), representing more than 50% of the aggregate voting power of the then total issued and outstanding shares of the Company;
- Mr. Bangxin Zhang will not, directly or indirectly, (i) requisition or call any meeting of shareholders for the purpose of removing or replacing any of existing directors or appointing any new director, or (ii) propose any resolution at any of shareholders meetings to remove or replace any of existing directors or appoint any new director; and should any meeting of shareholders be called by the board of directors or requisitioned or called by shareholders for the purpose of removing or replacing any of the directors or appointing any new director, or if any resolution is proposed at any of shareholder meetings to remove or replace any of the directors or appoint any new director, the maximum number of votes which Mr. Bangxin Zhang will be permitted to exercise shall be equal to the total aggregate number of votes of the then total issued and outstanding shares of the Company held by all members of the Company, other than shares which are owned, whether legally or beneficially, and directly or indirectly by Mr. Bangxin Zhang, less one vote; and
- Mr. Bangxin Zhang will not cast any votes he has as a director or shareholder (if applicable) on any resolutions or matters concerning enforcing, amending or otherwise relating to the Deed being considered or voted upon by board of directors or shareholders, as the case may be.

In the opinion of Maples and Calder, the Company's Cayman Islands legal counsel, the deed of undertaking constitutes the legal, valid and binding obligations of Mr. Bangxin Zhang, which cannot be unilaterally revoked by Mr. Bangxin Zhang, and is enforceable in accordance with its terms under existing Cayman Islands laws.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Risks in relation to the VIE structure

The Company believes that TAL Beijing and Lebai Information's contractual arrangements with the VIEs and their respective subsidiaries, schools and shareholders are in compliance with PRC law and are legally enforceable. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the Group would be subject to fines or potential actions by the relevant PRC regulatory authorities with broad discretions, which could include:

- revoke the Group's business and operating licenses;
- require the Group to discontinue or restrict its operations;
- limit the Group's business expansion in China by way of entering into contractual arrangements;
- restrict the Group's right to collect revenues or impose fines;
- block the Group's websites;
- require the Group to restructure the operations in such a way as to compel the Group to establish a new enterprise, re-apply for the necessary licenses or relocate its businesses, staff and assets;
- impose additional conditions or requirements with which the Group may not be able to comply; or
- take other regulatory or enforcement actions against the Group that could be harmful to its business.

The imposition of any of these penalties could result in a material adverse effect on the Company's ability to conduct the Group's business. In addition, if the imposition of any of these penalties causes the Company to lose the rights to direct the activities of the VIEs, and the VIEs' subsidiaries and schools, or the right to receive their economic benefits, the Company would no longer be able to consolidate the VIEs, and the VIEs' subsidiaries and schools. The Company does not believe that any penalties imposed or actions taken by the PRC government would result in the liquidation or dissolution of the Company, TAL Beijing, Lebai Information, or the VIEs and their respective subsidiaries and schools.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Risks in relation to the VIE structure-continued

The four legal owners of Xueersi Education and Xueersi Network are Mr. Bangxin Zhang, Mr. Yachao Liu, Mr. Yunfeng Bai, and Mr. Yundong Cao, and the three legal owners of Xinxin Xiangrong are Mr. Zhang, Mr. Liu and Mr. Bai and the sole legal owner of Lebai Education is Xueersi Education. Mr. Zhang, Mr. Liu and Mr. Bai are shareholders and directors or officers of TAL Education Group. Mr. Cao is a beneficial owner of TAL Education Group. Xueersi Education is a VIE of the Group. The interests of Mr. Zhang, Mr. Liu, Mr. Bai and Mr. Cao as beneficial owners of Xueersi Education, Xueersi Network and Xinxin Xiangrong may differ from the interests of the Group as a whole, since these parties' respective equity interests in Xueersi Education, Xueersi Network and Xinxin Xiangrong may conflict with their respective equity interests in the Group. When conflicts of interest arise, it is possible that any or all of these individuals may not act in the best interests of the Group, and such conflicts may not be resolved in the Group's favor. In addition, these individuals may breach, or cause Xueersi Education, Xueersi Network and Xinxin Xiangrong, their subsidiaries and schools to breach, or refuse to renew, the existing contractual arrangements the Group has with them and Xueersi Education, Xueersi Network and Xinxin Xiangrong, their subsidiaries and schools. Other than the aforementioned deed of undertaking the Group entered with Mr. Zhang, the Group currently does not have any arrangements to address potential conflicts of interest between these individuals and the Company. To a large extent, the Group relies on the legal owners of Xueersi Education, Xueersi Network and Xinxin Xiangrong to abide by the laws of the Cayman Islands and China, which provide that directors and officers owe a fiduciary duty to the Company that requires them to act in good faith and in the best interests of the Company and not to use their positions for personal gains. If the Group cannot resolve any conflict of interest or dispute between it and these individuals, the Group would have to rely on legal proceedings, which could result in disruption of its business and subject it to substantial uncertainty as to the outcome of any such legal proceedings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The VIE arrangements - continued

The following consolidated financial statement balances and amounts of the Company's VIEs and their subsidiaries and schools, were included in the accompanying consolidated financial statements after the elimination of intercompany balances and transactions among the Company, its subsidiaries, its VIEs and VIEs' subsidiaries and schools in the Group.

	As of February 28, 2015	As of February 29, 2016	
Cash and cash equivalents	\$ 161,603,461	\$ 239,371,252	
Term deposits	542,308	8,090,042	
Prepaid expenses and other current assets	34,612,547	24,983,517	
Total current assets	196,758,316	272,444,811	
Property and equipment, net	62,763,402	82,652,777	
Other non-current assets	43,322,163	163,504,716	
Total assets	302,843,881	518,602,304	
Deferred revenue-current	154,982,001	260,137,064	
Accrued expenses and other current liabilities	38,436,846	80,414,871	
Total current liabilities	193,418,847	340,551,935	
Total non-current liabilities	215,764	9,510,846	
Total liabilities	\$ 193,634,611	\$ 350,062,781	
	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Net revenues	\$ 272,231,845	\$ 393,401,571	\$ 575,928,039
Net income	\$ 86,108,986	\$ 121,489,140	\$ 175,088,200
	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Net cash provided by operating activities	\$ 53,427,076	\$ 85,654,272	\$ 200,357,576
Net cash provided by/(used in) investing activities	\$ 6,192,159	\$ (60,089,867)	\$ (111,318,060)

As of February 28, 2014, 2015 and February 29, 2016, the balance of the amount payable by the VIEs and their subsidiaries and schools to TAL Beijing, Lebai Information or their designated affiliates related to the service fees was \$20.6 million, \$18.7 million and \$17.9 million, respectively, and was eliminated upon consolidation. There are no consolidated VIEs' assets that are collateral for the VIEs' obligations and can only be used to settle the VIEs' obligation.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The VIE arrangements - continued

The following consolidated financial statement balances and amounts of the Company and its subsidiaries, excluding the Company's VIEs and VIEs' subsidiaries and schools, were included in the accompanying consolidated financial statements after the elimination of inter-company transactions and balances among the Company, its subsidiaries, its VIEs and VIEs' subsidiaries and schools in the Group:

	As of February 28, 2015	As of February 29, 2016	
Cash and cash equivalents	\$ 308,553,969	\$ 194,670,784	
Term deposits	20,687,455	9,202,594	
Prepaid expenses and other current assets	13,432,794	39,541,385	
Total current assets	342,674,218	243,414,763	
Property and equipment, net	30,812,246	31,976,906	
Other non-current assets	96,084,292	267,385,060	
Total assets	469,570,756	542,776,729	
Deferred revenue-current	22,657,938	20,797,686	
Accrued expenses and other current liabilities	16,478,238	21,813,806	
Total current liabilities	39,136,176	42,611,492	
Total non-current liabilities	226,073,034	227,967,273	
Total liabilities	\$ 265,209,210	\$ 270,578,765	
	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Net revenues	\$ 41,663,360	\$ 40,567,998	\$ 44,020,738
Net loss	\$ (25,503,214)	\$ (54,345,119)	\$ (72,332,000)
	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Net cash provided by/ (used in) operating activities	\$ 48,131,290	\$ 61,923,715	\$ (12,639,156)
Net cash used in investing activities	\$ (23,595,025)	\$ (85,695,143)	\$ (104,033,927)
Net cash provided by financing activities	\$ -	\$ 201,837,942	\$ 645,989

Relevant PRC laws and regulations restrict the VIEs from transferring a portion of their net assets, equivalent to the balance of their statutory reserve and their paid in capital, to the Company in the form of loans and advances or cash dividends. Please refer to Note 22 for disclosure of restricted net assets.

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2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its wholly owned subsidiaries, which are accounted for under the voting interest model, and its VIEs, VIEs' subsidiaries and schools consolidated under the variable interest entity consolidation model. All inter-company transactions and balances have been eliminated upon consolidation.

Consolidation of Variable Interest Entities

The Company through TAL Beijing and Lebai Information, wholly owned foreign enterprises, has executed a series of contractual agreements with its VIEs, the VIEs' subsidiaries and schools and the VIEs' nominee shareholders. For a description of these contractual arrangements, see "Note 1 Organization and Principal Activities—The VIE Arrangements". These contractual agreements do not provide TAL Beijing and Lebai Information with an equity interest in legal form in the VIEs. As the Company holds no legal form of equity ownership in the VIEs, the Company applied the variable interest entity consolidation model as set forth in Accounting Standards Codification 810, Consolidation ("ASC 810") instead of the voting interest model of consolidation.

By design, the contractual agreements provide TAL Beijing and Lebai Information with a right to receive benefits equal to substantially all of the net income of these entities, and thus under ASC 810 these agreements are considered variable interests. Subsequent to identifying any variable interests, any party holding such variable interests must determine if the entity in which the interest is held is a variable interest entity and subsequently which reporting entity is the primary beneficiary of, and should therefore consolidate, the variable interest entity. Among other reasons, an entity is considered a variable interest entity if the holders of the equity investment at risk in the entity, as a group, lack any one of the following characteristics of a controlling financial interest:

- The power, through voting rights or similar rights, to direct the activities of the entity that most significantly impact the entity's economic performance
- The obligation to absorb the entity's expected losses, or
- The right to receive the entity's expected residual returns

TAL EDUCATION GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Consolidation of Variable Interest Entities - continued

A reporting entity is considered to be the primary beneficiary, and thus the accounting parent, of a variable interest entity if it possesses both: (a) the power to direct the activities that most significantly impact the economic performance of the variable interest entity and (b) the obligation to absorb losses and/or the right to receive benefits from the entity that could potentially be significant to the variable interest entity.

As a result of the contractual arrangements, the nominee shareholders of the VIEs lack the characteristics of a controlling financial interest in the VIEs and therefore the VIEs are considered to be variable interest entities under ASC 810. The contractual arrangements, by design, provide TAL Beijing and Lebai Information the power to direct the activities that most significantly impact the economic performance of the VIEs and the right to receive substantially all the benefits of the VIEs, which causes TAL Beijing and Lebai Information to be the primary beneficiaries of the VIEs, and accordingly TAL Beijing and Lebai Information consolidate their operations.

Determining whether TAL Beijing and Lebai Information are the primary beneficiaries requires a careful evaluation of the facts and circumstances, including whether the contractual agreements are substantive under the applicable legal and financial reporting frameworks, i.e. PRC law and U.S. GAAP. The Company continually reviews its corporate governance arrangements to ensure that the contractual agreements are indeed substantive.

The Company has determined that the contractual agreements are in fact valid and legally enforceable. Such arrangements were entered into in order to comply with the underlying legal and/or regulatory restrictions that govern the ownership of a direct equity interest in the VIEs. In the opinion of the Company's PRC counsel, Tian Yuan Law Firm, the contracts are legally enforceable under PRC law. See "Note 1 Organization and Principal Activities—The VIE Arrangements".

The Company has considered the existence of related party relationships, e.g. ownership of an equity interest in the Company and the VIEs, and the effect that might have on the enforceability of the contractual agreements and in turn whether they are substantive. The Company believes there are no barriers to exercise its rights under the contracts and therefore they are substantive and appropriately considered in the consolidation analysis in accordance with ASC 810. In assessing the shareholdings of certain individual parties in the Company and in the VIEs, specifically Mr. Bangxin Zhang, the Company acknowledges that from November 23, 2011, Mr. Bangxin Zhang, a majority nominee shareholder in the VIEs, also held a majority voting interest in the Company, which resulted from conversion of Class B common shares with ten votes per share to Class A common shares with one vote per share by other shareholders. Therefore, the Company has reassessed the consolidation of its VIEs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Consolidation of Variable Interest Entities - continued

Although the contractual arrangements between TAL Beijing and its VIEs were designed to provide TAL Beijing with the characteristics of a controlling financial interest regardless of the respective shareholdings of Mr. Bangxin Zhang, during the period between November 23, 2011 and June 24, 2013, Mr. Bangxin Zhang's majority voting interest in the Company, when combined with his status as a majority nominee shareholder in the VIEs, could have constrained the ability of the Company to exercise its rights under the contractual agreements. This is due to the fact that Mr. Bangxin Zhang's majority voting interest in the Company provided him with the legal ability to control the composition of a majority of the board of directors and therefore may have provided him with the legal ability to affect whether or not the Company could exercise the rights contained in the contractual agreements. Mr. Bangxin Zhang did not exercise this power at any time during the period in which he held a majority voting interest in the Company and during such period. In fact, there was no change in the composition of the board of directors or in the day-to-day operations of the Company during the period.

On June 24, 2013 and July 29, 2013, the Company and Mr. Bangxin Zhang executed a deed of undertaking dated June 24, 2013 and a side letter dated July 29, 2013, respectively (collectively, the "Deed"). Pursuant to the terms of the Deed, as long as Mr. Bangxin Zhang owns a majority voting interest, whether legally or beneficially, and directly or indirectly, in Company, (1) Mr. Bangxin Zhang cannot requisition or call a meeting of shareholders or propose a shareholders resolution to appoint or remove a director, (2) if shareholders are asked to appoint or remove a director, the maximum number of votes which Mr. Bangxin Zhang will be permitted to exercise in connection with such shareholder approval is equal to the total aggregate number of votes of the then total issued and outstanding shares of the Company held by all members of the Company, other than shares which are owned, whether legally or beneficially, and directly or indirectly by Mr. Bangxin Zhang, less one vote and (3) if shareholders or board of directors are asked to consider or approve any matter related to the Deed, Mr. Bangxin Zhang cannot exercise his voting power.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Consolidation of Variable Interest Entities - continued

Upon execution of the Deed, despite his ownership of and as long as he holds a majority voting interest, whether legally or beneficially, and directly or indirectly, in the Company, Mr. Bangxin Zhang will (1) not be permitted to requisition or call a meeting of shareholders or propose a shareholders resolution to appoint or remove a director, (2) in relation to any shareholder approvals to appoint or remove a director, only be permitted to exercise up to the number of votes equal to the total aggregate number of votes of the then total issued and outstanding shares of the Company held by all members of the Company, other than shares which are owned, whether legally or beneficially, and directly or indirectly by Mr. Bangxin Zhang, less one vote and (3) in relation to shareholders' or board of directors' consideration or approval of any matter related to the Deed, Mr. Bangxin Zhang cannot exercise his voting power. The terms of the Deed prevents Mr. Bangxin Zhang from controlling the rights of the Company as it relates to the contractual agreements, and accordingly, the Company retains a controlling financial interest in the VIEs and would consolidate them as the VIEs' primary beneficiary.

Please see Note 1 for the presentation of abbreviated financial information of the VIEs and the Group without the VIEs, after elimination of intercompany balances and transactions.

TAL EDUCATION GROUP

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenue, costs, and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Significant accounting estimates reflected in the Group's consolidated financial statements include purchase price allocation relating to business acquisitions, the forfeiture rate for share-based compensation, valuation allowance for deferred tax assets, the useful lives of property and equipment and intangible assets, impairment of intangible assets, long-lived assets, goodwill and long term investments, fair value assessment of long-term investments and consolidation of variable interest entities.

Cash and cash equivalents

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

Term deposits

Term deposits consist of deposits placed with financial institutions with original maturities of greater than three months and less than one year. If the term deposits are withdrawn before maturity date, the Company will be subject to a significant penalty for early redemption.

Restricted cash

The Group's restricted cash is related to deposits required by PRC government authorities for establishing new schools and subsidiaries.

Short-term investments

Short-term investments represent interest-bearing deposits placed with financial institutions which are restricted as to withdrawal and use. The investments are issued by financial institutions in China with return rates indexed to performance of underlying assets. The original maturities of the short-term investments are greater than three months, but less than twelve months.

TAL EDUCATION GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Property and equipment, net

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

Building	35-40 years
Computer, network equipment and software	3 years
Vehicles	4-5 years
Office equipment and furniture	3-5 years
Leasehold improvement	Shorter of the lease term or estimated useful lives

Business combinations

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any noncontrolling interests of the acquiree at the acquisition date, if any, are measured at their fair values as of the acquisition date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree and fair value of previously held equity interest in the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition.

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

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

As disclosed in Note 3, during the year ended February 29, 2016, the Group acquired Firstleap and Yinghe Youshi.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Acquired intangible assets, net

Acquired intangible assets other than goodwill consist of trade name, domain names, partnership agreement, student base, non-compete agreements, copy rights, education licenses, customer relationship, concession, user base and technology, and are carried at cost, less accumulated amortization and impairment. Amortization of finite-lived intangible assets is computed using the straight-line method over the estimated useful lives. Student base is amortized using the estimated attrition pattern and graduation rates of the acquired schools. The amortization periods by major intangible asset classes are as follows:

Trade name	10.0 years
Copyrights	3.0-5.0 years
Student base	3.5-7.0 years
Partnership agreement	2.6-3.5 years
Domain names	3.0 years
Non-compete agreements	2.0-3.0 years
Education licenses	0.9-5.0 years
Customer relationship	3.0-5.0 years
Concession	3.0-5.0 years
User base	5.0 years
Technology	5.0 years

The Group did not incur impairment loss on acquired intangible assets for the years ended February 28, 2014, 2015 and February 29, 2016.

Impairment of long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss based on the fair value of the assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheets as goodwill. Goodwill is not amortized, but tested for impairment annually or more frequently if event and circumstances indicate that it might be impaired.

ASC 350-20 permits the Company to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Absent from any impairment indicators, the Group performs its annual impairment test on the last day of each fiscal year.

The Group does not choose to perform the assessment of qualitative factors for goodwill impairment and performed its annual impairment test using a two-step approach. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test measures the amount of the impairment loss, if any, by comparing the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. The implied fair value of goodwill is calculated in the same manner that goodwill is calculated in a business combination, whereby the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit, with the excess purchase price over the amounts assigned to assets and liabilities representing the implied fair value of goodwill.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Long-term investments

The Group's long-term investments consist of cost method investments, equity method investments, available-for-sale investments and fair value option investments.

Cost method investments

For investee companies over which the Group neither has significant influence nor control through investment in common shares or in-substance common shares and which do not have readily determinable fair value, the Group accounts for the investments in cost method, under which the Group carries the investments at cost and recognize as income for any dividend received from distribution of the investee's earnings.

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

The Group accounts for its investment in Minerva Project, Inc. and several other third-party companies using the cost method. These investments are carried at cost and adjusted for other than-temporary declines in fair value of the investments and distributions of investees' earnings.

TAL EDUCATION GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Long-term investments - continued

Equity method investments

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

Under the equity method, the Group initially records its investment at cost and subsequently recognizes the Group's proportionate share of each equity investee's net income or loss after the date of investment into earnings and accordingly adjusts the carrying amount of the investment. If financial statements of an investee cannot be made available within a reasonable period of time, the Group records its share of the net income or loss of an investee on a one quarter lag basis in accordance with ASC 323-10-35-6.

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

Available-for-sale investments

For investments in investees' preferred shares which are determined to be debt securities, the Group accounts for them as available-for-sale investments when they are not classified as either trading or held-to-maturity investments. Available-for-sale investments are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income as a component of shareholders' equity. Realized gains and losses and provision for decline in value judged to be other than temporary, if any, are recognized in the consolidated statements of operations.

TAL EDUCATION GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Long-term investments - continued

Fair value option investments

The Group elected the fair value option to account for certain investments whereby the change in fair value is recognized in the consolidated statements of operations.

Fair value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Fair value of financial instruments is discussed in Note 13.

TAL EDUCATION GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

The Group recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Revenue is reported net of business tax.

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

(a) Educational programs and services

The educational programs and services primarily consist of after-school group tutoring (including Xueersi Peiyou small class, Mobby courses and Firstleap) and after-school one-on-one tutoring. Tuition revenue is generally collected in advance and is initially recorded as deferred revenue. Tuition revenue is recognized proportionately as the tutoring sessions are delivered. The revenue for educational programs and services for the years ended February 28, 2014, 2015 and February 29, 2016 are \$303,842,180, \$415,002,434 and \$585,046,737, respectively.

Generally, for Xueersi Peiyou small class courses consisting of more than seven classes per course, the Group offers refunds for any remaining classes to students who decide to withdraw from a course, provided the course is less than two-thirds completed at the time of withdrawal. The refund is equal to and limited to the amount related to the undelivered classes. After two-thirds of a Xueersi Peiyou small class course is delivered, no refund will be provided. For Xueersi Peiyou small class courses with less than seven classes, no refund will be provided after the commencement of the courses. In a few cities, the Group offers refunds equal to and limited to the amount related to all the undelivered classes regardless of the length of the courses. For Mobby courses, the Group offers refunds of 60% of courses fees received to students that withdraw from a course, provided the course is less than one-third completed at the time of withdrawal. After one-third of the course is completed, no refund will be provided. For Firstleap, the Group offers refunds of 50% of courses fees received to students that withdraw from a course, provided the course is less than one-third completed at the time of withdrawal. After one-third of the course is completed but less than half of the courses completed at the time of withdrawal, one-third of the courses fees could be refunded. After half of the course is completed, no refund will be provided. For personalized premium services, a student can withdraw at any time and receive a refund equal to and limited to the amount related to the undelivered classes. The refund is recorded as a reduction of the related deferred revenue and has no impact on the recognized revenue. Historically, the Group has not experienced material refunds on the recognized revenue, and as such, no accrual for estimated refunds is deemed necessary.

TAL EDUCATION GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition – continued

(a) Educational programs and services – continued

The Group sends out coupons to attract both existing and prospective students to enroll in its courses. The coupon has fixed dollar amounts and can only be used against future courses. The coupon is accounted for as a reduction of revenue when the relevant revenue is recognized in the consolidated statements of operations.

The Group has a sales incentive plan effective from September 1, 2013 for after-school one-on-one tutoring services. Under the sales incentive plan, students can get certain number of free classes in the future based on the amounts of tuition fees they deposit and consume. Revenue is recognized proportionately as the tutoring sessions are delivered by applying the related discount rates based on the deposited amounts. If there are any changes in the discount rates due to additional tuition fee payment or tuition fee refund, changes in revenue are recognized using a cumulative catch-up method.

(b) Online education services through www.xueersi.com

The online education services provided by the Group through www.xueersi.com to its students include live class and pre-recorded course content and the revenue for the years ended February 28, 2014, 2015 and February 29, 2016 are \$9,289,431, \$15,489,758 and \$24,710,561, respectively.

Students enroll for online courses through www.xueersi.com by the use of prepaid study cards or payment to the Group's on-line accounts. The proceeds collected are initially recorded as deferred revenue. For live class courses, revenues are recognized proportionately as the tutoring sessions are delivered. For pre-recorded course content, revenues are recognized on a straight line basis over the subscription period from the date in which the students activate the courses to the date in which the subscribed courses end. Refunds are provided to the students who decide to withdraw from the subscribed courses within the course offer period, which generally ranges from five to fifteen months, and a proportional refund is based on the percentage of untaken courses to the total courses offered. Historically, the Group has not experienced material refunds on the recognized revenue, and as such, no accrual for estimated refunds is deemed necessary.

(c) Sales of educational materials, online advertising services and others

The Group sells educational materials to students at the Group's service centers. Also, the Group has several online platforms through which they provide online advertising services. Revenue is recognized after a contract is signed, the price is fixed or determinable, educational materials or advertising services are delivered and collection of the receivables is reasonably assured. The revenue from sales of educational materials, online advertising services and others for the years ended February 28, 2014, 2015 and February 29, 2016 are \$763,594, \$3,477,377 and \$10,191,479, respectively.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based compensation

Share-based payment transactions with employees are measured based on the grant date fair value of the equity instrument issued and recognized as compensation expense net of a forfeiture rate on a straight-line basis, over the requisite service period, with a corresponding impact reflected in additional paid-in capital.

The estimate of forfeiture rate will be adjusted over the requisite service period to the extent that actual forfeiture rate differs, or is expected to differ, from such estimates. Changes in estimated forfeiture rate will be recognized through a cumulative catch-up adjustment in the period of change.

Value added tax

Pursuant to the PRC tax laws, in case of any product sales, generally the value added tax ("VAT") rate is 3% of the gross sales for small scale VAT payer and 17% of the gross sales for general VAT payer. TAL Beijing and Xueersi Education are deemed as general VAT payer since January 2010 and August 2010 respectively for the sales of guidance materials and the intercompany sales of self-developed software. For general VAT payer, VAT on sales is calculated at 17% on revenue from product sales and paid after deducting input VAT on purchases. The net VAT balance between input VAT and output VAT is reflected in the accounts under other taxes payable.

In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC. Implementation of such VAT pilot program was phased into Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. The Group's online education services and inter-company technical services which were previously subject to business tax are therefore subject to VAT at the rate of 6% of revenue for general VAT payer and hence Beijing Xintang Sichuang, TAL Beijing, Xueersi Education and Yidu Huida are deemed as general VAT payer at the rate of 6% since the policy was effective as of September 2012. Zhixuesi Beijing is deemed as general VAT payer at the rate of 6% since August 2013. Tianjin Education is deemed as general VAT payer at the rate of 6% since January 2014. Qingdao Education is deemed a general VAT payer at the rate of 6% since April 2014. Xinxin Xiangrong, Tianjin Dongxuetang, and Changsha Education are deemed general VAT payers at the rate of 6% since June 2015, January 2016, and January 2016, respectively.

Beijing Xintang Sichuang sells certain software related products to third parties that are qualified as "software products" by PRC tax authorities and pays VAT at 17% first and then receive 14% refund after it is paid. The VAT refund receivables are recorded on accrual basis. Xueersi Education enjoys VAT exemption for book sales from February 2014 to July 2017.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Business tax

Except the aforementioned entities subject to VAT, the Company's PRC subsidiaries, VIEs and VIEs' subsidiaries and schools are subject to business tax and surcharges at a rate of 3.3% to 5.6% on revenues related to certain types of services. The net revenues are presented net of those taxes incurred.

Operating leases

Leases where substantially all the rewards and risks of the ownership of the assets remain with the leasing companies are accounted for as operating leases. Payments made for the operating leases are charged to the consolidated statements of operations on a straight-line basis over the shorter of the lease term or estimated useful life, and have been included in the consolidated statements of operations.

Advertising costs

The Group expenses advertising costs as incurred. Total advertising costs incurred were \$2,779,346, \$3,276,393 and \$2,637,778 for the years ended February 28, 2014, 2015 and February 29, 2016, respectively, and have been included in selling and marketing expenses in the consolidated statements of operations.

Government subsidies

The Group reports government subsidies as other income when received from local government authority with no limitation on the use of the subsidies. The Group receives government subsidies related to government sponsored projects and records such government subsidies as a liability when it is received and records it as other income when there is no further performance obligation.

Government subsidies received totaled \$1,092,286, \$440,210 and \$3,301,463 for the years ended February 28, 2014, 2015 and February 29, 2016, respectively. The Group recorded \$1,104,750, \$464,327 and \$3,327,169 government subsidies as other income for the years ended February 28, 2014, 2015 and February 29, 2016, respectively.

Foreign currency translation

The functional and reporting currency of the Company is the United States dollar. The functional currency of the Company's PRC subsidiaries, VIEs and VIEs' subsidiaries and schools in the PRC is Renminbi ("RMB").

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currency translation - continued

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized in the consolidated statements of operations. For the years ended February 28, 2014, 2015 and February 29, 2016, the Group recorded exchange gains of \$1,026,482, exchange loss of \$1,691,122 and \$5,186,540 respectively in other income/expense in the consolidated statements of operations.

For translating the results of the PRC subsidiaries into the functional currency of the Company, assets and liabilities are translated from each subsidiary's functional currency to the reporting currency at the exchange rate on the balance sheet date. Equity amounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the average rate for the period. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income in the consolidated statements of changes in equity and comprehensive income.

Foreign currency risk

The RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into other currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. Cash and cash equivalents, term deposits and restricted cash of the Group included aggregate amounts of \$452,532,392 and \$372,001,401 as of February 28, 2015 and February 29, 2016, respectively, which were denominated in RMB.

Income taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net of operating loss carry forwards and credits, by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws and regulations applicable to the Group as enacted by the relevant tax authorities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Income taxes - continued

The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authorities. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

Comprehensive income

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

Concentration of credit risk

Financial instruments that potentially expose the Group to significant concentration of credit risk consist primarily of cash and cash equivalents, term deposits and restricted cash. The Group places its cash and cash equivalents, term deposits and restricted cash in financial institutions with high credit ratings.

Financial instruments

The Group's financial instruments consist primarily of cash and cash equivalents, term deposits, restricted cash, short-term investments, amounts due from related parties and amounts due to related parties, accounts payable, income tax payable and bond payable. The carrying amounts of these financial instruments, except for bond payable, approximate their fair values because of their generally short maturities.

Net income per share

Basic net income per share is computed by dividing net income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised into common shares. Common share equivalents are excluded from the computation of the diluted net income per share in years when their effect would be anti-dilutive. The Group has share options, non-vested shares and bond payable which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted net income per share, the effect of the share options and non-vested shares is computed using the treasury stock method. The dilutive effect of the bond payable is computed using as-if converted method.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements adopted

In April 2014, the Financial Accounting Standards Board ("FASB") issued a new pronouncement which amends to change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP.

Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment.

In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations.

The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure will provide users with information about the ongoing trends in a reporting organization's results from continuing operations. The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2014. Early adoption is permitted. The Group adopted this ASU on March 1, 2015 and the effects of the pronouncement have been reflected in the consolidated financial statements.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new pronouncement which affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted-continued

For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted.

An entity should apply the amendments in this ASU using one of the following two methods:

1. Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:
 - For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
 - For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
 - For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

2. Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:
 - The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
 - An explanation of the reasons for significant changes.

The Group is in the process of evaluating the impact of this pronouncement to its consolidated financial statements.

In June 2014, the FASB issued a new pronouncement which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved.

The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted.

Entities may apply the amendments in this ASU either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. In addition, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. The Group does not expect the adoption of this pronouncement will have a significant effect on its consolidated financial position or results of operations.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

In February 2015, the FASB issued the ASU 2015-02, "Amendments to the Consolidation Analysis". The objective of issuing the amendments is to change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments are an improvement to current U.S. GAAP because they simplify the Codification and reduce the number of consolidation models through the elimination of the indefinite deferral of Statement 167 and because they place more emphasis on risk of loss when determining a controlling financial interest. The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the amendments in this Update using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. The Group plans to apply this standard beginning in fiscal year 2017 and does not expect this guidance to have a material impact on the Group's consolidated financial statements.

In May 2015, the FASB issued a pronouncement which provides amendments on the disclosure for fair value measured investments in certain entities that calculate net asset value per share (or its equivalent). The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments apply to reporting entities that elect to measure the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. The Group does not expect the adoption of this pronouncement will have a significant effect on its consolidated financial position or results of operations.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

In September 2015, the FASB issued a new pronouncement ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments eliminate the requirement to retrospectively account for those adjustments. Under this ASU, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The ASU must be applied prospectively to adjustments to provisional amounts that occur after the effective date. Early adoption is permitted for financial statements that have not been issued. The Company does not expect the adoption of this guidance will have a significant effect on its consolidated financial statements.

In November 2015, the FASB issued a new pronouncement ASU 2015-17 which changes how deferred taxes are classified on organizations' balance sheets. The ASU eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent.

The amendments apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. This ASU may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Group does not expect the adoption of this guidance will have a significant effect on the Group's consolidated financial statements.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

In January 2016, the FASB issued a new pronouncement ASU 2016-01 which is intended to improve the recognition and measurement of financial instruments. The ASU affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities.

The new guidance makes targeted improvements to existing U.S. GAAP by:

- Requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;
- Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;
- Eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities;
- Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and
- Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new guidance permits early adoption of the own credit provision. Adoption of the amendment must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, except for amendments related to equity instruments that do not have readily determinable fair values which should be applied prospectively. The Group does not expect the adoption of this guidance will have a significant effect on the Group's consolidated financial statements.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In transition, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Group is in the process of evaluating the impact that this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, Contingent Put and Call Options in Debt Instruments. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. The Amendments clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts, which is one of the criteria for bifurcating an embedded derivative. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The amendments are an improvement to GAAP because they eliminate diversity in practice in assessing embedded contingent call (put) options in debt instruments. For public companies, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. An entity should apply the amendments on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. The Group does not expect the adoption of this pronouncement will have a significant effect on its consolidated financial position or results of operations.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting. The amendments eliminate the requirement that when an investment qualified for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previous held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increase in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Group does not expect the adoption of this pronouncement will have a significant effect on its consolidated financial position or results of operations.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). The new guidance simplifies certain aspects related to income taxes, statement of cash flows, and forfeitures when accounting for share-based payment transactions. This new guidance will be effective for the Company for the first reporting period beginning after December 15, 2016, with earlier adoption permitted. Certain of the amendments related to timing of the recognition of tax benefits and tax withholding requirements should be applied using a modified retrospective transition method. Amendments related to the presentation of the statement of cash flows should be applied retrospectively. All other provisions may be applied on a prospective or modified retrospective basis. For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application will be permitted. The Group is in the process of evaluating the impacts of the adoption of this ASU.

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3. BUSINESS ACQUISITION

Business acquisitions in fiscal year 2016:

During the year ended February 29, 2016, the Group made two business acquisitions. Each acquisition has been recorded using the acquisition method of accounting, and accordingly, the acquired assets and liabilities assumed were recorded at their fair value at the date of acquisition. The results of these acquired entities' operations have been included in the consolidated financial statements since the date of acquisition. Goodwill primarily represents the expected synergies from combining the acquired businesses with the business of the Group.

Acquisition of Firstleap

In September 2015, the Group entered into a share purchase agreement to acquire 100% of equity interest in Firstleap, which provides all-subject tutoring services in English to children aged from 2 to 15 years old in China. The consideration included 1) cash of \$37,708,811, of which \$36,644,205 had been paid before February 29, 2016 and \$1,064,606 was paid in March 2016, and 2) common shares valued at \$8,869,959.

The purchase price was allocated as of January 22, 2016, the date of acquisition, as follows:

	US\$	Amortization period
Cash and cash equivalents	\$ 20,942,238	
Other current assets	5,610,330	
Property and equipment, net	5,423,538	
Rental deposit	1,228,525	
Intangible assets		
Student base	4,547,390	7 years
Trade name	5,079,693	10 years
Goodwill	61,701,300	
Other current liabilities	(13,260,800)	
Deferred revenue	(45,093,685)	
Noncontrolling interest	400,241	
Total purchase consideration	\$ 46,578,770	

The purchase price allocation described above was determined by the Group based on a valuation analysis provided by an independent appraiser. The fair value of the purchased intangible assets was measured by using the "income approach-excess earnings" and "relief from royalty" valuation methods.

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3. BUSINESS ACQUISITION-continued

Business acquisitions in fiscal year 2016 –continued:

Acquisition of Yinghe Youshi

In January 2015, the Group acquired 38.37% equity interest in Yinghe Youshi, an online education company who primarily provides online preparation services of English tests for study abroad purposes, with a consideration of \$4,284,233 in cash. In February 2016, the Group increased its shareholding to 70.51% with a cash consideration of \$7,856,523. The Group obtained control of the acquiree and applied acquisition method of accounting on the date control was obtained.

The purchase price consisted of the following:

	US\$
Cash consideration	\$ 7,856,523
Fair value of the 38.37% equity interest:	
Carrying amount	4,284,233
Gain on remeasurement of fair value of noncontrolling equity investment	971,681
Total	\$13,112,437

The purchase price was allocated as of February 1, 2016, the date of acquisition, as follows:

	US\$	Amortization period
Cash and cash equivalents	\$ 1,934,630	
Other current assets	759,555	
Property and equipment, net	258,353	
Intangible assets		
Technology	1,460,032	5 years
Trade name	1,353,571	10 years
Goodwill	12,999,277	
Other current liabilities	(881,415)	
Deferred tax liabilities	(771,840)	
Noncontrolling interest	(3,999,726)	
Total purchase consideration	\$ 13,112,437	

The purchase price allocation described above was determined by the Group based on a valuation analysis provided by an independent appraiser. The fair value of the purchased intangible assets was measured by using the “relief from royalty” valuation method.

The results of operations for all these acquired entities have been included in the Group’s consolidated financial statements from their respective acquisition dates. The acquired goodwill is not deductible for tax purposes.

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3. BUSINESS ACQUISITION-continued

Business acquisitions in fiscal year 2016 –continued:

The following summarized unaudited pro forma results of operations for the years ended February 28, 2015 and February 29, 2016 assuming that these two acquisitions during the year ended February 29, 2016 occurred as of March 1, 2014. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred as of March 1, 2014, nor is it indicative of future operating results.

	For the years ended February 28/29,	
	2015 (Unaudited)	2016 (Unaudited)
Pro forma net revenues	\$ 459,447,759	\$ 660,332,001
Pro forma net income	\$ 52,981,781	\$ 94,756,008
Pro forma net income per share - basic	\$ 0.33	\$ 0.59
Pro forma net income per share - diluted	\$ 0.32	\$ 0.52

Business acquisitions in fiscal year 2015:

During the year ended February 28, 2015, the Group made three business acquisitions. Each acquisition has been recorded using the acquisition method of accounting, and accordingly, the acquired assets and liabilities were recorded at their fair value at the date of acquisition. The results of these acquired entities' operations have been included in the consolidated financial statements since the date of acquisition. Goodwill primarily represents the expected synergies from combining the acquired business with the business of the Group.

Acquisition of Muchong.com

In December 2014, the Group acquired 100% of equity interest in Muchong.com, a website of academic research, with total consideration of \$10,000,000, of which \$5,000,000 has been paid in cash as of February 28, 2015. According to the acquisition agreements, the other \$5,000,000 of the total consideration is contingent upon the original shareholder's continuing employment with the Group for at least two years after the acquisition. As the contingent consideration arrangement would be automatically forfeited if the original shareholder terminates his employment with the Group, the amount has been accounted for as employment compensation for post-combination services of the original shareholder. The purchase price was allocated as of December 26, 2014, the date of acquisition as follows:

	US\$	Amortization period
Intangible assets		
Trade name	\$ 1,095,000	10 years
User base	193,000	5 years
Goodwill	3,712,000	
Total	\$ 5,000,000	

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3. BUSINESS ACQUISITION-continued

Business acquisitions in fiscal year 2015-continued:

The purchase price allocation described above was determined by the Group based on a valuation analysis provided by an independent appraiser. The fair value of the purchased intangible assets was measured by using the “income approach-excess earnings” and “relief from royalty” valuation method.

Other acquisitions

The Group acquired 65% of ownership interest in Jingshi Shifan, which is primarily engaged in organizing contests and culture communication, for which the consideration of \$630,384 was paid in full as of February 28, 2015. The intangible assets, goodwill and noncontrolling interest acquired from the acquisition were \$404,523, \$561,425 and \$291,817, respectively.

The Group acquired 100% of equity interest in Gaokaopai, a professional website providing university and college enrollment information for high school students, for a total consideration of \$638,009 in cash, of which \$446,605 was paid as of February 28, 2015 and a contingent consideration of 44,000 non-vested shares was granted to Gaokaopai’s original founder in exchange for his continued employment with the Group. The non-vested shares will vest in four equal installments on January 26 of each year from 2016 to 2019, assuming his continued employment for each period. The unvested shares will be automatically forfeit if he terminates his employment prior to the vesting date. The Group accounts for the non-vested shares as share based compensation. The intangible assets and goodwill from this acquisition were \$79,751 and \$558,258, respectively.

The results of operations for all these acquired entities have been included in the Group’s consolidated financial statements from their respective acquisition dates. The acquired goodwill is not deductible for tax purposes.

The following summarized unaudited pro forma results of operations for the years ended February 28, 2014 and 2015 assuming that these three acquisitions during the year ended February 28, 2015 occurred as of March 1, 2013. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred as of March 1, 2013, nor is it indicative of future operating results.

	For the years ended February 28,	
	2014 (Unaudited)	2015 (Unaudited)
Pro forma net revenues	\$ 314,304,931	\$ 434,205,910
Pro forma net income	\$ 60,681,648	\$ 66,917,495
Pro forma net income per share - basic	\$ 0.39	\$ 0.42
Pro forma net income per share - diluted	\$ 0.38	\$ 0.41

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4. SHORT-TERM INVESTMENTS

Short-term investments consist of financial products purchased from financial institutions with return rates indexed to the performance of underlying assets. The investments are classified as held-to-maturity investments as the Group has the positive intent and ability to hold the investments to maturity. The maturities of these financial products range from three months to less than twelve months.

Short-term investments are measured at costs which approximate the fair values in the consolidated balance sheets. There was no impairment on such investments during the years ended February 28, 2014, 2015 and February 29, 2016.

Short-term investments consisted of the following:

	<u>As of February 28, 2015</u>	<u>As of February 29, 2016</u>
Held-to-maturity investments	\$ 765,611	\$ 27,470,431
	<u>\$ 765,611</u>	<u>\$ 27,470,431</u>

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	<u>As of February 28, 2015</u>	<u>As of February 29, 2016</u>
Prepaid rental	\$ 12,957,179	\$ 13,916,820
Prepayments to suppliers ⁽¹⁾	7,042,279	7,954,634
Interest receivable	2,876,719	1,977,686
Loan receivables ⁽²⁾	10,965,787	-
Staff advances ⁽³⁾	771,046	1,851,588
Loan to employees ⁽⁴⁾	-	1,617,703
Deposit with third parties	845,362	709,653
ADR receivable	207,000	115,000
Study cards receivable	49,766	36,028
Receivable from rendered online advertising services	930,461	1,252,775
VAT refund receivable	268,392	7,612
Others	1,271,420	2,597,908
	<u>\$ 38,185,411</u>	<u>\$ 32,037,407</u>

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5. PREPAID EXPENSES AND OTHER CURRENT ASSETS-continued

- (1) Prepayments to suppliers were primarily for advertising fees and server hosting fees.
- (2) Loan receivables were primarily made up of bridge loans to third-parties with maturity terms less than one year. According to the loan agreements, upon maturity, these loans will be settled through repayment or conversion to equity interests of the borrowers at the Group's discretion.
- (3) Staff advances were provided to employees primarily for traveling, office expenses and related use which are subsequently expensed as incurred.
- (4) The Group offers housing benefit plan to employees who have been employed by the Group for three years or more and met certain performance criteria. Under this benefit plan, the eligible employees receive interest-free loans for purposes of home purchases. Each loan has a term of four years and must be repaid by equal annual installments.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following:

	<u>As of February 28, 2015</u>	<u>As of February 29, 2016</u>
Building	\$ 63,707,645	\$ 60,699,864
Leasehold improvement	24,788,436	52,091,845
Computer, network equipment and software	28,523,709	40,073,992
Vehicles	923,040	784,921
Office equipment and furniture	<u>4,192,569</u>	<u>7,002,411</u>
Total cost of property and equipment	122,135,399	160,653,033
Less: accumulated depreciation	<u>(28,559,751)</u>	<u>(46,023,350)</u>
	<u><u>\$ 93,575,648</u></u>	<u><u>\$ 114,629,683</u></u>

For the years ended February 28, 2014, 2015 and February 29, 2016, depreciation expense was \$9,549,852, \$11,728,577 and \$18,156,263, respectively.

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7. INTANGIBLE ASSETS, NET

Intangible assets, net, consisted of the following:

	As of February 28, 2015	As of February 29, 2016
Domain names	\$ 2,077,796	\$ 2,077,796
Trade name	2,145,262	8,578,526
Copyrights	1,648,532	1,648,532
Student base	221,082	4,768,472
Technology	63,801	1,523,833
Partnership agreement	349,783	349,783
Non-compete agreements	49,846	49,846
Education licenses	144,074	297,861
Customer relationship	426,839	426,839
Concession	404,523	404,523
User base	193,000	193,000
Total cost of intangible assets	7,724,538	20,319,011
Less: accumulated amortization	(4,126,372)	(5,153,133)
Add: foreign exchange difference	89,089	28,543
	<u>\$ 3,687,255</u>	<u>\$ 15,194,421</u>

Domain names and copyrights were acquired from third parties and the rest of intangible assets were recorded as a result of acquisitions.

The Group recorded amortization expense of \$461,482, \$737,203 and \$1,026,761 for the years ended February 28, 2014, 2015 and February 29, 2016, respectively.

Estimated amortization expense of the existing intangible assets for the next five years is \$2,437,036, \$2,121,651, \$2,042,053, \$1,896,290 and \$1,763,095, respectively.

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8. GOODWILL

Changes in the carrying amount of goodwill for the years ended February 28, 2015 and February 29, 2016 consisted of the following:

	As of February 28, 2015	As of February 29, 2016
<u>Gross amount:</u>		
Beginning balance	\$ 9,034,090	\$ 13,854,592
Addition (Note 3)	4,831,683	74,700,577
Exchange difference	(11,181)	(8,386)
Ending balance	<u>13,854,592</u>	<u>88,546,783</u>
<u>Accumulated impairment loss:</u>		
Beginning balance	\$ (1,524,266)	\$ (1,524,266)
Charge for the year	-	-
Ending balance	<u>(1,524,266)</u>	<u>(1,524,266)</u>
Goodwill, net	<u>\$ 12,330,326</u>	<u>\$ 87,022,517</u>

The Group did not incur impairment loss on goodwill for the years ended February 28, 2014, 2015 and February 29, 2016.

9. LONG-TERM PREPAYMENTS AND OTHER NON-CURRENT ASSETS

Long-term prepayments and other non-current assets consisted of the following:

	As of February 28, 2015	As of February 29, 2016
Long-term prepayments ⁽¹⁾	\$ 8,898,319	\$ 9,021,180
Loan to employees ⁽²⁾	-	4,853,110
Other non-current assets ⁽³⁾	296,149	11,447,401
	<u>\$ 9,194,468</u>	<u>\$ 25,321,691</u>

(1) As of February 28, 2015 and February 29, 2016, the Group made prepayments to acquire minority equity interests in several third-party companies. The Group recognized \$nil, \$nil and \$317,523 impairment loss during the fiscal years ended February 28, 2014, 2015 and February 29, 2016, respectively.

(2) Please see Note 5(4) for details.

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9. LONG-TERM PREPAYMENTS AND OTHER NON-CURRENT ASSETS-continued

- (3) As of February 29, 2016, other non-current assets were primarily made up of a bridge loan to a third party online company with intention to convert to equity interest of the borrower as a long-term investment.

10. LONG-TERM INVESTMENTS

Long-term investments consisted of the following:

	As of February 28, 2015	As of February 29, 2016
Cost method investments		
Minerva Project, Inc. ⁽¹⁾	\$ 18,000,003	\$ 18,000,003
Other cost method investments	2,899,991	9,900,429
Equity method investments		
An online community service company ⁽²⁾	6,143,722	-
Phoenix E-Learning Corporation ⁽³⁾	-	29,742,696
Other equity method investments ⁽⁴⁾	5,780,939	17,400,163
Fair value option investments ⁽⁵⁾	9,282,000	10,523,000
Available-for-sale investments ⁽⁵⁾	55,252,420	188,790,669
Total	\$ 97,359,075	\$ 274,356,960

- (1) In October 2014, the Group acquired certain equity interest in Minerva Project, Inc., a Delaware corporation that is committed to providing an exceptional and accessible liberal arts and sciences education for future leaders and innovators across all disciplines. The total consideration was \$18,000,003. The Group applied cost method to account for the investment due to lack of ability to exercise significant influence and reviewed the investment for impairment whenever an event or circumstance indicates that an other-than-temporary impairment has occurred. As of February 29, 2016, no impairment loss was recorded in regard to the investment.
- (2) In July 2014, the Group acquired 20% of equity interest of an online community service company through investment in its common shares and accounted for the investment using equity method. The Group recognized an impairment loss of \$5,622,221 for the year ended February 29, 2016 after picking up losses from this investment.

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10. LONG-TERM INVESTMENTS-continued

- (3) In December 2015, the Group invested \$30,000,000 to acquire 32% equity interest of Phoenix E-Learning Corporation, which operates zxxk.com, an online educational platform serving the public school system in China. The Group has the ability to exercise significant influence but does not have control over the investee and used the equity method to account for the investment. The Group accounts for its investment in Phoenix E-Learning Corporation on a one quarter lag basis as the financial statements of this investee cannot be made available within a reasonable time period.
- (4) During the years ended February 28, 2015 and February 29, 2016, the Group acquired minority equity interest in several third-party private companies through investments in their common shares or in-substance common shares. Majority of the long-term investments are engaged in online education services. The Group accounts for these investments under the equity method because the Group has the ability to exercise significant influence but does not have control over the investees.
- (5) Please refer to Note 13(a) fair value option investments and available-for-sale investments for details.

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	As of February 28, 2015	As of February 29, 2016
Accrued employee payroll and welfare benefits	\$ 27,513,863	\$ 44,689,197
Other taxes payable	6,313,119	9,568,342
Payable for investments and acquisitions	1,922,514	3,022,079
Accrued employee annual bonus	2,996,505	3,740,558
Interest payable	1,693,056	1,677,083
Accrued teaching material costs	103,166	417,137
Payable to employees	6,348	9,568
Government subsidies	124,057	98,351
Examination enrollment fees collected on behalf of contests organizers	282,745	454,615
Professional service fee payable	306,865	208,249
Others	2,726,364	6,382,372
Total	\$ 43,988,602	\$ 70,267,551

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12. BOND PAYABLE

On May 21, 2014, the Company issued \$230,000,000 in aggregate principal amount of convertible bond due on May 15, 2019 (the "Bond"), unless earlier repurchased, converted or redeemed. The Bond bears interest at a rate of 2.5% per year, payable semiannually in arrears on May 15 and November 15 of each year, beginning on November 15, 2014.

The net proceeds from the Bond, after deducting the issuance costs, were \$224,722,942. The Company has accounted for the Bond as a single instrument as a long-term debt, bond payable. The value of the Bond is measured by the cash received. As of February 29, 2016, the fair value of the bond payable is \$452,794,100, which is determined based on the quoted price in an active market (Level 1). Interest expense of \$5,811,288 and \$7,499,323 were recognized for the years ended February 28, 2015 and February 29, 2016, respectively.

The debt issuance costs of \$5,277,058 were treated as a reduction of the bond payable and amortized using the effective interest method over the period from issuance date to the earliest redemption date, May 15, 2017.

In connection with the issuance of the bonds, the Company has entered into capped call transactions (each a "Capped Call Transaction") with three initial purchasers or their affiliates by purchasing 8,749,913 options, which is the number of ADS initially issuable upon conversion of the Bonds in full, for \$22,885,000. The Capped Call Transactions are expected generally to reduce the potential dilution to the Class A common shares and ADSs upon conversion of the Bond. The strike price of the Capped Call Transactions will initially correspond to the initial conversion price of the Bond and the cap price will initially be \$35.39 per ADS and is subject to certain adjustments under the terms of the Capped Call Transactions. The Capped Call Transactions will terminate upon the maturity date of the Bond and will be settled in net ADSs unless the Group elected the cash settlement method. The Group accounted for the capped call transactions as equity transactions and recorded the \$22,885,000 purchase price as a deduction of additional paid in capital.

The main terms of the Bond are summarized as follows:

Conversion

The Bond are convertible into the Company's American Depositary Shares ("ADSs"), at the option of the holders, in integral multiples of \$1,000 principal amount, at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date. The conversion rate equals 38.0431 ADSs per \$1,000 principal amount of the Bond, which represents an initial conversion price of \$26.29 per ADS.

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12. BOND PAYABLE-continued

Redemption

The Company does not have the right to redeem the Bond prior to maturity except for certain circumstances involving changes in the tax laws for the relevant taxing jurisdiction. Holders of the Bond have the right to require the Company to repurchase in cash all or part of their Bond on May 15, 2017 or upon the occurrence of certain fundamental changes at a repurchase price equal to 100% of the principal amount of the Bond to be repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date.

13. FAIR VALUE

(a) *Assets and liabilities measured at fair value on a recurring basis*

The Group measured certain long-term investments at fair value on a recurring basis as of February 28, 2015 and February 29, 2016.

Fair value option investments

The Group accounted for its investments in two third-party companies using the fair value option which is how management assesses the return on these investments. Changes in fair value are reflected in the consolidated statement of operations.

	As of February 28, 2015	As of February 29, 2016
Fair value option investments		
Long-term investment in a third-party online company ⁽¹⁾	\$ 3,193,000	\$ 3,193,000
Long-term investment in a third-party technology company ⁽²⁾	<u>6,089,000</u>	<u>7,330,000</u>
	<u>\$ 9,282,000</u>	<u>\$ 10,523,000</u>

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13. FAIR VALUE - continued

(a) *Assets and liabilities measured at fair value on a recurring basis* - continued

- (1) In February 2013, the Group acquired 16.85% equity interest in a third-party online education company with a total cash consideration of \$3,080,000. The equity interest was acquired through the Group's purchase of its redeemable preferred shares. The fair value change of the investment was \$113,000 and \$nil in the fiscal year 2015 and 2016, respectively.
- (2) In August 2014, the Group acquired 4.76% equity interest in a third-party technology company with a total cash consideration of \$5,000,000. The equity interest was acquired through the Group's purchase of its redeemable preferred shares. The fair value change of the investment was \$1,089,000 and \$1,265,852 in the fiscal year 2015 and 2016, respectively.

At the end of each reporting period, the Group measures the fair value of these investments using income approach in discounted cash flow method. The discounted cash flow analysis requires the use of significant unobservable inputs (level 3 inputs), including projected revenue, operating expenses, capital expenditures and a discount rate calculated based on the weighted average cost of capital. The Group recognized changes in fair value of the investments of \$1,202,000 and \$1,265,852 in the consolidated statements of operation in the fiscal year ended February 28, 2015 and February 29, 2016, respectively.

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13. FAIR VALUE - continued

(a) *Assets and liabilities measured at fair value on a recurring basis* - continued

Fair value option investments-continued

For the years ended February 28, 2015 and February 29, 2016, the changes in the carrying amounts of long-term investments measured using the fair value option on a recurring basis were as follows:

Balance as of February 28, 2013	\$ 5,491,073
Changes in fair value	297,120
Disposal	(2,742,876)
Foreign exchange difference	<u>34,683</u>
Balance as of February 28, 2014	<u>\$ 3,080,000</u>
Purchase	5,000,000
Changes in fair value	<u>1,202,000</u>
Balance as of February 28, 2015	<u>\$ 9,282,000</u>
Changes in fair value	1,265,852
Foreign exchange difference	<u>(24,852)</u>
Balance as of February 29, 2016	<u>\$ 10,523,000</u>

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13. FAIR VALUE - continued

(a) *Assets and liabilities measured at fair value on a recurring basis* - continued

Available-for-sale investments

The Group accounted for below investments as debt securities and classified as available-for-sale investments, which were measured subsequently at fair value in the balance sheet and unrealized holding gains and losses shall be reported in other comprehensive income.

	As of February 28, 2015	As of February 29, 2016
<u>Available-for-sale investments</u>		
Long-term investment in BabyTree Inc. ⁽³⁾	\$ 24,309,000	\$ 25,417,000
Long-term investment in Guokr Corporation Limited ⁽⁴⁾	15,471,000	15,745,000
Long-term investment in Yinghe Youshi ⁽⁵⁾	4,284,233	-
Long-term investment in Changing Education Inc. ⁽⁶⁾	-	91,536,000
Long-term investment in Beijing Shunshunbida Information Consulting Co., Ltd. ("Shunshun Bida") ⁽⁷⁾	-	10,515,391
Long-term investments in other third-party companies ⁽⁸⁾	11,188,187	45,577,278
	<u>\$ 55,252,420</u>	<u>\$ 188,790,669</u>

- (3) In January 2014, the Group acquired certain equity interest in BabyTree Inc. by purchasing its Series E redeemable preferred shares with a total cash consideration of \$23,475,000. BabyTree Inc. was incorporated in the Cayman Islands and is an online parenting community and an online retailer of products for children, baby and maternity wear in China. The fair value change of the investment was an increase of \$834,000 and \$1,108,000 in the fiscal year 2015 and 2016, respectively.
- (4) In October 2014, the Group acquired certain equity interest in Guokr Corporation Limited by purchasing its Series C redeemable preferred shares with a total cash consideration of \$15,000,000. Guokr Corporation Limited was incorporated in the Cayman Islands and is an open, diverse interest community of science and technology that provides interesting science and technology content. The fair value change of the investment was an increase of \$471,000 and \$274,000 in the fiscal year 2015 and 2016, respectively.

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13. FAIR VALUE - continued

(a) *Assets and liabilities measured at fair value on a recurring basis* – continued

Available-for-sale investments-continued

- (5) In January 2015, the Group acquired certain equity interest in Yinghe Youshi, who primarily provides online preparation services of English tests for study abroad purposes. In February 2016, the Group obtained control of the acquiree and applied acquisition method of accounting on the date control was obtained. Please refer to Note 3 business acquisition for details.
- (6) In April and August 2015, the Group aggregately acquired 30% equity interest in Changing Education Inc., which operates a customer-to-customer mobile tutoring platform in China. The equity interest was acquired through the Group's purchase of its Series B+ and Series C redeemable preferred shares. There was an increase of \$5,220,210 change in fair value of the investment in fiscal year 2016. Please refer to Note 14 for details.
- (7) In December 2015, the Group acquired 30% equity interest in Shunshun Bida who primarily engages in providing professional counseling services to students who desire to study abroad through its online-to-offline platform. The equity interest was acquired through the Group's purchase of its redeemable preferred shares. The Group recorded a gain of \$1,907,669 from transfer of a nonfinancial asset as part of consideration for this investment. There was no change in fair value of the investment in fiscal year 2016.
- (8) In the fiscal year ended February 29, 2016, the Group also acquired minority equity interest in several other third-party private companies, the majority of which are engaged in online platform or online education services. The Group holds 2.8% to 30% equity interests of these companies through purchasing their redeemable preferred shares. The Group accounted for the investments as available-for-sale investments. There was an increase of \$43,600 and \$3,974,626 change in fair value of these investments in fiscal year 2015 and 2016, respectively. The Group recorded \$nil, \$nil and \$1,564,200 impairment loss during the fiscal years ended February 28, 2014, 2015 and February 29, 2016, respectively.

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13. FAIR VALUE - continued

(a) *Assets and liabilities measured at fair value on a recurring basis* – continued

Available-for-sale investments-continued

The long-term investments accounted for as available-for-sale investments on a recurring basis are as follows:

	US\$
Balance as of February 28, 2014	\$ 23,894,500
Purchase	30,009,320
Changes in fair value	<u>1,348,600</u>
Balance as of February 28, 2015	<u>\$ 55,252,420</u>
Purchase	129,834,051
Disposal	(674,576)
Transfer out upon gaining control of Yinghe Youshi	(4,284,233)
Changes in fair value	10,576,836
Impairment loss	(1,564,200)
Foreign exchange difference	<u>(349,629)</u>
Balance as of February 29, 2016	<u>\$ 188,790,669</u>

As of February 28, 2015 and February 29, 2016, information about inputs for the fair value measurements of the Group's assets that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

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13. FAIR VALUE - continued

(a) Assets and liabilities measured at fair value on a recurring basis - continued

Description	Fair Value Measurement at Reporting Date Using			
	February 28, 2015	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term investments				
Fair value option investments	\$ 9,282,000	-	-	\$ 9,282,000
Available-for-sale investments	\$ 55,252,420	-	-	\$ 55,252,420
Total	\$ 64,534,420	-	-	\$ 64,534,420

Description	Fair Value Measurement at Reporting Date Using			
	February 29, 2016	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term investments				
Fair value option investments	\$ 10,523,000	-	-	\$ 10,523,000
Available-for-sale investments	\$ 188,790,669	-	-	\$ 188,790,669
Total	\$ 199,313,669	-	-	\$ 199,313,669

(b) Assets and liabilities measured at fair value on a nonrecurring basis

The Group measures the goodwill and acquired intangible assets at fair value on a nonrecurring basis when it is annually evaluated or whenever events or changes in circumstances indicate that carrying amount of a reporting unit exceeds its fair value as a result of the impairment assessments. The Group measures the purchase price allocation at fair value on a nonrecurring basis as of the acquisition dates. The Group measured acquired intangible assets using income approach - discounted cash flow method when events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. The Group did not recognize any impairment loss related to goodwill and acquired intangible assets for the years ended February 28, 2014, 2015 and February 29, 2016.

The Group measures long-term investments (excluding the available-for-sale investments and fair value option investments) at fair value on a nonrecurring basis whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable. Please see Note 10(2) for details.

The fair value was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management projection of discounted future cash flow and the discount rate.

The fair value of the bond payable was disclosed in Note 12.

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14. GAIN FROM DISPOSAL OF COMPONENTS

As disclosed in Note 13(a) (6), the Group aggregately acquired 30% equity interest in Changing Education Inc. through below two investment agreements:

- 1) In April 2015, the Group purchased Series B+ redeemable preferred shares with total cash consideration of \$6,315,790.
- 2) In August 2015, the Group purchased Series C redeemable preferred shares at the price of \$1.6922 per share. In the meantime, several third party investors purchased Series C redeemable preferred shares at the same price. In exchange for this equity interest, the Group paid consideration which consisted of \$30,000,000 in cash and the transfer of the Group's Guangzhou after-school one-on-one tutoring business component. A gain of \$50,000,000 from the disposal of the Guangzhou one-on-one component was recognized during the year ended February 29, 2016.

In addition, a gain of \$377,126 was recognized from disposal of another business component during the year ended February 29, 2016.

15. INCOME TAXES

Cayman Islands

The Company and Firstleap are tax-exempted companies incorporated in the Cayman Islands.

Hong Kong

TAL Hong Kong, Yidu Hong Kong and Firstleap Hong Kong were established in Hong Kong and are subject to Hong Kong Profits Tax on its activities conducted in Hong Kong. It is subject to Hong Kong profit tax at 16.5%. No provision for Hong Kong Profits tax has been made in the consolidated financial statements as it has no assessable income for the years ended February 28, 2014, 2015 and February 29, 2016.

PRC

Effective from January 1, 2008, a new Enterprise Income Tax Law, or ("the New EIT Law"), combined the previous income tax laws for foreign invested and domestic invested enterprises in the PRC by the adoption a unified tax rate of 25% for most enterprises with the following exceptions.

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15. INCOME TAXES - continued

PRC - continued

Certain qualified high and new technology enterprises that meet the definition of "high and new technology enterprise strongly supported by the state" ("HNTE") could benefit from a preferential tax rate of 15%. Xueersi Education qualified as a HNTE and is subject to an enterprise income tax ("EIT") rate of 15% from calendar years 2012 through 2016. It is expected to be subject to an EIT rate of 15% as long as it maintains its status as a HNTE.

TAL Beijing was qualified as a "Newly Established Software Enterprise" and therefore it was entitled to a two-year exemption from EIT from calendar years 2009 through 2010 and a further reduction to 12.5% from calendar years 2011 through 2013. Later on, TAL Beijing qualified as a HNTE and is accordingly entitled to a preferential tax rate of 15% from calendar years 2014 through 2016 and is expected to be subject to an EIT rate of 15% as long as it maintains its status as an HNTE.

Yidu Huida was qualified as "Newly Established Software Enterprise" and therefore it was entitled to a two-year exemption from EIT from calendar years 2011 through 2012 and a further reduction to 12.5% from calendar years 2013 through 2015. Later on, Yidu Huida qualified as a HNTE and is accordingly entitled to a preferential tax rate of 15% from calendar years 2015 through 2017 and is expected to be subject to an EIT rate of 15% as long as it maintains its status as an HNTE. Yidu Huida adopted 12.5% as the preferential income tax rate for calendar year 2015 and enjoyed 15% as the preferential income tax rate for calendar year 2016.

Beijing Xintang Sichuang was also qualified as "Newly Established Software Enterprise" and therefore it was entitled to a two-year exemption from EIT from calendar years 2013 through 2014 and a further reduction to 12.5% from calendar years 2015 through 2017.

Provision (credit) for income tax consisted of the following:

	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Current			
- PRC income tax expenses	\$ 7,863,965	\$ 11,827,735	\$ 34,474,418
Deferred			
- PRC income tax expenses	(1,184,211)	(2,459,194)	(991,674)
Total	<u>\$ 6,679,754</u>	<u>\$ 9,368,541</u>	<u>\$ 33,482,744</u>

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15. INCOME TAXES - continued

PRC - continued

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Group's deferred tax assets and liabilities were as follows:

	As of February 28, 2015	As of February 29, 2016
Current deferred tax assets:		
Accrued payroll	\$ 4,630,334	\$ -
Prepaid rental	-	758,552
Less: valuation allowance	(68,300)	(20,146)
Current deferred tax assets, net	<u>4,562,034</u>	<u>738,406</u>
Non-current deferred tax assets:		
Property and equipment	223,178	365,408
Intangible assets	-	9,414
Prepaid rental	357,776	-
Impairment loss on long-term investments	-	991,121
Tax losses carry-forward deferred tax assets	1,497,279	14,242,569
Less: valuation allowance	(370,021)	(8,953,734)
Non-current deferred tax assets, net	<u>1,708,212</u>	<u>6,654,778</u>
Current deferred tax liabilities:		
Accrued ADR income	62,100	34,500
Other	-	57,230
Current deferred tax liabilities	<u>62,100</u>	<u>91,730</u>
Non-current deferred tax liabilities:		
Intangible assets	108,565	663,813
Property and equipment	118,227	640,548
Non-current deferred tax liabilities	<u>\$ 226,792</u>	<u>\$ 1,304,361</u>

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15. INCOME TAXES - continued

PRC - continued

As of February 29, 2016, tax loss carry-forward amounted to \$56,970,276 and would expire by the end of calendar year 2021. The Company operates its business through its subsidiaries, its VIEs and their subsidiaries and schools. The Group does not file combined or consolidated tax returns, therefore, losses from individual subsidiaries or the VIEs and their subsidiaries and schools may not be used to offset other subsidiaries' or VIEs' earnings within the Group. Valuation allowance is considered on each individual subsidiary and VIE basis. A valuation allowance of \$8,973,880 had been established as of February 29, 2016, in respect of certain deferred tax assets as it is considered more likely than not that the relevant deferred tax assets will not be realized in the foreseeable future.

Under U.S. GAAP, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting amounts over tax basis amounts, including those differences attributable to a more than 50% interest in a domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Company has not recorded any such deferred tax liability attributable to the undistributed earnings of its financial interest in VIEs because it believes such excess earnings can be distributed in a manner that would not be subject to income tax.

The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes. The Group has concluded that there are no significant uncertain tax positions requiring recognition in financial statements for the years ended February 28, 2014, 2015 and February 29, 2016. The Group did not incur any significant interest and penalties related to potential underpaid income tax expenses and also does not anticipate any significant increases or decreases in unrecognized tax benefits in the next 12 months. The Group has no material unrecognized tax benefits which would favorably affect the effective income tax rate in future years.

According to the PRC Tax Administration and Collection Law, the tax authority may require the taxpayer or the withholding agent to make delinquent tax payment within three years if the underpayment of taxes is resulted from the tax authority's act or error. No late payment surcharge will be assessed under such circumstances. The statute of limitation will be three years if the underpayment of taxes is due to the computational errors made by the taxpayer or the withholding agent. Late payment surcharge will be assessed in such case. The statute of limitation will be extended to five years under special circumstances which are not clearly defined (but an underpayment of tax liability exceeding RMB 0.1 million is specifically listed as a "special circumstance"). The statute of limitation for transfer pricing related issue is ten years. There is no statute of limitation in the case of tax evasion. Therefore, the Group is subject to examination by the PRC tax authorities based on the above.

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15. INCOME TAXES - continued

PRC - continued

Reconciliation between the provision for income taxes computed by applying the PRC EIT rates of 25% in fiscal year 2014, 2015 and 2016 to income before income taxes and the actual provision for income tax was as follows:

	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Net income before provision for income tax	\$ 67,285,526	\$ 77,242,373	\$ 136,902,200
PRC statutory income tax rate	25%	25%	25%
Income tax at statutory income tax rate	16,821,382	19,310,593	34,225,550
Effect of non-deductible expenses	190,816	(239,953)	1,331,053
Effect of income tax exemptions and preferential tax rates	(13,042,518)	(14,267,821)	(12,830,838)
Effect of income tax rate difference in other jurisdictions	1,932,953	5,489,742	10,159,093
Change in valuation allowance	777,121	(924,020)	597,886
Provision for income tax	<u>\$ 6,679,754</u>	<u>\$ 9,368,541</u>	<u>\$ 33,482,744</u>

If Xueersi Education, Yidu Huida, TAL Beijing and Beijing Xintang Sichuang were not in a tax holiday period for the years ended February 28, 2014, 2015 and February 29, 2016, the increase in income tax expenses and net income per share amounts would be as follows:

	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Increase in income tax expenses	\$ 13,042,518	\$ 14,267,821	\$ 12,830,838
Net income per common share-basic	\$ 0.30	\$ 0.33	\$ 0.56
Net income per common share-diluted	<u>\$ 0.30</u>	<u>\$ 0.32</u>	<u>\$ 0.53</u>

New EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese Income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the New EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc, occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed a resident enterprise, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25% with the statute subject to the determination by PRC tax authorities.

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15. INCOME TAXES - continued

PRC - continued

If the Company were to be non-resident for PRC tax purpose, dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by PRC subsidiaries, the withholding tax would be 10%.

The Chinese tax authorities clarified that distributions made out of earnings prior to but distributed after January 1, 2008 will not be subject to withholding tax. The aggregate undistributed earnings of the Company's subsidiaries, VIEs and VIEs' subsidiaries and schools located in the PRC that are available for distribution are \$262,036,574 and \$362,485,989 as of February 28, 2015 and February 29, 2016, respectively. Upon distribution of such earnings, the Company will be subject to PRC taxes, the amount of which is impractical to estimate. The Company did not record any withholding tax on any of the aforementioned undistributed earnings because it intends to permanently reinvest all earnings in China and the aforementioned subsidiaries do not intend to declare dividends to the Company.

16. COMMON SHARES

The Company presently has two classes of common shares, namely, Class A and Class B common shares, following the issuance of Class A common shares upon the IPO in October 2010.

Holders of Class A common shares and Class B common shares have the same rights except for voting and conversion rights. In respect of matters requiring shareholders' vote, each Class A common share is entitled to one vote, and each Class B common share is entitled to ten votes. Each Class B common share is convertible into one Class A common share at any time by the holder thereof. Class A common shares are not convertible into Class B common shares under any circumstances.

During the years ended February 28, 2014, 2015 and February 29, 2016, 8,275,000, 8,075,000 and nil Class B common shares were converted into 8,275,000, 8,075,000 and nil Class A common shares, respectively.

During the years ended February 28, 2014, 2015 and February 29, 2016, 1,614,996, 2,092,730 and 1,419,484 shares were issued in connection with vesting of nonvested shares granted to employees and converted into 807,498, 1,046,365 and 709,742 ADSs, respectively (representing 1,614,996, 2,092,730 and 1,419,484 Class A common shares, respectively).

During the year ended February 29, 2016, 40,136 of share options granted to employees were exercised and converted into 20,068 ADSs (representing 40,136 Class A common shares).

During the year ended February 29, 2016, 478,036 of common shares were issued as consideration to purchase Firstleap's equity interests and were converted into 239,018 ADSs (representing 478,036 Class A common shares).

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17. NET INCOME PER SHARE

	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Numerator:			
Net income attributable to TAL Education Group shareholders	\$ 60,605,772	\$ 67,156,575	\$ 102,878,518
Eliminate the dilutive effect of interest expense of the bond payable (iii)	-	-	7,499,323
Numerator for diluted net income per share	\$ 60,605,772	\$ 67,156,575	\$ 110,377,841
Denominator:			
Weighted average shares outstanding			
Basic	156,726,994	158,381,576	160,109,169
Effect of dilutive securities:			
Dilutive effect of non-vested shares and options (i)	2,717,934	5,208,073	5,447,276
Dilutive effect of the bond payable (iii)	-	-	17,499,810
Denominator for diluted net income per share	159,444,928	163,589,649	183,056,255
Net income per common share attributable to TAL Education Group shareholders-basic(ii)	\$ 0.39	\$ 0.42	\$ 0.64
Net income per common share attributable to TAL Education Group shareholders-diluted	\$ 0.38	\$ 0.41	\$ 0.60

- (i) For the years ended February 28, 2014, 2015 and February 29, 2016, 918,100, 1,976,750 and 1,421,576, non-vested shares and share options were excluded from the calculation, respectively, as their effect was anti-dilutive.
- (ii) The Company's common shares are divided into Class A and Class B common shares. Holders of Class A and Class B common shares have the same dividend rights. Therefore, the Company does not present earnings per share for each separate class.
- (iii) As disclosed in Note 12, the Company issued the Bond on May 21, 2014. For the year ended February 28, 2015, 13,616,291 common shares resulting from the assumed conversion of bond payable were excluded from the calculation of diluted net income per share as their effect was anti-dilutive.

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18. RELATED PARTY TRANSACTIONS

The Group had the following balances and transaction with related parties:
Balances:

	As of February 28, 2015	As of February 29, 2016
Amounts due from related parties-current (i)	\$ 159,502	\$ 2,594,430
Amounts due from related parties-non-current (i)	\$ 319,005	\$ 1,342,999
Amounts due to related parties-current (ii)	\$ 22,077	\$ 4,277,896

Transactions:

	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Services fees (iii)	\$ -	\$ 37,819	\$ 426,084

- (i) The amounts due from related parties represent loans or prepayment to certain investees.
- (ii) The amounts due to related parties are in connection with service provided by certain investees or advances received on behalf of certain investees.
- (iii) The amounts of services fees mainly represent amount in connection with services provided by certain investees.

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19. COMMITMENTS AND CONTINGENCIES

Lease commitment

The Group leases certain office premises under non-cancellable leases, the term of which are fifteen years or less and are renewable upon negotiation. Rental expenses under operating leases for the years ended February 28, 2014, 2015 and February 29, 2016 were \$41,668,122, \$58,047,539 and \$82,257,681, respectively.

Future minimum payments under non-cancellable operating leases as of February 29, 2016 were as follows:

Fiscal year ending	
February 2017	\$ 94,342,862
February 2018	86,070,094
February 2019	75,184,957
February 2020	58,059,986
February 2021	35,939,496
Thereafter	<u>58,669,123</u>
Total	<u>\$ 408,266,518</u>

Investment commitment

The Group was obligated to pay \$1,129,340 for the long-term investments under various arrangements as of February 29, 2016.

Capital commitment

As of February 29, 2016, the Group had outstanding capital commitments totaling \$2,499,572, which consisted of capital expenditures of property and equipment.

Contingencies

As of February 29, 2016, the Group is in the process of preparing filings and applying for permits of certain learning centers. Since the contingent liability related to not meeting the filing requirements cannot be reasonably estimated, the Group did not record any liabilities.

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20. SEGMENT INFORMATION

The Group is mainly engaged in after-school tutoring in the PRC. The Group's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer who reviews results of operations by geographic location (i.e. city rather than learning centers), each location constituting a subsidiary of the Group, when making decisions about allocating resources and assessing performance of the Group. Consequently, the Group has determined that each location represents an operating segment. However, under the aggregation criteria set forth in the U.S. GAAP with respect to segment reporting, the Group operates in only one reportable segment as all of its operating segments have similar economic characteristics and provide the same tutoring services.

21. MAINLAND CHINA CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government-mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. Total provisions for such employee benefits were \$18,536,606, \$25,733,719 and \$37,556,437 for the years ended February 28, 2014, 2015 and February 29, 2016, respectively.

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22. STATUTORY RESERVES AND RESTRICTED NET ASSETS

As stipulated by the relevant PRC laws and regulations, PRC entities are required to make appropriations from net income as determined in accordance with the PRC GAAP to non-distributable statutory reserve, which includes a statutory surplus reserve and a statutory welfare reserve (the "reserve fund"), and a development fund. The PRC laws and regulations require that annual appropriations of 10% of after-tax income should be set aside prior to payments of dividends as statutory surplus reserve until the balance reaches 50% of the PRC entity registered capital.

In private school sector, the PRC laws and regulations require that certain amount should be set aside as development fund prior to payments of dividends. In the case of private school that requires reasonable returns, this amount should 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 should be no less than 25% of annual increase in the net assets of the school, if any.

The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production or increase in registered capital of the entities. For the years ended February 28, 2015 and February 29, 2016, the Group made apportions of \$763,429 and \$182,398 to the statutory surplus reserve, respectively, and \$3,182,374 and \$3,837,875 to the development fund, respectively.

As a result of these PRC laws and regulations and the requirement that distribution by PRC entities can only be paid out of distributable profits computed in accordance with PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital and the statutory reserve of the Company's PRC subsidiaries, the VIEs and VIEs' subsidiaries and schools. As of February 28, 2015 and February 29, 2016, paid-in capital balance of such entities was \$20,369,685 and \$35,932,600, respectively, and statutory reserve balance was \$18,961,627 and \$22,981,900, respectively. The total of restricted net assets as of February 28, 2015 and February 29, 2016 was therefore \$39,331,312 and \$58,914,500, respectively.

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23. SHARE-BASED COMPENSATION

In June 2010, the Company adopted the 2010 Share Incentive Plan. The plans permit the grant of options to purchase the Class A common shares, share appreciation rights, restricted shares, restricted share units, dividend equivalent rights and other instruments as deemed appropriate by the administrator under the plans. In August 2013, the Company amended and restated the 2010 Share Incentive Plan. Pursuant to the amended and restated 2010 Share Incentive Plan, the maximum aggregate number of Class A common shares that may be issued pursuant to all awards under the share incentive plan is equal to five percent (5%) of the total issued and outstanding shares as of the date of the amended and restated 2010 Share Incentive Plan. However, the shares reserved may be increased automatically if and whenever the unissued share reserve accounts for less than one percent (1%) of the total then issued and outstanding shares, so that after the increase, the shares unissued and reserved under this plan immediately after each such increase shall equal five percent (5%) of the then issued and outstanding shares.

The total compensation expense is recognized on a straight-line basis over the respective vesting periods. The Group recorded the related compensation expense of \$8,345,290, \$18,441,076 and \$25,847,497 for the years ended February 28, 2014, 2015 and February 29, 2016, respectively.

Table below shows the summary of share based compensation:

	For the year ended February 28, 2014	For the year ended February 28, 2015	For the year ended February 29, 2016
Cost of revenues	\$ 47,894	\$ 47,808	\$ 42,679
Selling and marketing	1,161,593	2,072,742	2,479,864
General and administrative	7,135,803	16,320,526	23,324,954
Total	\$ 8,345,290	\$ 18,441,076	\$ 25,847,497

Non-vested shares

On March 1, 2014, the Company granted 5,538,400 non-vested shares to directors and employees. These non-vested shares vest as follows: (1) 5,484,000 vests in ten equal batches on January 26 of each year from 2015 to 2024, (2) 43,200 vests in six equal batches on January 26 from 2015 to 2020 and (3) 11,200 vests in four equal batches on January 26 of each year from 2015 to 2018.

On April 26, 2014, the Company granted 464,800 non-vested shares to employees. These non-vested shares vest as follows: (1) 420,000 vests in six equal batches on January 26 of each year from 2015 to 2020 and (2) 44,800 vests in four equal batches on January 26 from 2015 to 2018.

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23. SHARE-BASED COMPENSATION-continued

Non-vested shares-continued

On July 26, 2014, the Company granted 120,800 non-vested shares to employees. These non-vested shares vest as follows: (1) 48,000 vests in six equal batches on January 26 from 2015 to 2020, (2) 21,600 vests in six equal batches on July 26 from 2015 to 2020, (3) 51,200 vests in four equal batches on July 26 from 2015 to 2018.

On October 26, 2014, the Company granted 1,644,060 non-vested shares to independent directors and employees. These non-vested shares vest as follows: (1) 32,400 vests on October 26, 2014, (2) 78,000 vests in three equal batches on October 26 from 2015 to 2017, (3) 65,504 vests on January 26 of 2015, (4) 52,200 vests in three equal batches on January 26 from 2016 to 2018, (5) 1,196 vests on January 26 of 2019, (6) 212,240, 206,360, 206,360, 180,360, 177,594, 177,160, 82,000, 82,000, 48,686 and 42,000 vests on July 26 of each year from 2015 to 2024.

On January 26, 2015, the Company granted 440,194 non-vested shares to employees. The non-vested shares vest as follows: (1) 7,290, 8,040, 9,040, 7,040, 1,040 and 1,040 vests on July 26 of each year from 2015 to 2020, (2) 65,428, 59,834, 59,834, 58,900, 52,218, 45,854, 34,854 and 29,782 vests on January 26 of each year from 2016 to 2023.

On April 26, 2015, the Company granted 1,460,026 non-vested shares to independent directors and employees. The non-vested shares vest as follows: (1) 3,800, 7,600, 7,600, 7,600 and 3,800 vests on July 26 of each year from 2015 to 2019, (2) 157,260, 165,136, 165,182, 164,634, 158,406, 158,406, 103,602, 95,800, 130,600 and 130,600 vests on January 26 of each year from 2016 to 2025.

On July 26, 2015, the Company granted 188,024 non-vested shares to independent directors and employees. These non-vested shares vest as follows: (1) 4,238, 13,000, 13,000 and 8,762 vests on October 26 of each year from 2015 to 2018, (2) 17,470, 21,822, 21,822, 21,536, 12,566, 9,520 and 3,088 vests on January 26 of each year from 2016 to 2022, (3) 8,400, 8,400 and 9,400 vests on July 26 of each year from 2016 to 2018, (4) 15,000 vests in five equal batches on July 26 from 2019 to 2023.

On October 26, 2015, the Company granted 2,971,002 non-vested shares to employees. These non-vested shares vest as follows: (1) 387,541, 389,864, 389,864, 388,594, 364,293, 363,532 and 137,272 vests on July 26 of each year from 2016 to 2022, (2) 408,720 vests in three equal batches on July 26 from 2023 to 2025, (3) 35,804, 48,050 and 57,468 vests on October 26 of each year from 2016 to 2018.

On January 26, 2016, the Company granted 258,894 non-vested shares to employees. These non-vested shares vest as follows: (1) 26,822, 25,640, 25,640, 25,640, 23,588, 22,660, 14,304, 9,400, 3,000 and 3,000 vests on July 26 of each year from 2016 to 2025, (2) 55,200 vests in four equal batches on January 26 from 2017 to 2020, (3) 24,000 vests in six equal batches on January 26 from 2021 to 2026.

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23. SHARE-BASED COMPENSATION - continued

The activities of non-vested shares granted under the 2010 Share Incentive Plan are summarized as follows:

	Number of non-vested shares	Weighted average grant date fair value
Outstanding as of February 28, 2013	<u>7,711,512</u>	5.24
Granted	1,591,800	7.67
Forfeited	276,836	5.48
Vested	<u>1,784,364</u>	5.08
Outstanding as of February 28, 2014	<u>7,242,112</u>	5.80
Granted	8,208,254	12.95
Forfeited	381,300	8.74
Vested	<u>2,482,416</u>	7.25
Outstanding as of February 28, 2015	<u>12,586,650</u>	10.09
Granted	4,877,946	18.67
Forfeited	1,355,964	9.08
Vested	<u>1,869,530</u>	10.78
Outstanding as of February 29, 2016	<u>14,239,102</u>	13.04

The Company recorded compensation expense of \$8,345,290, \$18,441,076 and \$24,929,207 for the years ended February 28, 2014, 2015 and February 29, 2016 related to non-vested shares.

As of February 29, 2016, the unrecognized compensation expense related to the non-vested share awards amounted to \$177,984,109, which will be recognized over a weighted-average period of 4.0 years. The total fair value of non-vested shares that vested during the years ended February 28, 2014, 2015 and February 29, 2016 was \$9,064,569, \$17,997,516 and \$20,153,533, respectively.

Share options

On April 26, 2015, the Company granted 450,000 share options to employees and majority of the share options shall vest in equal batches after the start of vesting period of 6 years. The exercise price per share option granted was \$16.10.

TAL EDUCATION GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
 FOR THE YEARS ENDED FEBRUARY 28, 2014, 2015
 AND FEBRUARY 29, 2016
 (In U.S. dollars, except share and share related data)

23. SHARE-BASED COMPENSATION - continued

Share options-continued

On July 26, 2015, the Company granted 101,200 share options to employees and majority of the share options shall vest in equal batches after the start of vesting period ranging from 6 to 8 years. The exercise price per share option granted was \$16.10.

On October 26, 2015, the Company granted 447,200 share options to employees and majority of the share options shall vest in equal batches after the start of vesting period ranging from 4 to 6 years. The exercise price per share option granted was \$14.50.

On January 26, 2016, the Company granted 214,080 share options to employees and majority of the share options shall vest in equal batches after the start of vesting period ranging from 4 to 10 years. The exercise price per share option granted was \$18.32.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants during the applicable periods:

	For the year ended February 29, 2016
Risk-free interest rate ⁽¹⁾	1.64%-1.97%
Expected life (years) ⁽²⁾	6.25-8.75
Expected dividend yield ⁽³⁾	0%
Volatility ⁽⁴⁾	34.0%-34.7%
Fair value of options at grant date per share	\$7.66 to \$10.65

(1) Risk-free interest rate

Risk-free interest rate for periods within the contractual life of the option is based upon the U.S. treasury yield curve in effect at the time of grant.

(2) Expected life (years)

Assumption of the expected term were based on the vesting and contractual terms and employee demographics.

(3) Expected dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

(4) Volatility

The volatility assumption was estimated based on historical volatility of the Company's share price applying the guidance provided by ASC 718.

TAL EDUCATION GROUP

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED FEBRUARY 28, 2014, 2015
AND FEBRUARY 29, 2016
(In U.S. dollars, except share and share related data)**

23. SHARE-BASED COMPENSATION - continued

Share options-continued

Share options activity for the year ended February 29, 2016 was as follows:

Share options	Number of shares	Weighted average exercise price (US\$)	Weighted average remaining contractual life (Years)	Aggregate intrinsic value (US\$)
Outstanding as of February 28, 2015	-	-	-	-
Granted	1,212,480	15.90		
Exercised	40,136	16.10		
Forfeited	49,798	16.10		
Outstanding as of February 29, 2016	1,122,546	15.88	9.77	11,216,526
Vested and expected to vest as of February 29, 2016	938,194	15.78	9.71	9,473,174
Exercisable as of February 29, 2016	27,968	16.10	9.24	273,527

The Company recorded compensation expense of \$918,290 for the year ended February 29, 2016 related to share options.

Total intrinsic value of options exercised for the year ended February 29, 2016 was \$341,003. The total fair value of options vested during the year ended February 29, 2016 was \$523,110.

As of February 29, 2016, there was \$9,058,333 unrecognized share-based compensation cost related to share options, which will be recognized over a weighted-average vesting period of 3.6 years. To the extent the actual forfeiture rate is different from the original estimate, actual share-based compensation costs related to these awards may be different from expectation.

24. SUBSEQUENT EVENTS

On April 26, 2016, the Company granted 157,166 non-vested shares to employees with vesting periods ranging from approximate 1 year to 6 years. The fair value per non-vested share granted was \$28.43, which approximated the market price of the Company's ADS on the New York Stock Exchange as of the grant date.

On April 26, 2016, the Company granted 50,000 share options to employees with vesting period of 4 years to 6 years and contractual term of 10 years. The exercise price per share option granted was \$22.17 and the fair value of the option was \$13.04.

Exclusive Business Cooperation Agreement

This Exclusive Business Cooperation Agreement ("**Agreement**") is entered into as of August 4, 2015 by and among the following parties in Beijing, the People's Republic of China ("**PRC**").

Party A:
Beijing Century TAL Education Technology Co., Ltd.

Party B:
Beijing Dididaojia Education Technology Co., Ltd.

Subsidiaries of Party B: entities invested, controlled by Party B, including but not limited to any company, school and relevant entity of which Party B directly or indirectly own more than 50% of the investing interests.

Party C:
Bangxin Zhang, ID Card No. 321182198010012913;
Yachao Liu, ID Card No. 211103198110152138;
Yunfeng Bai, ID Card No. 360521198109240073.

(Each of Party A, Party B, Subsidiaries of Party B and Party C, a "**Party**", and collectively the "**Parties**".)

WHEREAS,

(1) Party A is a wholly foreign-owned enterprise duly registered and validly existing under the PRC laws, owning resources to provide consultancy and services with respect of technology, commerce, intellectual properties license, and system software technology support;

(2) Party B is a limited liability company duly registered and validly existing under the PRC laws, engages in education investments and relevant business directly or by its subsidiaries.

(3) Party C is the shareholder of Party B and owns 100% of the equity interests of Party B;

(4) Party A agreed to provide exclusive license, technical and business support to Party B and its Subsidiaries with Party A's advantages in technology, human resource and information. The Parties agree on such cooperation and wish to sign this revised Exclusive Business Cooperation Agreement to unify the principle terms and conditions for such cooperation.

NOW THEREFORE, the Parties through amiable negotiations agree as follows:

1. Provision of Services

1.1 In accordance with the terms and conditions herein, Party B and Party C appoint Party A as Party B's exclusive service provider to provide full-scope intellectual property license, technical and business support services as provided in Appendix I.

Party B shall and cause Subsidiaries of Party B to determine the specific contents of services within the scope listed in Appendix I with Party A or any entity designated by Party A.

1.2 Party B, Subsidiaries of Party B, and Party C further agree that during the effective period of this Agreement, Party B, Subsidiaries of Party B and Party C shall not, and shall cause the affiliates of them not to, directly and indirectly obtain the same or similar services as provided under this Agreement from any third party, or establish any similar business cooperative relation with any third party with respect to the matters stipulated herein.

1.3 To ensure the normal operation of the ordinary business of Party B and its Subsidiaries, Party A may, but not obligated to, provide guarantee for the performance of the agreements concluded by Party B or its Subsidiaries with any third party with respect to the business of Party B and its Subsidiaries. Party B, Subsidiaries of Party B, and Party C hereby agree and confirm that if they need to provide any guarantee for the performance of any agreement or loan by their subsidiaries in the operation process, they will seek to obtain such guarantee from Party A firstly.

2. Service Fee and Payment

2.1 Based on the contents of specific services provided and the target of service, relevant Parties shall determine a fair service fee and proper payment manners according to the income and sum of enrolled students in a fixed period of the service accepting party. The calculation and payment of the service fee is stipulated in Appendix I of the Agreement.

2.2 If Party A determines the fee calculation mechanism specified herein should no longer apply due to whatever reason, Party B shall engage the negotiate faithfully and actively with Party A within 10 business days after Party A renders the fee adjustment request to determine a new fee standard or mechanism. If Party B does not response within the 10-day period as mentioned above, it shall be deemed as having accepted the adjustments proposed by Party A. Party A shall negotiate with Party B regarding the adjustment to service fee if Party B proposes to make any adjustment to such fee.

3. Intellectual Properties

3.1 Any intellectual properties produced by performance of this Agreement, including but not limited to copyrights, patents, and technical secrets, belong to Party A, and Party B and its Subsidiaries enjoy no rights other than those provided herein. The Parties agree that this clause shall remain effective no matter whether the Agreement is modified or terminated.

3.2 However, if the development is based on the intellectual properties owned by Party B or its Subsidiaries, such intellectual properties should be flawless. Otherwise Party B and its Subsidiaries shall bear all damages and losses caused to Party A by any flaw of such intellectual properties. If Party A is to bear any liabilities to any third party because of this, it has the right to recover all of its losses from Party B or its Subsidiaries.

4. Term

4.1 The Agreement is executed and becomes effective as of the date stated above.

4.2 The Agreement is effective within the operation term of Party A, Party B and its Subsidiaries unless terminated by mutual agreement of the Parties.

5. Confidentiality

5.1 This Agreement and all clauses hereof belong to confidential information and shall not be disclosed to any third party except for relevant high-ranking officers, directors, employees, agents or professional consultants. This clause shall not apply in the event parties hereto are required by relevant laws or regulations to disclose information relating to this Agreement to any governmental authorities, the public or the shareholders, or file this Agreement with relevant authorities for record.

5.2 This clause shall survive any modification, dissolution or termination of this Agreement.

6. Liabilities for Breach of Agreement

In the event any Party failed to perform any of its obligations under this Agreement, or made any untrue or inaccurate representations or warranties, such Party shall be liable for all the losses of other Parties for breach of the Agreement, or pay penalties according to agreement reached by relevant parties.

7. Force Majeure

In the event the performance of the Agreement is influenced by any Force Majeure, the Party suffering Force Majeure shall notify the other parties by telegram, facsimile or other electronic means immediately after the occurrence of such Force Majeure and shall provide written documents evidencing the occurrence of such Force Majeure within fifteen (15) business days. The parties of the Agreement shall determine through negotiation whether to terminate, partly terminate or suspend the implementation of this Agreement according to the extent the Agreement is effected by such Force Majeure.

8. Change of Parties

- 8.1 Increase of Subsidiaries of Party B. If Subsidiaries of Party B increased at any time after effectiveness of this Agreement, Party B and Party C shall cause such new subsidiary to sign confirmation letter or other legal documents permitted or required by the PRC laws to make such new subsidiary to enjoy and undertake all the rights and obligations under this Agreement as those of Subsidiaries of Party B hereunder. As of the date of signature of such confirmation letter or other legal documents, the new subsidiary should be deemed as one party to this Agreement. Other Parties of the Agreement hereby agree with such arrangements.
- 8.2 Rights and obligations under this Agreement shall be legally binding upon assignees, successors of Parties hereof, no matter such assignment of obligations and rights is caused by takeover, restructuring, success, assignment or any other reason.

9. Miscellaneous

- 9.1 This Agreement and any related matters shall be governed by and construed in accordance with the PRC laws. All disputes arising out of or in connection with this Agreement shall be conciliated friendly by and between the Parties. When the disputes could not be solved by conciliation, such disputes shall be finally settled under the Rules of Arbitration of the China International Economic and Trade Arbitration Commission by arbitrators appointed in accordance with rules currently effective of such arbitration commission. The arbitration ruling shall be final. The place of arbitration shall be in Beijing.
- 9.2 The Agreement is executed in counterparts as many as Parties hereto, each of Party A, Party B, Subsidiaries of Party B and each person of Party C holds one counterpart.

[THE SIGNATURE PAGE OF THE EXCLUSIVE BUSINESS COOPERATION AGREEMENT]

Party A:

Beijing Century TAL Education Technology Co., Ltd. /Seal/
Authorized Representative:

Party B:

Beijing Dididaojia Education Technology Co., Ltd. /Seal/
Authorized Representative:

[THE SIGNATURE PAGE OF THE EXCLUSIVE BUSINESS COOPERATION AGREEMENT]

Subsidiaries of Party B:

[]

[THE SIGNATURE PAGE OF THE EXCLUSIVE BUSINESS COOPERATION AGREEMENT]

Party C:

Bangxin Zhang:
Signature: /s/ Bangxin Zhang

Yachao Liu:
Signature: /s/ Yachao Liu

Yunfeng Bai:
Signature: /s/ Yunfeng Bai

Appendix I: Contents of Service, Calculation and Payment of the Service Fee

1. Contents of Service

- (1) Providing educational software, courseware development and research services;
- (2) Providing occupation and pre-occupation staff training services;
- (3) Providing technology development and transfer, technical consulting services;
- (4) Providing public relation services;
- (5) Providing market investigation, research and consulting services;
- (6) Providing mid or short-term market development, market plan services;
- (7) Providing human resource management and internal information management;
- (8) Providing network development, updating and ordinary maintenance;
- (9) Providing sale services of self-produced products;
- (10) Licensing of software and trademark; and/or
- (11) Other services determined from time to time by Party A and the service accepting party according to the need of business and capacity of provision of services.

2. Calculation and Payment of Service Fee

The Fee for the services provided under this Agreement is calculated based on a percentage of the revenue of the service accepting party, or calculated according to the person-time of enrolling students of Subsidiaries of Party B. The specific applied percentage or person-time shall be determined by both Party A and the service accepting party in accordance with the actual situation of service provision, and Party A shall send the service accepting party the bill or other written form confirmation of service fee.

3. The sum of Fee shall be determined by the Parties taking account of the following factors:

- (1) The technical difficulty and complexity of the services;
- (2) The time spent by employees of Party A concerning the services;
- (3) The contents and commercial value of the services;
- (4) The benchmark price of similar services in the market.

4. Party A will calculate the fee payable on a fixed term basis and send Party B the bill of service fee for the previous term. Party B shall pay the fee to the bank account designated by Party A within 10 business days after receipt of the bill, and send copy of the remittance certificate by facsimile or mail to Party A within 10 business days after payment.

Option Agreement

The Option Agreement, dated as of August 4, 2015, is made by and among the following parties:

Party A:

Beijing Century TAL Education Technology Co., Ltd., a wholly foreign owned enterprise duly established and validly existing under the laws of the People's Republic of China ("PRC") with its legal address at Room 1702-03, Lantianhesheng Building, No.32, Zhongguancun Street, Haidian District, Beijing.

Party B:

Bangxin Zhang, ID Card No. 321182198010012913

Yachao Liu, ID Card No. 211103198110152138

Yunfeng Bai, ID Card No. 360521198109240073

Party C:

Beijing Dididaojia Education Technology Co., Ltd., a limited liability company duly established and validly existing under the PRC laws with its legal address at Room 209, Tower 1, No. 2, the Second Shangdi Street, Haidian District, Beijing.

Through amiable negotiation, the Parties stated above agree as follows concerning Party A purchasing the equity interests of Party C owned by Party B:

1. Purchase Option Right

1.1 Party A has the right to demand Party B to transfer all or part of the equity interests ("**Target Equity Interests**") of Party C it owns at any time ("**Purchase Right**"), as the specific demand may be, in the following circumstances, and Party B shall transfer Target Equity Interests to Party A or any third party designated by Party A accordingly:

- (1) Party A or any third party designated by Party A is allowed to own all or part of Target Equity Interests under the laws and regulations of PRC; or
- (2) In other circumstances where Party A deem appropriate or necessary.

The Purchase Right of Party A under this Agreement is exclusive, unconditional and irrevocable.

1.2 The Parties agree that Party A has the right to determine to exercise the Purchase Right in part or in all to acquire part or all of Target Equity Interests. And the Parties further agree that the time, manner, quantity and frequency of exercising such Purchase Right by Party A shall not be subject to any restrictions.

1.3 The Parties agree that Party A may designate any third party to purchase part or all of Target Equity Interests. Party B shall not reject to transfer Target Equity Interests to such third party unless such transfer is forbidden by the PRC laws and regulations.

1.4 Party B shall not transfer Target Equity Interests to any third party without the prior written approval by Party A before Target Equity Interests is transferred under this Agreement to Party A or the designated third party.

2. Procedures

2.1 While executing this Agreement, Party B hereby confirms that the form and contents of the Equity Interest Transfer Agreement and the Approval Letter needed in the exercise of Purchase Right by Party A are the same as the Appendix attached to this Agreement.

2.2 In the event Party A decides to exercise its Purchase Right according to Article 1.1, it shall give a written notice (the “**Exercise Notice**”, see the Appendix) to Party B, stating quantity or percentage of the equity interests to be purchased and the name and identity of the purchaser. Party B and Party C shall provide all materials and documents necessary for the transfer of Target Equity Interests, including the signing the Equity Interest Transfer Agreement and Approval Letter the form of which are the same as the Appendix.

2.3 Except for the Exercise Notice in Article 2.2, there are no other prerequisite or incidental conditions or procedures for Party A to exercise its Purchase Right.

2.4 Party B shall provide Party C with timely and necessary assistance for Party C to complete the approving procedures (if required by law) with competent authorities and registration procedures of the equity interests transfer with relevant Industrial and Commercial authorities according to the applicable PRC laws and regulations.

2.5 The date of completion of the transfer of all Target Equity Interests is the date of completion of exercise of the Purchase Right.

3. Purchase Price

3.1 The whole price of Target Equity Interests shall be the lowest value as permitted by the PRC laws and regulations at the time such Target Equity Interests being transferred. In the event Target Equity Interests is transferred in installments, the price shall be determined according to the time and percentage of each separate time of transfer.

3.2 Personal income tax and other relevant taxes or expenses incurred in the transfer of Target Equity Interests shall be borne by Party C.

3.3 With Party B's unanimous consent, the purchase price obtained by Party B, based on the exercise of Purchase Right by Party A or any third party designated by Party A, shall be transferred to Party C for free.

4. Warranties and Covenants

4.1 Each Party represents and warrants to other Parties as follows:

- (a) It has full rights, capacity and authorization to execute this Agreement and bear all the obligations and liabilities hereunder;
- (b) It has gone through all necessary internal procedures for the execution of this Agreement and has obtained all necessary internal and external authorization and approvals; and
- (c) It will not breach any agreements or contracts binding upon its assets or itself by executing this Agreement.

4.2 Party B and Party C separately and collectively represent and warrant to Party A as follows:

- (a) As of the date of the effectiveness of this Agreement, Party B legally owns the equity interests of Party C, and has full, valid right of disposal of such equity interests. The registered capital of Party C has been fully contributed. Except for the pledge under the Equity Interest Pledge Agreement and other rights consented by Party A in writing, the equity interests of Party C owned by Party B is not subject to any pledge, mortgage, warranty or other rights or interests of, and is free of any claims by any third party. No third party may demand Party C to distribute, issue, sell, transfer or exchange any of its equity interests according to any purchase right, share exchange right, first right to refusal or other agreements.
- (b) During the effective period of this Agreement, Party B shall not transfer, or create pledge, mortgage or any other security interest over the equity interests of Party C without the prior written consent from Party A.
- (c) Party B and Party C shall extend the operation period of Party C to the extent permitted by relevant PRC laws and regulations, to make it equal to the approved operation period of Party A.

5. Appendix

Appendixes of this Agreement constitute an integrated part of this Agreement and have equal legal binding effect as other sections of this Agreement.

6. Confidentiality

This Agreement and all clauses hereof belong to confidential information and shall not be disclosed to any third party except for relevant high-ranking officers, directors, employees, agents or professional consultants. This clause shall not apply in the event parties hereto are required by relevant laws or regulations to disclose information relating to this Agreement to any governmental authorities, the public or the shareholders, or file this Agreement with relevant authorities for record.

This clause shall survive any modification, dissolution or termination of this Agreement.

7. Liabilities for Breach of Agreement

In the event any party failed to perform any of its obligations under this Agreement, or made any untrue or inaccurate representations or warranties, such party shall be liable for all the losses of other parties for breach of this Agreement.

8. Force Majeure

Force Majeure means any event that cannot be anticipated at the time of the execution of the Agreement, and the occurrence of which cannot be avoided, controlled or conquered by any party of the Agreement, including but not limited to earthquake, typhoon, flood, fire, boycott, war or rebellion, etc..

The party suffering such Force Majeure shall (i) notify the other parties by telegram, facsimile or other electronic means immediately after the occurrence of such Force Majeure and shall provide written documents evidencing the occurrence of such Force Majeure within fifteen (15) business days; (ii) in every instance, to the extent reasonable and lawful under the circumstances, use its best efforts to mitigate or remove the effect of such Force Majeure with all reasonable dispatch, and continue its performance of the Agreement after such effect is mitigated or removed. The parties of the Agreement shall determine through negotiation whether to terminate, partly terminate or suspend the implementation of this Agreement according to the extent the Agreement is effected by such Force Majeure.

9. Miscellaneous

- 9.1 This Agreement and any related matters shall be governed by and construed in accordance with the PRC laws. All disputes arising out of or in connection with this Agreement shall be conciliated friendly by and between the Parties. When the disputes could not be solved by conciliation, such disputes shall be finally settled under the Rules of Arbitration of the China International Economic and Trade Arbitration Commission by arbitrators appointed in accordance with rules currently effective of such arbitration commission. The arbitration ruling shall be final. The place of arbitration shall be in Beijing. The Parties hereto shall continue to perform its obligations and exercise its rights hereunder except for those in dispute.
- 9.2 This Agreement becomes effective on the date of execution by all parties and terminates when Party A purchased all Target Equity Interest according to the Agreement or the Agreement is terminated by mutual consent of the parties.
- 9.3 The Agreement is executed in three (3) counterparts, and each of Party A, Party B and Party C holds one counterpart.
- 9.4 This Agreement together with its appendixes constitute the entire agreement among the parties hereto and supersedes and renders of no force and effect all prior oral or written agreements, commitments and undertakings among the parties with respect to the subject matter hereof.
- 9.5 Any modification and supplement of this Agreement shall be made in a written form and shall only become effective upon the signature by all the parties of the Agreement.

(THE SIGNATURE PAGE)

Party A: Beijing Century TAL Education Technology Co., Ltd. (Seal) /Seal/
Authorized Representative:

Party B:
Bangxin Zhang:
Signature: /s/ Bangxin Zhang

Yachao Liu:
Signature: /s/ Yachao Liu

Yunfeng Bai:
Signature: /s/ Yunfeng Bai

Party C:
Beijing Dididaojia Education Technology Co., Ltd. (Seal) /Seal/
Authorized Representative:

Appendix:

Equity Interest Transfer Agreement

This Equity Interest Transfer Agreement (the “**Agreement**”), dated as of [], is made by and among the following parties in Beijing, China:

Transferor:

Bangxin Zhang, ID Card No. 321182198010012913

Yachao Liu, ID Card No. 211103198110152138

Yunfeng Bai, ID Card No. 360521198109240073

Transferee:

Beijing Century TAL Education Technology Co., Ltd.

Through amiable negotiation the Parties stated above agree as follows about the equity interest transfer stated herein:

1. Transferor agrees to transfer the 100% equity interest of Beijing Dididaojia Education Technology Co., Ltd. it owns (“**Target Equity Interests**”) to Transferee at a price of RMB , and Transferee agrees to purchase such Target Equity Interests.
2. Upon completion of transfer of Target Equity Interests, Transferor shall no longer enjoy while Transferee enjoys any rights and bear all obligations as the shareholder of Target Equity Interests.
3. Any matters not mentioned in the Agreement may be determined by supplementary agreements signed by both parties.
4. The Agreement becomes effective on the date of signature by both parties.
5. The Agreement is executed in four (4) counterparts, each party holding one and the rest used for Industrial and Commercial alteration registration.

Transferor:

Bangxin Zhang:

Signature: /s/ Bangxin Zhang

Yachao Liu:

Signature: /s/ Yachao Liu

Yunfeng Bai:

Signature: /s/ Yunfeng Bai

Transferee: Beijing Century TAL Education Technology Co., Ltd. (Seal) /Seal/

Authorized Representative:

Confirmation Letter

To: Beijing Century TAL Education Technology Co., Ltd.

I, the shareholder of Beijing Dididaojia Education Technology Co., Ltd. (the “**Company**”), hereby agree and confirm as follows:

- 1. I agree to accept all the terms and conditions of the Option Agreement entered by the Company and Beijing Century TAL Education Technology Co., Ltd.(“**WFOE**”) on , 2015, and waive my first right to refusal to such equity interest when WFOE exercises its Purchase Right under such agreement. I will take all measures to assist WFOE on the transfer procedures for such equity interest.
- 2. I agree to waive my first right to refusal when other shareholders of the Company transfers the equity interest it owns to WFOE or any third party designated by WFOE.
- 3. In the event other shareholders of the Company transfers the equity interests it owns to WFOE or any third party designated by WFOE, I will sign or provide necessary documents for the transfer procedures of such equity interests.

This Confirmation Letter becomes effective on the date of signature.

Bangxin Zhang:
Signature: /s/ Bangxin Zhang

Yunfeng Bai:
Signature: /s/ Yunfeng Bai

Yachao Liu:
Signature: /s/ Yachao Liu

Date: []

Exercise Notice

To: Beijing Dididaojia Education Technology Co., Ltd. (the “**Company**”)

In accordance with the Option Agreement entered into by you and our company on , 2015, in circumstances permitted by relevant PRC laws and regulations, you should transfer your equity interests of the Company to our company or any other transferee designated by us according to our request.

Thus our company hereby sends you the Exercise Notice as follows:

Our company hereby requests to exercise the Purchase Right under the Option Agreement, that our company/ other transferee designated by us shall purchase your equity interests of the Company which constitutes [] % of the registered capital of the Company (“**Transferring Equity Interest**”) at a price of RMB []. Please conduct all necessary procedures to transfer such Transferring Equity Interest to our company or other transferee designated by us according to the terms and conditions of the Option Agreement after your receipt of this Notice.

Beijing Century TAL Education Technology Co., Ltd. (Seal) /Seal/

Authorized Representative:

Name:

Position:

Date:

Equity Interest Pledge Agreement

This Equity Interest Pledge Agreement (“**Agreement**”) is entered into as of the date of August 4, 2015 by and between the following parties:

Party A:

Beijing Century TAL Education Technology Co., Ltd. (the original corporate name is “TAL Education Technology (Beijing) Co., Ltd”), a wholly foreign owned enterprise duly established and validly existing under the laws of the People’s Republic of China (“**PRC**”) with its legal address at Room 1702-03, Lantianhesheng Building, No.32, Zhongguancun Street, Haidian District, Beijing.

Party B:

Bangxin Zhang, ID Card No. 321182198010012913
Yachao Liu, ID Card No. 211103198110152138
Yunfeng Bai, ID Card No. 360521198109240073

Party C:

Beijing Dididaojia Education Technology Co., Ltd., a limited liability company duly established and validly existing under the PRC laws with its legal address at Room 209, Tower 1, No. 2, the Second Shangdi Street, Haidian District, Beijing.

(Each of Party A, Party B and Party C, a “**Party**”, and collectively the “**Parties**”).

WHEREAS,

- (1) Party A, Party B, Party C and the subsidiary companies and schools of Party C (if any, the “**Subsidiaries**”, which may be modified after the execution of this Agreement according to any changes of Party C’s investments) have already executed the agreements listed in Appendix I (the “**Main Agreements**”);
- (2) Party B collectively owns 100% of the equity interests of Party C, and Party B plans to pledge the equity interest of Party C it owns to Party A unconditionally and irrevocably, as a security for the performance of the obligations by Party C and the Subsidiaries under the Main Agreements, and Party A agrees to accept such security (the “**Pledge**”)

NOW THEREFORE, Party A, Party B and Party C through mutual negotiations hereby enter into this Agreement based upon the following terms:

1. Pledge

Party B agrees to pledge the equity interests of Party C it owns (the “**Pledged Equity Interests**”) to Party A unconditionally and irrevocably, as a security for the performance of the obligations by Party B, Party C and the Subsidiaries under the Main Agreements.

2. Scope of Pledge

The Pledge under this Agreement extends to all obligations of Party B, Party C and the Subsidiaries under the Main Agreements (including but not limited to any amounts, penalties, damages, etc. payable but not paid to Party A), any fees for exercising the creditor's rights and the Pledge right, and any other related expenses.

3. Term of Pledge

The Pledge under this Agreement shall be effective from the date of registration of the Pledge with competent Industrial and Commercial authorities to the date on which the Main Agreements are completely performed, invalidated or terminated (the later date shall prevail). In the term of Pledge, if Party B, Party C and the Subsidiaries fail to perform any of their obligations under the Main Agreements, or in case of occurrence of any of the events provided in Article 6.1, Party A is entitled to dispose the Pledged Equity Interests in accordance with the provisions of this Agreement.

4. Registration

- 4.1 Party B and Party C promise to Party A that, Party B and Party C shall: (i) on the date of the execution of the Agreement, record the Pledge under this Agreement on the Shareholders' Book of Party C and hand the recorded Shareholders' Book to Party A for its keep; (ii) on the date of the execution of the Agreement, hand the Capital Contribution Certificate of Party B issued by Party C to Party A for its keep; (iii) within ten (10) business days after the execution of this Agreement or other practically shortest period, register the Pledged Equity Interests with relevant Industrial and Commercial authority and obtain evidencing documents of such registration. Without limitation to any provision of this Agreement, during the effective period of this Agreement the Shareholders' Book of Party C shall always be in the custody of Party A or any agent designated by Party A, unless any necessary registration or alteration procedures are required to be fulfilled in the operation of Party C or the Subsidiaries.
- 4.2 Party B and Party C further covenant that after the execution of this Agreement, Party B may make capital increase to Party C with the prior consent of Party A provided that any capital increase by Party B to Party C constitutes an integrated part of the Pledged Equity Interests of this Agreement. Party B and Party C shall make necessary modification to the Shareholders' Book and capital contribution of relevant companies and conduct the pledge registration procedures according to Article 4.1.
- 4.3 All fees and expenses related to this Agreement, including but not limited to registration fee, cost, stamp tax or any other taxes, expenses shall be borne by Party C according to relevant laws and regulations.

5. Covenants and Warranties of Party B and Party C

Party B and Party C hereby jointly and severally covenant and warrant to Party A as follows:

- 5.1 Party B is the lawful owner of the Pledged Equity Interests and there exists no dispute or potential dispute concerning the ownership of such equity interests. Party B has the right to dispose such equity interests or any part thereof without any restrictions by any third party.
- 5.2 Except for the Pledge provided hereunder, Party B has not established any other pledge or other interests of any third party over the Pledged Equity Interests.
- 5.3 Party B and Party C fully understand the contents of this Agreement and the execution of the Agreement by Party B and Party C is based on true and free will. Party B and Party C have taken all necessary measures and obtained all necessary internal authorization to execute and perform this Agreement, and signed all necessary documents to make sure the Pledge under the Agreement is lawful and valid.
- 5.4 During the effective period of this Agreement, Party B shall not transfer or assign the Pledged Equity Interests, authorize any rights relating to the Pledged Equity Interests to any third party, or create or permit to be created any security or other interests which may have an adverse effect on the rights or benefits of the Party A without prior written consent of Party A.
- 5.5 During the effective period of this Agreement, Party B and Party C shall abide by and implement all relevant PRC laws and regulations concerning the pledge of rights, and in the event Party B and Party C receive any notice, order or suggestion from competent authorities concerning the Pledged Equity Interests, Party B and Party C shall timely notify and show Party A of such notice or order within five (5) business days upon receipt thereof.
- 5.6 Party B and Party C shall not conduct or permit to be conducted anything that shall damage the value of the Pledged Equity Interests or the Pledge right of Party A. Party B and Party C shall notice Party A of any events that may influence the value of the Pledged Equity Interests or the Pledge right of Party A within five (5) business days after its knowledge of such events. Party A shall not take any responsibility for the reduction of the value of the Pledged Equity Interests on any condition, and Party B and Party C shall not request Party A for any recovery or demand.

- 5.7 The Pledge under this Agreement shall remain fully effective during the effective period of the Agreement, and shall not be influenced by liquidation, lost of capacity, change of organization or status, any capital offset among the Parties or any other events.
- 5.8 For the purpose of performance of this Agreement, Party A is entitled to dispose the Pledged Equity Interests in accordance with the provision of this Agreement. Party A's exercise of such right shall not be interrupted or jeopardized by Party B and Party C, their successors or agents, or any other persons by way of legal proceedings.
- 5.9 In order to ensure and consummate the security provided by this Agreement over the obligations of Party B, Party C and the Subsidiaries under the Main Agreements, Party B and Party C shall faithfully sign and cause any third party who is beneficially related to the Pledged Equity Interests to sign all certificates and agreements in connection with the performance of the Agreement, and/or cause such third party to take any measures required by Party A and provide convenience to Party A concerning the exercise of the Pledge right hereunder.
- 5.10 In order to ensure the interests of Party A, Party B and Party C shall abide by and perform all warranties, covenants, agreements, representations and conditions. In the event Party B and/or Party C failed to do so and resulted in damages to Party A, Party B and/or Party C shall indemnify Party A for all of such damages and losses.

6. Events of Default and Exercise of the Pledge Right

- 6.1 In case of any of the following events ("**Events of Default**"), Party A may require Party B or Party C to perform all the obligations under this Agreement and the Pledge under the Agreement may be performed immediately:
 - a) Any warranties or representations made by Party B, Party C or the Subsidiaries in the Agreement or the Main Agreements are inconsistent, incorrect, untrue or become untrue or incorrect; Party B, Party C or the Subsidiaries fail to comply with all the obligations, covenants or warranties made by them under the Agreement or the Main Agreements; or
 - b) Any obligation of Party B, Party C or the Subsidiaries under the Agreement or the Main Agreements is deemed to be illegal or invalid; or
 - c) Material breaches by Party B or Party C of its obligations hereunder.
- 6.2 In case of any of the aforesaid Events of Default, Party A may exercise its Pledge right by purchasing, designating any other party to purchase, auctioning, or selling the Pledged Equity Interests. Party A may exercise such Pledge right without exercising any other security rights, or take any other measures or proceedings against Party B and/or Party C or any other parties.

6.3 Upon request by Party A, Party B and Party C shall take all the lawful and appropriate measures to ensure the exercise of the Pledge right by Party A. For such purpose, Party B and Party C shall sign all appropriate documents and materials, and take all proper measures requested by Party A.

7. Transfer or Assignment

7.1 Party B and Party C have no right to transfer or assign the rights and obligations under this Agreement without the prior written consent from Party A, except for the Option Agreement entered into by Party A and Party B.

7.2 The Agreement shall be binding upon the Party B and its successors and be effective upon Party A and its successors and assignees.

7.3 Party A may transfer or assign all and any of its rights and obligations under the Main Agreements to any person (natural or legal person) it designates. In this case, the assignee shall enjoy and undertake the same rights and obligations herein of Party A as if the assignee is a party hereto. Upon Party A's transfer or assignment of the rights and obligations under the Main Agreements and at Party A's request, Party B and/or Party C shall execute relevant agreements and/or documents with respect to such transfer or assignment.

7.4 Subsequent to an assignment or transfer by Party A, the new parties to the Pledge shall re-execute a pledge contract. Party B and Party C shall provide assistance to the assignee with respect to the registration procedures of the Pledge.

8. Confidentiality

This Agreement and all clauses hereof belong to confidential information and shall not be disclosed to any third party except for relevant high-ranking officers, directors, employees, agents or professional consultants. This clause shall not apply in the event parties hereto are required by relevant laws or regulations to disclose information relating to this Agreement to any governmental authorities, the public or the shareholders, or file this Agreement with relevant authorities for record.

This clause shall survive any modification, dissolution or termination of this Agreement.

9. Liabilities for Breach of Agreement

In the event any Party failed to perform any of its obligations under this Agreement, or made any untrue or inaccurate representations or warranties, such Party shall be liable for all the losses of other Parties for breach of the Agreement.

10. Force Majeure

Force Majeure means any event that cannot be anticipated at the time of the execution of the Agreement, and the occurrence of which cannot be avoided, controlled or conquered by any party of the Agreement, including but not limited to earthquake, typhoon, flood, fire, boycott, war or rebellion, etc..

The Party suffering such Force Majeure shall (i) notify the other parties by telegram, facsimile or other electronic means immediately after the occurrence of such Force Majeure and shall provide written documents evidencing the occurrence of such Force Majeure within fifteen (15) business days; (ii) in every instance, to the extent reasonable and lawful under the circumstances, use its best efforts to mitigate or remove the effect of such Force Majeure with all reasonable dispatch, and continue its performance of the Agreement after such effect is mitigated or removed. The Parties of the Agreement shall determine through negotiation whether to terminate, partly terminate or suspend the implementation of this Agreement according to the extent the Agreement is effected by such Force Majeure.

11. Miscellaneous

11.1 This Agreement and any related matters shall be governed by and construed in accordance with the PRC laws. All disputes arising out of or in connection with this Agreement shall be conciliated friendly by and between the Parties. When the disputes could not be solved by conciliation, such disputes shall be finally settled under the Rules of Arbitration of the China International Economic and Trade Arbitration Commission by arbitrators appointed in accordance with rules currently effective of such arbitration commission. The arbitration ruling shall be final. The place of arbitration shall be in Beijing. The Parties hereto shall continue to perform its obligations and exercise its rights hereunder except for those in dispute.

11.2 This Agreement becomes effective on the date of execution by all Parties and terminates when all the obligations under the Main Agreements are completely fulfilled or terminated for whatever reason.

11.3 The Agreement is executed in four (4) counterparts, and each of Party A, Party B and Party C holds one counterpart, the rest one shall be submitted to relevant Industrial and Commercial authorities for filing and registration.

11.4 Any modification or supplement of this Agreement shall be made in a written form and shall only become effective upon the signature by all Parties of the Agreement.

[THE SIGNATURE PAGE]

Party A: Beijing Century TAL Education Technology Co., Ltd. (Seal) /Seal/
Authorized Representative:

Party B:
Bangxin Zhang:
Signature: /s/ Bangxin Zhang

Yachao Liu:
Signature: /s/ Yachao Liu

Yunfeng Bai:
Signature: /s/ Yunfeng Bai

Party C:
Beijing Dididaojia Education Technology Co., Ltd. (Seal) /Seal/
Authorized Representative:

Appendix I List of Main Agreements

Exclusive Business Cooperation Agreement
Option Agreement

Power of Attorney

We, Bangxin Zhang, Yachao Liu and Yunfeng Bai, in aggregate own 100% of the equity interests of Beijing Dididaojia Education Technology Co., Ltd. (“**Didi Education**”) (respectively, Bangxin Zhang owns 75.5%, Yachao Liu owns 14% and Yunfeng Bai owns 10.5% of Didi Education). And we hereby irrevocably authorize Beijing Century TAL Education Technology Co., Ltd. (“**WFOE**”) to exercise the following rights concerning the abovementioned equity interests:

We exclusively authorize WFOE or its designated representative(s) (“**Trustee**”) to exercise our rights as our agent according to the agent’s own will, which include but not limited to:

1. Participating the shareholders’ meeting of Didi Education;
2. Exercising all the rights of shareholders of Didi Education on their shareholders’ meetings according to relevant laws and regulations and the Articles of Association of such companies, including but not limited to the right to nominate and the right to vote.

Without any restriction to the Power of Attorney, Trustee has the right to sign the Equity Interest Transfer Agreement in the Option Agreement on behalf of us within the limit of the Power of Attorney, and to perform the Option Agreement and Equity Interest Pledge Agreement dated as of , 2015 to which we are parties.

The Power of Attorney is irrevocable and constantly effective during the period when we are shareholders of Didi Education commencing from the date of signature.

During the effective period of the Power of Attorney, we will not exercise the rights which are related to the equity interests of Didi Education and have been authorized to Trustee hereby.

We hereby acknowledge any legal consequences caused by Trustee’s exercise of the authorized rights and agree to bear any liabilities thereof. We hereby confirm that in any case Trustee shall not be required to bear any liabilities or make any economic compensation for exercise of such authorized rights.

We’ll provide Trustee with sufficient assistance on exercise of the abovementioned authorized rights, including timely signing the shareholders’ decision or other legal documents provided by Trustee when necessary, for instance, documents required to be submitted with relevant governmental authorities for approval, registration or filing procedures.

If the authorization or exercise of the abovementioned rights cannot be realized for any reason within the effective period of the Power of Attorney, the parties shall seek a substitute plan which is most similar with the arrangements hereunder and modify or adjust the terms and conditions of the Power of Attorney by signing supplementary agreement to ensure the realization of the purpose of the Power of Attorney.

[THE REMAINDER OF THIS PAGE IS LEFT BLANK INTENTIONALLY, AND THE NEXT PAGE IS THE SIGNATURE PAGE.]

[SIGNATURE PAGE OF THE POWER OF ATTORNEY]

Bangxin Zhang:
Signature: /s/ Bangxin Zhang

Yunfeng Bai:
Signature: /s/ Yunfeng Bai

Yachao Liu:
Signature: /s/ Yachao Liu

Date: August 4, 2015

Exclusive Business Cooperation Agreement

This Exclusive Business Cooperation Agreement ("**Agreement**") is entered into as of October 26, 2015, by and among the following parties in Beijing, the People's Republic of China ("**PRC**"), and is the revised and restated version of the service agreements executed on August 2, 2012:

Party A:
Beijing Lebai Information Consulting Co., Ltd.

Party B:
Beijing Lebai Education Consulting Co., Ltd.

Subsidiaries of Party B: all entities as listed in Appendix I.

Party C:
Beijing Xueersi Education Technology Co., Ltd.

(Each of Party A, Party B, Subsidiaries of Party B and Party C, a "**Party**", and collectively the "**Parties**".)

WHEREAS,

(1) Party A is a wholly foreign-owned enterprise duly registered and validly existing under the PRC laws, owning resources to provide developments and services with respect of technology, and consultant services;

(2) Party B is a limited liability company duly registered and validly existing under the PRC laws, engages in education consultation (not including consultation with respect to overseas studying or intermediary service), exhibition service, sales of commodities, stationeries, costumes and electronic products ("**Education Consultant Services**").

(3) Party B holds the equity interests or rights of Subsidiaries of Party B as listed in Appendix I;

(4) Party C is the shareholder of Party B and owns 100% of the equity interests of Party B;

(5) Party A agreed to provide exclusive technical support and consultant service to Party B and its Subsidiaries with Party A's advantages in technology, human resource and information. The Parties agree on such cooperation.

NOW THEREFORE, the Parties through amiable negotiations agree as follows:

1. Provision of Services

- 1.1 In accordance with the terms and conditions herein, Party B and Subsidiaries of Party B appoint Party A as Party B and its Subsidiaries' exclusive technical and service provider to provide full-scope technical support and consultant services as provided in Appendix II. Party B and its Subsidiaries are as **Service Accepting Party**.

Party B and its Subsidiaries shall determine the specific contents of services within the scope listed in Appendix II with Party A or any entity designated by Party A based on the actual need in their business. Both parties confirm that the services provided by Party A is confined to the approved operation scope. In the event Party B and its Subsidiaries require Party A to provide services beyond the approved operation scope, Party A is entitled to or designate a third party to expand Party A's operation scope with accordance to PRC laws, and provide such services after approval.

- 1.2 Party B, Subsidiaries of Party B, and Party C further agree that during the effective period of this Agreement, Party B, Subsidiaries of Party B and Party C shall not, and shall cause the affiliates of them not to, directly and indirectly obtain the same or similar services as provided under this Agreement from any third party, or establish any similar business cooperative relation with any third party with respect to the matters stipulated herein.
- 1.3 To ensure the normal operation of the ordinary business of Party B and its Subsidiaries, Party A may, but not obligated to, provide guarantee for the performance of the agreements concluded by Party B or its Subsidiaries with any third party with respect to the business of Party B and its Subsidiaries. Party B, Subsidiaries of Party B, and Party C hereby agree and confirm that if they need to provide any guarantee for the performance of any agreement or loan by Party B and/or its subsidiaries in the operation process, they will obtain Party A's consent firstly.

2. Service Fee and Payment

- 2.1 Based on the contents of specific services provided and the target of service, Party A shall determine a fair service fee and proper payment manners according to the income in a fixed period of Party B and its Subsidiaries. The calculation and payment of the service fee is stipulated in Appendix II of the Agreement.
- 2.2 If Party A determines the fee calculation mechanism specified herein should no longer apply due to whatever reason, Party A shall actively and faithfully render an adjustment scheme to determine a new fee standard or mechanism. If Service Accepting Party does not response within the 7-day period as mentioned above, it shall be deemed as having accepted the adjustments proposed by Party A.

3. Intellectual Properties

- 3.1 Any intellectual properties produced by performance of this Agreement, including but not limited to copyrights, patents, claims of patent application and technical secrets, belong to Party A, and without Party A's consent, Party B and its Subsidiaries enjoy no rights other than those provided herein. The Parties agree that this clause shall remain effective no matter whether the Agreement is modified or terminated.
- 3.2 However, if the development is based on the intellectual properties owned by Party B or its Subsidiaries, such intellectual properties should be flawless. Otherwise Party B and its Subsidiaries shall bear all damages and losses caused to Party A by any flaw of such intellectual properties. If Party A is to bear any liabilities to any third party because of this, it has the right to recover all of its losses from Party B or its Subsidiaries.
- 3.3 This Article 3 of this Agreement shall survive any modification, dissolution or termination of this Agreement.

4. Term and Right of Termination

- 4.1 The Agreement is executed and becomes effective as of the date stated above.
- 4.2 The service period of this Agreement is 10 years since this Agreement executed. Party A shall have the option right to extend the effective period for 10 years before the termination of this Agreement and the amount to exercise such right is unlimited.
- 4.3 Party A shall have the option right to terminate this Agreement at any time. During the exercise of this Agreement, Party A is entitled to terminate this Agreement with written notice at any time.
- 4.4 Without Party A's written consent, Party B, Subsidiaries of Party B and/or Party C have no right to terminate this Agreement.

5. Representations and Warranties

- 5.1 Party A represents and warrants to Party B and Subsidiaries of Party B as follows:
 - a) Party A is a wholly foreign-owned enterprise duly registered and validly existing under the PRC laws, and has the capacity to take responsibilities;
 - b) Party A has the corporate power to execute and deliver this Agreement and perform the obligations under this Agreement. Once this Agreement is executed, Party A assumes legal, effective and binding obligations and such obligations may be enforced compulsorily according to this Agreement;
 - c) Either the execution of this Agreement or the performance of obligations under this Agreement by Party A shall not conflict with, breach or violate (i) any operation license of Party A or any article of Party A's Articles of Association, (ii) any law, regulation, rule, authority or approval of government authorities or departments applied to Party A, or (iii) any article of contracts or agreements executed by Party A.

5.2 Party B and Subsidiaries of Party B separately and jointly represent and warrant to Party A as follows:

- a) Party B and Subsidiaries of Party B are limited liability companies duly registered and validly existing under the PRC laws, and have the capacity to take responsibilities with their registered capital;
- b) Party B and Subsidiaries of Party B have the corporate power to execute and deliver this Agreement and perform the obligations under this Agreement. Once this Agreement is executed, Party B and Subsidiaries of Party B assume legal, effective and binding obligations and such obligations may be enforced compulsorily according to this Agreement;
- c) Either the execution of this Agreement or the performance of obligations under this Agreement by Party B and Subsidiaries of Party B shall not conflict with, breach or violate (i) any operation license of Party B and Subsidiaries of Party B or any article of Party B and its Subsidiaries' Articles of Association, (ii) any law, regulation, rule, authority or approval of government authorities or departments applied to Party B and Subsidiaries of Party B, or (iii) any article of contracts or agreements executed by Party B and Subsidiaries of Party B;
- d) Party B and Subsidiaries of Party B shall provide relevant information and documents to Party A as Party A requires, and arrange special personnel to correspond and coordinate with Party A and provide assistance with research and collection of materials in Party B and Subsidiaries of Party B;
- e) If necessary, Party B and Subsidiaries of Party B shall provide requisite working facilities and conditions to Party A, and bear related expense and costs during the period that such personnel provide technical support and consulting service in Party B and Subsidiaries of Party B;
- f) Develop and operate education consulting service in effective, prudent and legal manners, and maintain and renew in time requisite licenses and authorities of education consulting service under this Agreement provided by Party B and Subsidiaries of Party B to keep the effective and entire validity of such licenses and authorities; establish and maintain an independent accounting for education consulting service;
- g) Provide Party A with any requisite technology or other materials deemed necessary by Party A, and provide Party A with the access to requisite places and facilities for service under this Agreement.;
- h) Party B and Subsidiaries of Party B shall operate in accordance with relevant laws and regulations, conduct entire relevant procedure necessary for operation, and provide duplicates of such licenses;
- i) Party B and Subsidiaries of Party B possess all permissions, licenses, authorities, approvals and facilities, and guarantee such permissions, licenses, authorities and approvals are continually effective and legitimate during the whole effective period of this Agreement;
- j) Pay the service fee to Party A on time.

6. Confidentiality

6.1 This Agreement and all clauses hereof belong to confidential information and shall not be disclosed to any third party except for relevant high-ranking officers, directors, employees, agents or professional consultants of such parties or affiliates. This clause shall not apply in the event parties hereto are required by relevant laws or regulations or relevant securities exchange institutions to disclose information or contents relating to this Agreement to any governmental authorities, the public or the shareholders, or file this Agreement with relevant authorities for record.

6.2 This clause shall survive any modification or termination of this Agreement.

7. Liabilities for Breach of Agreement

7.1 In the event any Party failed to perform any of its obligations under this Agreement, or made any untrue or inaccurate representation or warranty, such Party shall be liable for all the losses of other Parties for breach of the Agreement.

7.2 In the event that Party B and/or Subsidiaries of Party B is deemed as breach of the Agreement in accordance with Article 4.8, Party B and/or Subsidiaries of Party B shall compensate for entire loses, damages or responsibilities of Party A for the execution of this Agreement, including but not limited to damages and costs caused by any suits, claims of compensation, or other requests.

8. Force Majeure

In the event the performance of the Agreement is influenced by any Force Majeure, the Party suffering Force Majeure shall (i) notify the other parties by telegram, facsimile or other electronic means immediately after the occurrence of such Force Majeure and shall provide written documents evidencing the occurrence of such Force Majeure within fifteen (15) business days; (ii) take all reasonable and viable manners to mitigate or remove the effect of force majeure, and continue its performance of the Agreement after such effect is mitigated or removed.

9. Change of Parties

9.1 Increase of Subsidiaries of Party B. If Subsidiaries of Party B increased at any time after effectiveness of this Agreement, Party B and Party C shall cause such new subsidiary to sign confirmation letter of which the format and contents of Right and Obligation Assumption Letter listed in Appendix III or other legal documents permitted or required by the PRC laws to make such new subsidiary to enjoy and undertake all the rights and obligations under this Agreement as those of Subsidiaries of Party B hereunder. As of the date of signature of such Right and Obligation Assumption Letter or other legal documents, the new subsidiary should be deemed as one party to this Agreement. Other Parties of the Agreement hereby agree with such arrangements.

- 9.2 Rights and obligations under this Agreement shall be legally binding upon assignees, successors of Parties hereof, no matter such assignment of obligations and rights is caused by takeover, restructuring, success, assignment or any other reason.
- 9.3 In the event that Party C no longer possesses any shares of Party B, Party C shall be deemed no longer as a party of this Agreement. In the event that any other third party becomes a shareholder of Party B, Party B and Party C shall take effort to cause this third party executing relevant legal documents and becoming one of Party C of this Agreement.

10. Miscellaneous

- 10.1 This Agreement and any related matters shall be governed by and construed in accordance with the PRC laws. All disputes arising out of or in connection with this Agreement shall be conciliated friendly by and between the Parties. When the disputes could not be solved by conciliation, such disputes shall be finally settled under the Rules of Arbitration of the China International Economic and Trade Arbitration Commission by arbitrators appointed in accordance with rules currently effective of such arbitration commission. The arbitration ruling shall be final. The place of arbitration shall be in Beijing. Unless otherwise ruled by the arbitral tribunal, the expenses of arbitration shall be borne by the losing party. The Parties hereto shall continue to perform its obligations and exercise its rights hereunder except for those in dispute.
- 10.2 The Agreement shall substitute any and all covenants, memorandums, agreements or other documents among all Parties, including but not limited to Exclusive Business Cooperation Agreement entered into as of the date of August 2, 2012 by and between Party A and Party B.
- 10.3 This Agreement shall be performed within the scope stipulated by laws. In the event any article or any part of an article is deemed as illegal, invalid or unenforceable by any competent authority or court, such illegality, invalidity or unenforceability shall not affect other articles of this Agreement or other part of this article, and other articles of this Agreement or other part of this article shall be still effective. For the original articles' purpose, Parties shall do their best effort to modify such illegal, invalid or unenforceable articles.
- 10.4 The appendixes of this agreement shall be the integrated part of this agreement, and shall have the same legal force as the other parts of this agreement.
- 10.5 The Agreement is executed in twelve (12) counterparts, each party holds one counterpart.

(There is no text in the remaining page.)

[THE SIGNATURE PAGE OF THE EXCLUSIVE BUSINESS COOPERATION AGREEMENT]

Party A:

TAL Beijing Lebai Information Consulting Co., Ltd. (Seal)/Seal/
Authorized Representative: /s/ Authorized Representative

Party B:

Beijing Lebai Education Consulting Co., Ltd. (Seal)/Seal/
Authorized Representative: /s/ Authorized Representative

[THE SIGNATURE PAGE OF THE EXCLUSIVE BUSINESS COOPERATION AGREEMENT]

Subsidiaries of Party B:

Beijing Tianxun Education Consulting Co., Ltd. (Seal) /Seal/
Authorized Representative:

Beijing Shijingshan District Firstleap Children English Training School (Seal) /Seal/
Authorized Representative: /s/ Authorized Representative

Beijing Chaoyang District Firstleap Children English Training School (Seal) /Seal/
Authorized Representative:

Nanjing Lebai Education Information Consulting Co., Ltd. (Seal) /Seal/
Authorized Representative:

Nanjing Firstleap Children English Training School (Seal) /Seal/
Authorized Representative:

Chongqing Firstleap Education Information Consulting Co., Ltd. (Seal) /Seal/
Authorized Representative:

Hefei Lebai Education Consulting Co., Ltd. (Seal) /Seal/
Authorized Representative:

Shenyang Libei Education Information Consulting Co., Ltd. (Seal) /Seal/
Authorized Representative:

Shenyang Firstleap Education Training School (Seal) /Seal/
Authorized Representative:

[THE SIGNATURE PAGE OF THE EXCLUSIVE BUSINESS COOPERATION AGREEMENT]

Party C:

Beijing Xueersi Education Technology Co., Ltd. (Seal) /Seal/
Authorized Representative: /s/ Authorized Representative

Appendix I Subsidiaries of Party B

1. Beijing Tianxun Education Consulting Co., Ltd. (“Tianxun Education”)
2. Beijing Shijingshan District Firstleap Children English Training School (“Shijingshan School”)
3. Beijing Chaoyang District Firstleap Children English Training School (“Chaoyang School”)
4. Nanjing Lebai Education Information Consulting Co., Ltd. (“Nanjing Lebai”)
5. Nanjing Firstleap Children English Training School (“Nanjing School”)
6. Chongqing Firstleap Education Information Consulting Co., Ltd. (“Chongqing Firstleap”)
7. Hefei Lebai Education Consulting Co., Ltd. (“Hefei Lebai”)
8. Shenyang Libei Education Information Consulting Co., Ltd. (“Shenyang Libei”)
9. Shenyang Firstleap Education Training School (“Shenyang School”)

Appendix 2: Contents of Service, Calculation and Payment of the Service Fee

1. Contents of Service

- (1) Providing Service Accepting Party and cooperative partners (“Partners”) with development and technology support related to e-commerce network platform (“platform”);
- (2) Providing Service Accepting Party and partners with relevant consulting service and counselor service;
- (3) Managing and maintaining the platform, including purchase, flux and maintenance of hosting server, monitoring service of platform flux, and contents distribution network service;
- (4) Providing service of platform flux information and optimization, including utilizing external search engine and guidance website, and maintaining and reinforcing platform flux;
- (5) Researching and developing relevant technology and software according to the service accepting party’s demand;
- (6) Providing daily maintenance, monitoring, adjustment and trouble removal service of Service Accepting Party’s computer network facilities;
- (7) Providing technology consultation and solution to Service Accepting Party’s questions about network facilities, technology products and software;
- (8) Providing occupation and pre-occupation staff training services;
- (9) Licensing of intellectual properties (if there is) such as software, trademark, domain name, technology secrets, etc., and/or
- (10) Other services determined from time to time by Party A and the Service Accepting Party according to the need of business and capacity of provision of services.

2. The Fee for the services provided under this Agreement is calculated as the balance of general income deducting costs, taxes and other reserved fees stipulated by laws and regulations, the sum of Fee shall be determined by Party A taking account of the following factors:

- (1) The technical difficulty and complexity of the services;
- (2) The time spent by employs of Party A concerning the services;
- (3) The contents and commercial value of the services;
- (4) The benchmark price of similar services in the market.

3. Party A will calculate the fee payable on a fixed term (determined by Party A) basis and send Party B the bill of service fee for the previous term. Party B shall pay the fee to the bank account designated by Party A within 10 business days after receipt of the bill, and send copy of the remittance certificate by facsimile or mail to Party A within 10 business days after payment.

Appendix 3: Right and Obligation Assumption Letter

This entity, is the subsidiary of Beijing Lebai Education Consulting Co., Ltd. (Beijing Lebai), established and registered on (date). Beijing Lebai possesses % of this entity's share.

In accordance with Exclusive Business Cooperation Agreement ("Agreement") entered into by and between Beijing Lebai, Beijing Lebai Information Consulting Co., Ltd. And other relevant parties, this entity shall join the Agreement according to Article 10.1 of the Agreement as the new subsidiary of Party B under this Agreement.

This entity agree to join the Agreement as a new subsidiary of Party B, enjoy rights under the Agreement, and perform obligations according to the Agreement. This Assumption Letter came into effect upon the date of execution.

Signature of Legal Representative: []
Date:

Exclusive Option Agreement

This Exclusive Option Agreement (this “Agreement”), dated as of October 26, 2015, is made by and among the following parties in Beijing, the People’s Republic of China (“PRC”), and is the revised and restated version of the Exclusive Option Agreements executed on August 2, 2012:

Party A: Beijing Lebai Information Consulting Co., Ltd.

Party B: Beijing Xueersi Education Technology Co., Ltd.

Party C: Beijing Lebai Education Consulting Co., Ltd.

(Party A, Party B and Party C are respectively hereinafter referred to as “Party”, and are collectively referred to as “Parties”)

WHEREAS:

Party B owns 100% of the equity interests of Party C. Through amiable negotiation, the Parties mentioned above intend to enter into an agreement concerning Party A purchasing the equity interests of Party C owned by Party B.

NOW THEREFORE, the Parties through amiable negotiations agree as follows:

1. Option Granted

1.1 Party B hereby irrevocably grants to Party A, on the condition that it is permitted under the PRC law, the exclusive and irrevocable right to purchase on its own or designate another person(s) (“**Designated Person**”) to purchase from Party B all or part of the equity interests of Party C held by Party B at once or through several times with the price provided under the Article 1.3 of this Agreement at any time (“**Purchase Right**”) in accordance with the procedure determined by Party A. Except for Party A and this Designated Person, any other third party shall not have Purchase Right and any other right related to the equity interest owns by Party B. Party C hereby agrees Party B grant Purchase Right to Party A. The word “person” in this Section and this Agreement shall mean any natural person, company, joint venture, partnership, enterprise, trust and other unincorporated organizations.

1.2 Exercise Procedure

Party A to exercise its Purchase Right shall be subject to the provision of PRC laws and regulations. In the event that the Party A exercise its Purchase Right, Party A shall provide a written notice to Party B (“**Purchase Notice**”), such Purchase Notice shall specify the following information: (a) the decision of Party A to exercise its Purchase Right; (b) the portion of equity interest Party A intends to purchase (“**Purchased Share**”); and (c) the date for purchasing Purchased Share and/or the date to transfer Purchased Share.

1.3 Purchase Price

Unless appraisal is required under the PRC laws or regulations, the purchase price when Party A exercises its Purchase Right, the purchase price of the Purchased Share (“**Purchase Price**”) shall be the lowest price permitted under PRC laws.

1.4 The Transfer of Purchased Share

For each exercise of Purchase Right by Party A,

- 1.4.1 Party B shall cause Party C to hold a shareholder meeting timely, in which a resolution shall be adopted to approve Party B’s transfer Purchased Share to Party A and/or Designated Person(s) in this shareholder meeting;
- 1.4.2 Party B shall obtain the written statement from other shareholders of Party C giving their consents to the transfer of Purchased Share from Party B to Party A and/or Designated Person(s) and waiving any right of first refusal hereto;
- 1.4.3 Party B shall enter into agreements for each transfer of Purchased Share (“**Transferred Agreement**”) with Party A and/or Designated Person(s) (as applicable) in accordance with the provisions of this Agreement and the Purchase Notice.
- 1.4.4 All relevant Parties shall execute all necessary agreements, contracts, or documents, obtain all necessary governmental licenses and permits and take all necessary actions to transfer valid ownership of the Purchased Share without any security interest on it to Party A and/or Designated Person(s) and shall cause Party A and/or Designated Person(s) become the registered owner(s) of the Purchased Share. For the purpose of this Section and this Agreement, the “security interest” shall include any security, pledge, their party’s right or interest, any stock option, acquisition right, right of first refusal, right to offset, ownership retention and any other security arrangement, provided that, for avoidance of doubt, such security interest shall exclude any security interest created under this Agreement and the Equity Interest Pledge Agreement. For the purpose of this Section and this Agreement the “**Equity Interest Pledge Agreement**” as used in this Section and this Agreement shall mean the Equity Interest Pledge Agreement entered by an among Party A, Party B and Party C as of the date hereof (the “**Equity Interest Pledge Agreement**”), whereby Party B pledges all the equity interest of Party C it owns to Party A, in order to guarantee Party C’s performance of obligations under the Exclusive Business Cooperation Agreement entered by Party C and Party A.

2. Covenants

2.1 Covenants regarding Party C

Party B (as the shareholder of Party C) and Party C hereby covenants as follows:

- 2.1.1 They shall not supplement, change or amend the Articles of Association and bylaws of Party C in any manner, increase or reduce Party C’s registered capital or change Party C’s structure of registered capital in any other manner without Party A’s prior written consent;

- 2.1.2 They shall operate Party C's corporate existence in accordance with good financial and business standards and practices by prudently and effectively operating its business and handling its affairs;
- 2.1.3 Without the prior written consent of Party A, they shall not at any time following the date hereof sell, transfer, mortgage or dispose in any manner any assets of Party C or legal or beneficial interest in the business or revenues of Party C, or allow the encumbrance hereon of any security interest;
- 2.1.4 without the prior agreement of Party A, they shall not incur, inherit, guarantee or suffer the existence of any debt, except for (i) the debts incurred from the ordinary course of business other than through loans, and (ii) debts disclosed to Party A for which Party A's written consent has been obtained;
- 2.1.5 they shall always operate all of the businesses of Party C in ordinary course to maintain the asset value of Party C, and refrain from any action/omission that affect Party C's operating status and asset value;
- 2.1.6 without the prior written consent of Party A, they shall not cause Party C to execute any material contract except the contracts executed during the ordinary course of business (for the purpose of this paragraph, if the value of a contract with a price exceeding RMB 100,000, such contract shall be regarded as a material contract.)
- 2.1.7 They shall not cause Party C to provide any loan or credit to any other person without the prior written consent of Party A;
- 2.1.8 they shall provide information related to the operation and financial condition of Party C to Party A as Party A requires;
- 2.1.9 if requested by Party A, it shall procure and maintain insurance in respect of the asset and business of Party C from an insurance company agreed by Party A, at the amount and types of coverage typical for companies that operate similar business;
- 2.1.10 without the prior written consent of Party A, it shall not allow Party C to merge or consolidate with, invest in or acquire any other person;
- 2.1.11 without the prior written consent of Party A, they shall not liquidate, dissolve, or deregister Party C;
- 2.1.12 they shall inform Party A immediately of any litigation, arbitration or administrative proceeding that will occur or may occur related to the assets, businesses, revenues of Party C;
- 2.1.13 it shall execute all necessary or appropriate documents, take any necessary or appropriate actions and provide all necessary or appropriate complaints or raise all necessary or appropriate defense against claims against to maintain the ownership of all of the asset of Party C;
- 2.1.14 they shall not issue any dividend to the Party C's shareholders in any manner without the prior written agreement of Party A, provided that upon the written request of Party A, Party C shall immediately distribute all distributable profits to Party C's shareholders; and
- 2.1.15 they shall appoint the designee of Party A as the Party C's directors as required by Party A.

2.2 Covenant of Party B

Party B hereby covenants that:

- 2.2.1 Party B shall not sell, transfer, mortgage or dispose of in any other manner any legal or beneficial interest in the equity interest of Party C owned by Party B, or allow to create any encumbrance thereon of security interest, except for the pledge of equity interest placed in accordance with Equity Interest Pledge Agreement of Party B and the security interest that has disclosed to Party A before the execution of this Agreement;
- 2.2.2 Party B shall cause the shareholder meeting and/or board of directors not to approve any sale, transfer, pledge or deposition in any manner of equity interest or legal or beneficial interest in equity interest of Party C held by Party B or allow the encumbrance thereon of any security interest, without prior consent of Party A, except for pledge of equity interest placed in accordance with Equity Interest Pledge Agreement of Party B and the security interest that has disclosed to Party A before the execution of this Agreement;
- 2.2.3 Party B shall cause the shareholder meeting and/or board of directors not to approve any merger, consolidation between Party C and any other person or investment or acquisition other person by Party C without prior written consent of Party A.
- 2.2.4 Party B shall inform Party A immediately of any litigation, arbitration or administrative procedure that will occur or may occur related to the asset, business, revenue of Party C;
- 2.2.5 Party B shall cause the shareholder meeting or the board of directors to vote their approval the transfer of Purchased Share as set forth in this Agreement and take any and all other actions as the Party A may require;
- 2.2.6 to the extent necessary to maintain the ownership of all of the asset of Party C, Party B shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise all necessary and appropriate defenses against all the claims;
- 2.2.7 Party B shall appoint any designee of Party A as the Party C's directors as required by Party A.
- 2.2.8 Party B shall transfer the equity interest of Party C it owns to Party A and/or Designated Person(s) in accordance with the Purchase Right provided in this Agreement immediately and unconditionally upon the request by Party A at any time, and Party B hereby waives its right of first refusal to the equity interest transferred by another existing shareholder of Party C (if any); and
- 2.2.9 Party B shall strictly abide by the provision of this Agreement and other agreements jointly or respectively executed by and among Party B, Party C and Party A, perform the obligations thereunder, and shall refrain from any action/omission that may affect the effectiveness and enforceability thereof. If Party B has any remaining right in the equity interest under this Agreement, the Equity Interest Pledge Agreement entered by and among the Parties, or in the equity interest granted to Party A as the beneficial owner under the Power of Attorney, Party B shall not exercise any of such remaining right without the written direction of Party A.

3. Representations and Warranties

Party B and Party C hereby represents and warrants to Party A, jointly and severally, as of the date of this Agreement and each date of transferring the Purchased Share that:

- 3.1 It has the authorization to execute and deliver this Agreement and perform all the obligations hereunder. Party B and Party C agrees to execute a Transfer Agreement consistent with this Agreement when Party A exercises its Purchase Right. This Agreement and the Transfer Agreement to which the Parties are the parties shall constitute, or will constitute the legal, valid, and binding obligations and shall be enforceable against them in accordance with its provisions and conditions.
- 3.2 The execution and delivery of this Agreement or any Transfer Agreement and the performance of obligations under this Agreement or any Transfer Agreement shall not (i) cause any violation of applicable law of PRC; (ii) be inconsistent with with the Articles of Association, bylaws or other organizational documents of Party C; (iii) cause any breach of agreement or instrument to which they are a party or which are binding on them; (iv) cause any violation to any condition for the grant and/or continued effectiveness of any license or permit issued to either of them; or (v) cause suspension or revocation or imposition any additional condition to any license or permit issue to either of them;
- 3.3 Party B shall have good and merchantable title to the equity interest of Party C it owns. Except for the pledge of equity interest placed in accordance with Equity Interest Pledge Agreement of Party B and the security interest that has disclosed to Party A before the execution of this Agreement, Party B has not placed any security interest on such equity interest;
- 3.4 Party C shall have good and merchantable title to all of its assets, and it has not placed any security interest on the aforementioned assets;
- 3.5 Party C does not have any outstanding debt, except for (i) debt incurred in the ordinary course of business, and (ii) the debts disclosed to Party A for which Party A's written consent has been obtained.
- 3.6 there is no pending or threatened litigation, arbitration or administrative proceeding relating to the equity interest in Party C, asset of Party C or Party C.

4. Effective Date

- 4.1 This Agreement shall become effective upon the execution by each Parties. The term of this Agreement shall be permanent until all of the obligations and rights under this Agreement are completely performed.

5. Governing Law and Dispute Resolution

5.1 Governing Law

The execution, effectiveness, construction, performance, amendment and termination of this Agreement and the resolution of disputes hereunder shall be governed by the formally published and publicly available laws of PRC Matters not covered by formally published and publicly available laws of PRC shall be governed by international legal principles and practices.

5.2 Methods of Resolution of Disputes

In the event of any dispute with respect to the construction and performance of this Agreement, the Parties shall first resolve the dispute through friendly negotiations. In the event the Parties fail to reach an agreement on the dispute within 30 days after either Party's request to the other Parties for resolution of the dispute through negotiations, either Party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, and to be solved in accordance with its effective Arbitration Rules. The arbitration shall be conducted in Beijing, and the language used in arbitration shall be Chinese. The arbitration award shall be final and binding on all Parties.

6. Taxes and Fees

6.1 Each Party shall pay any and all transfer and registration tax, expenses and fees incurred thereby or levied thereon in accordance with the laws of PRC in connection with the preparation and execution of this Agreement and the Transfer Agreement, as well as the consummation of the transactions contemplated under this Agreement and the Transfer Agreement.

7. Notices

7.1 All notices and other communications required or permitted to be given pursuant to this Agreement shall be delivered personally or sent by registered mail, postage prepaid, by a commercial courier service or by facsimile transmission to the address of such Party set forth below. A confirmation copy of each notice shall also be sent by email. The dates on which notices shall be deemed to have been effectively given shall be determined as follows:

7.1.1 Notice given by personal delivery, by courier service or by registered mail, postage prepaid, shall be deemed effectively given on the date of delivery or refusal at the address specified for notices.

7.1.2 Notices given by facsimile transmission shall be deemed effectively given on the date of successful transmission (as evidenced by an automatically generated confirmation of transmission).

7.2 For the purpose of notices, the addresses of the Parties are as follows:

Party A: Beijing Lebai Information Consulting Co., Ltd.
Address: 4-02,4-09,4-10,4-15 Fool 4th Building 4, Yard 6, Futongdongda Street, Wangjing, Chaoyang District Beijing.
Attention: Wei CAO
Phone:010-64279166
Facsimiles: 010-64296945

Party B: Beijing Xueersi Education Technology Co., Ltd.
Address: Fool 12th Danling SOHO Building, No. 6 Danling Street, Haidian District, Beijing
Attention: Haifeng ZHOU
Phone:010-52926669

Party C: Beijing Lebai Education Consulting Co., Ltd.
Address: 4-02,4-09,4-10,4-15 Fool 4th Building 4, Yard 6, Futongdongda Street, Wangjing, Chaoyang District Beijing.
Attention: Wei CAO
Phone:010-64279166
Facsimiles: 010-64296945

Any Party may at any time change its address for notices by a notice delivered to other Parties in accordance with the term hereof.

8. Confidentiality

The Parties acknowledge that the existence and the terms of this Agreement and any oral or written information exchanged between the Parties in connection with this Agreement are regarded as confidential information. Each Party shall maintain confidentiality of all such confidential information and without obtaining the written consent of the other Party, it shall not disclose any relevant confidential information to any third parties, except for the information that (a) is or will be in the public domain (other than through the receiving Party's unauthorized disclosure); (b) is under the obligation to be disclosed pursuant to the applicable laws or regulations, rules of any stock exchange, or orders of the court or other government authorities; or (c) is needed to be disclosed by any Party to its legal counsels or financial advisors regarding the transaction contemplated hereunder, provided that such legal counsels or financial advisors shall be bound by the confidentiality obligations similar to those set forth in this Sections. Disclosure of any confidential information by the staff members or agencies hired by any Party shall be deemed disclosure of such confidential information by such Party, which Party shall be held liable for breach of this Agreement. This Section shall survive the termination of this Agreement for any reason.

9. Further Warranties

The Parties agree to promptly execute documents that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement and take further actions that are reasonably required for or are conducive to the implementation of the provisions and purposes of this Agreement.

10. Miscellaneous

10.1 Amendment, Change and Supplement

Any amendment, change and supplement to this Agreement shall require the execution of a written agreement by all of the Parties.

10.2 Entire Agreement

Except for the amendment, supplements or changes in writing executed after the execution of this Agreement, this Agreement shall constitute the entire agreement reached by and among the Parties hereto with respect to the subject matter hereof, and shall supersede all prior oral and written consultations, representations and contracts reached with respect to the subject matter of this Agreement.

10.3 Headings

The headings of this Agreement are for convenience only, and shall not be used to interpret, explain or otherwise affect the meaning of the provisions of this Agreement.

10.4 Language

This Agreement has three copies, and each copy has equal legal validity.

10.5 Severability

In the event that one or several of the provisions of this Agreement are found to be invalid, illegal or unenforceable in any aspect in accordance with any laws or regulations, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or compromised in any respect. The Parties shall strive in good faith to replace such invalid, illegal or unenforceable provisions with effective provisions that accomplish to the greatest extent permitted by law and the intentions of the Parties, and the economic effect of such effective provisions shall be as closed as possible to the economic effect of those invalid, illegal or unenforceable provisions.

10.6 Successors

This Agreement shall be binding on and shall inure to the interest of the respective successors of the Parties and the permitted assigns of such Parties.

10.7 Survival

10.7.1 Any obligations that occur or that are due as a result of this Agreement upon the expiration or early termination of this Agreement shall survive the expiration or early terminations hereof.

10.7.2 The provisions of Section 5, 7, 8 and this Section 10.7 shall survive the termination of this Agreement.

10.8 Waivers

Any Party may waive the terms and conditions of this Agreement, provided that such a waiver must be provided in writing and shall require the signatures of the Parties. No waiver by any Party in certain circumstances with respect to a breach by other Parties shall operate as a waiver by such a Party with respect to any similar breach in other circumstances.

10.9 Upon the execution of this Agreement, this Agreement shall supersede and replace any promise, memorandum, agreement and any other document concerning the matters involved in this Agreement, including but not limited to the Exclusive Option Agreement by and among Party A, Party C and other relevant parties on August 2, 2012.

(There is no text in the remaining page.)

IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute this Exclusive Option Agreement as of the date first above written.

Party A: Beijing Lebai Information Consulting Co., Ltd. (Seal) /Seal/
Authorized Representative: /s/ Authorized Representative

IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute this Exclusive Option Agreement as of the date first above written.

Party B: Beijing Xueersi Education Technology Co., Ltd. (Seal) /Seal/
Authorized Representative: /s/ Authorized Representative

IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute this Exclusive Option Agreement as of the date first above written.

Party C: Beijing Lebai Education Consulting Co., Ltd. (Seal)/Seal/
/s/ Ying Wu
Name: Ying WU
Position: Legal Representative

Equity Interest Pledge Agreement

This Equity Interest Pledge Agreement (“**Agreement**”) is entered into as of the date of October 26, 2015 by and between the following parties in Beijing, the People’s Republic of China (“**PRC**”), and is the revised and restated version of the Equity Interest Pledge Agreement executed on August 2, 2012 by Beijing Lebai Information Consulting Co., Ltd.:

Party A:

Beijing Lebai Information Consulting Co., Ltd.;

Party B:

Beijing Xueersi Education Technology Co., Ltd.; and

Party C:

Beijing Lebai Education Consulting Co., Ltd.

(Each of Party A, Party B and Party C, a “**Party**”, and collectively the “**Parties**”).

WHEREAS,

- (1) Party A, Party B and Party C have already executed the agreements listed in Appendix I (the “**Main Agreements**”);
- (2) Party B collectively owns 100% of the equity interests of Party C, and Party B plans to pledge the equity interest of Party C it owns to Party A unconditionally, as a security for the performance of the obligations by Party B and Party C under the Main Agreements, and Party A agrees to accept such security (the “**Pledge**”).

NOW THEREFORE, Party A, Party B and Party C through mutual negotiations hereby enter into this Agreement based upon the following terms:

1. Pledge

Party B agrees to pledge the equity interests of Party C it owns (the “**Pledged Equity Interests**”) to Party A unconditionally, as a security for the performance of the obligations by Party B and Party C under the Main Agreements.

2. Scope of Pledge

The Pledge under this Agreement extends to all obligations of Party B and Party C under the Main Agreements (including but not limited to any amounts, penalties, damages, etc. payable but not paid to Party A), any fees for exercising the creditor’s rights and the Pledge right, and any other related expenses, and shall not be limited to the amounts of secured creditor’s right recorded in Industrial and Commercial Authority.

3. Term and Dissolution of Pledge

- 3.1 The Pledge under this Agreement shall be effective from the date of registration of the Pledge with competent Industrial and Commercial authorities to the date on which the Main Agreements are completely performed, invalidated or terminated (the later date shall prevail). In the term of Pledge, if Party B and Party C fail to perform any of their obligations under the Main Agreements, or in case of occurrence of any of the events provided in Article 6.1, Party A is entitled to dispose the Pledged Equity Interests in accordance with the provisions of this Agreement.
- 3.2 When all Main Agreements are performed entirely or terminated or become invalid (the later date shall prevail) and Party B and Party C fully and entirely perform obligations under Main Agreements and pay off entire secured debt, Party A shall rescind the Pledge under this Agreement according to Party B's request, and assist Party B to deregister the Pledge recorded in Shareholders' Book of Party C and registered with the competent Industrial and Commercial Authority. All fees and expenses arising from such deregistration of the Pledge shall be borne by Party C.

4. Registration of Pledge and Retention of Equity Interest Record

- 4.1 Party B and Party C promise to Party A that, Party B and Party C shall: (i) on the date of the execution of the Agreement, record the Pledge under this Agreement on the Shareholders' Book of Party C according to Appendix II and hand the recorded Shareholders' Book to Party A for its keep; and (ii) within thirty (30) business days after the execution of this Agreement or other practically shortest period, register the Pledged Equity Interests with relevant Industrial and Commercial authority and obtain evidencing documents of such registration. Without limitation to any provision of this Agreement, during the effective period of this Agreement the Shareholders' Book of Party C shall always be in the custody of Party A or any agent designated by Party A, unless any necessary registration or alteration procedures are required to be fulfilled in the operation of Party C or the Subsidiaries.
- 4.2 Party B and Party C further covenant that after the execution of this Agreement, Party B may make capital increase to Party C with the prior consent of Party A provided that any capital increase by Party B to Party C constitutes an integrated part of the Pledged Equity Interests of this Agreement. Party B and Party C shall make necessary modification to the Shareholders' Book and capital contribution of relevant companies and conduct the pledge registration procedures according to Article 4.1.
- 4.3 All fees and expenses related to this Agreement, including but not limited to registration fee, cost, stamp tax or any other taxes, expenses shall be borne by Party A according to relevant laws and regulations.

4.4 During the term of Pledge stipulated by this Agreement, Party B shall deliver the capital contribution certificate to Party A within one (1) week after the execution of this Agreement. Party A shall keep the capital contribution certificate within the entire term of Pledge. Within the term of Pledge, Party A is entitled to collect the dividends of the Pledged Equity Interests.

5. Covenants and Warranties of Party B and Party C

Party B and Party C hereby jointly and severally covenant and warrant to Party A as follows:

- 5.1 Party B is the lawful owner of the Pledged Equity Interests and there exists no dispute or potential dispute concerning the ownership of such equity interests. Party B has the right to dispose such equity interests or any part thereof without any restrictions by any third party.
- 5.2 Except for the Pledge provided hereunder and in the Exclusive Option Agreement executed by relevant parties, Party B has not established any other pledge or other interests of any third party over the Pledged Equity Interests.
- 5.3 Party B and Party C fully understand the contents of this Agreement and the execution of the Agreement by Party B and Party C is based on true and free will. Party B and Party C have taken all necessary measures and obtained all necessary internal authorization to execute and perform this Agreement, and signed all necessary documents to make sure the Pledge under the Agreement is lawful and valid.
- 5.4 During the effective period of this Agreement, Party B shall not transfer or assign the Pledged Equity Interests, authorize any rights relating to the Pledged Equity Interests to any third party, or create or permit to be created any security or other interests which may have an adverse effect on the rights or benefits of the Party A without prior written consent of Party A.
- 5.5 During the effective period of this Agreement, Party B and Party C shall abide by and implement all relevant PRC laws and regulations concerning the pledge of rights, and in the event Party B and Party C receive any notice, order or suggestion from competent authorities concerning the Pledged Equity Interests and/or the Pledge hereunder, Party B and Party C shall timely notify and show Party A of such notice or order within five (5) business days upon receipt thereof.

- 5.6 Party B and Party C shall not conduct or permit to be conducted anything that shall damage the value of the Pledged Equity Interests or the Pledge right of Party A. Party B and Party C shall notice Party A of any events that may influence the value of the Pledged Equity Interests or the Pledge right of Party A within five (5) business days after its knowledge of such events.
- 5.7 The Pledge under this Agreement shall remain fully effective during the effective period of the Agreement, and shall not be influenced by liquidation, lost of capacity, change of organization or status, any capital offset among the Parties or any other events.
- 5.8 For the purpose of performance of this Agreement, Party A is entitled to dispose the Pledged Equity Interests in accordance with the provision of this Agreement. Party A's exercise of such right shall not be interrupted or jeopardized by Party B and Party C, their successors or agents, or any other persons by way of legal proceedings.
- 5.9 In order to ensure and consummate the security provided by this Agreement over the obligations of Party B and Party C under the Main Agreements, Party B and Party C shall faithfully sign and cause any third party who is beneficially related to the Pledged Equity Interests to sign all certificates and agreements in connection with the performance of the Agreement, and/or cause such third party to take any measures required by Party A and provide convenience to Party A concerning the exercise of the Pledge right hereunder.
- 5.10 In order to ensure the interests of Party A, Party B and Party C shall abide by and perform all warranties, covenants, agreements, representations and conditions. In the event Party B and/or Party C failed to do so and resulted in damages to Party A, Party B and/or Party C shall indemnify Party A for all of such damages and losses.

6. Events of Default and Exercise of the Pledge Right

- 6.1 In case of any of the following events ("**Events of Default**") which shall be permitted by relevant PRC's laws and regulations, Party A may require Party B or Party C to perform all the obligations under this Agreement and the Pledge under the Agreement may be performed immediately:
 - a) Party B violates its covenants and warranties under this Agreement, or any covenants and warranties made by Party B in this Agreement are seriously untrue;
 - b) Party B or Party C violates any of its obligations or covenants and warranties under the Main Agreements, or any covenants and warranties made by Party B or Party C in the Main Agreements are seriously untrue;
 - c) The termination of business or dissolution of Party C, or the termination of business, dissolution or bankruptcy of Party C by any order;
 - d) Party B and/or Party C are involved in any disputes, litigations, arbitrations, administrative procedures or any other legal procedures or administrative query, actions or investigations that deemed reasonably to have material adverse effect on the following events: (i) the capacity of Party B to perform its obligations under this Agreement or the Main Agreements, or (ii) the capacity of Party C to perform its obligations under this Agreement or the Main Agreements;
 - e) Any other events of the disposal of the Pledged Equity Interest according to applicable laws and regulations.

- 6.2 In case of any of the aforesaid Events of Default, Party A may exercise its Pledge right by purchasing, designating any other party to purchase, auctioning, or selling all or part of the Pledged Equity Interests. Party A may exercise such Pledge right without exercising any other security rights, or take any other measures or proceedings against Party B and/or Party C or any other parties.
- 6.3 Upon request by Party A, Party B and Party C shall take all the lawful and appropriate measures to ensure the exercise of the Pledge right by Party A. for such purpose, Party B and Party C shall sign all appropriate documents and materials, and take all proper measures requested by Party A.

7. Transfer or Assignment

- 7.1 Party B and Party C have no right to transfer or assign the rights and obligations under this Agreement without the prior written consent from Party A, except that Party A acquires the Pledged Equity Interests directly or indirectly according to the Exclusive Option Agreement.
- 7.2 The Agreement shall be binding upon the Party B and its successors and be effective upon Party A and its successors and assignees.
- 7.3 Party A may transfer or assign all and any of its rights and obligations under the Main Agreements to any person (natural or legal person) it designates. In this case, the assignee shall enjoy and undertake the same rights and obligations herein of Party A as if the assignee is a party hereto. Upon Party A's transfer or assignment of the rights and obligations under the Main Agreements and at Party A's request, Party B and/or Party C shall execute relevant agreements and/or documents with respect to such transfer or assignment, including but not limited to executing a new equity interest agreements, the format and contents of which shall be the same with this Agreement, with the assignee.
- 7.4 Subsequent to an assignment or transfer by Party A, the new parties to the Pledge shall re-execute a pledge contract. Party B and Party C shall provide assistance to the assignee with respect to the registration procedures of the Pledge.

8. Confidentiality

This Agreement and all clauses hereof belong to confidential information and shall not be disclosed to any third party except for high-ranking officers, directors, employees, agents or professional consultants of the Parties or their affiliates. This clause shall not apply in the event parties hereto are required by relevant laws or regulations or relevant Securities Transaction Authorities to disclose information relating to this Agreement to any governmental authorities, the public or the shareholders, or file this Agreement with relevant authorities for record.

This clause shall survive any modification, dissolution or termination of this Agreement.

9. Liabilities for Breach of Agreement

In the event any Party failed to perform any of its obligations under this Agreement, or made any untrue or inaccurate representations or warranties, such Party shall be liable for all the losses of other Parties for breach of the Agreement.

10. Force Majeure

Force Majeure means any event that cannot be anticipated at the time of the execution of the Agreement, and the occurrence of which cannot be avoided, controlled or conquered by any party of the Agreement, including but not limited to earthquake, typhoon, flood, fire, boycott, war or rebellion, etc..

The Party suffering such Force Majeure shall (i) notify the other parties by telegram, facsimile or other electronic means immediately after the occurrence of such Force Majeure and shall provide written documents evidencing the occurrence of such Force Majeure within fifteen (15) business days; (ii) in every instance, to the extent reasonable and lawful under the circumstances, use its best efforts to mitigate or remove the effect of such Force Majeure with all reasonable dispatch, and continue its performance of the Agreement after such effect is mitigated or removed.

11. Change of Parties

In the event that Party B no longer possesses any shares of Party C, Party B shall be deemed no longer as a party of this Agreement. In the event that any third party becomes a shareholder of Party C, Party A and Party C shall take effort to cause such third party executing relevant legal documents and becoming one of Party B of this Agreement.

12. Miscellaneous

12.1 This Agreement and any related matters shall be governed by and construed in accordance with the PRC laws. All disputes arising out of or in connection with this Agreement shall be conciliated friendly by and between the Parties. When the disputes could not be solved by conciliation, such disputes shall be finally settled under the Rules of Arbitration of the China International Economic and Trade Arbitration Commission by arbitrators appointed in accordance with rules currently effective of such arbitration commission. The arbitration ruling shall be final. The place of arbitration shall be in Beijing. Unless otherwise ruled by the arbitral tribunal, the expenses of arbitration shall be borne by the losing party. The Parties hereto shall continue to perform its obligations and exercise its rights hereunder except for those in dispute.

- 12.2 This Agreement becomes effective on the date of execution by all Parties and the Pledge hereunder are established on the date of the registration of such Pledge with the competent Industrial and Commercial Authority. Unless Party A exercises the Pledge right according to this Agreement during the effective term of this Agreement, this Agreement terminates when all the obligations under the Main Agreements are completely fulfilled, or becomes invalid, or terminated, or when any written agreements concerning the dissolution of this Agreement is reached by the Parties.
- 12.3 This Agreement shall be performed within the scope stipulated by laws. In the event any article or any part of an article is deemed as illegal, invalid or unenforceable by any competent authority or court, such illegality, invalidity or unenforceability shall not affect other articles of this Agreement or other part of this article, and other articles of this Agreement or other part of this article shall be still effective. For the original articles' purpose, Parties shall do their best effort to modify such illegal, invalid or unenforceable articles.
- 12.4 The Agreement is executed in four (4) counterparts, and each of Party A, Party B and Party C holds one counterpart, the rest one shall be submitted to relevant Industrial and Commercial authorities for filing and registration.
- 12.5 Upon the execution of this Agreement, this Agreement shall supersede and replace any promise, memorandum, agreement and any other document concerning the matters involved in this Agreement, including but not limited to the Equity Interest Pledge Agreement by and among Party A, Party C and other relevant parties on August 2, 2012..
- 12.6 Any modification of this Agreement shall be made in a written form and shall only become effective upon the signature by all Parties of the Agreement.

(There is no text in the remaining page.)

[THE SIGNATURE PAGE]

Party A: Beijing Lebai Information Consulting Co., Ltd. (Seal) /Seal/
Authorized Representative: /s/ Authorized Representative

Party B: Beijing Xueersi Education Technology Co., Ltd. (Seal) /Seal/
Authorized Representative: /s/ Authorized Representative

Party C: Beijing Lebai Education Consulting Co., Ltd. (Seal) /Seal/
Authorized Representative: /s/ Authorized Representative

Appendix I List of Main Agreements

1. Exclusive Option Agreement entered into by and among Beijing Lebai Information Consulting Co., Ltd., Beijing Xueersi Education Technology Co., Ltd. and Beijing Lebai Education Consulting Co., Ltd.
2. Exclusive Business Cooperation Agreement entered into by and among Beijing Lebai Information Consulting Co., Ltd., Beijing Xueersi Education Technology Co., Ltd., Beijing Lebai Education Consulting Co., Ltd. and subsidiaries of Beijing Lebai Education Consulting Co., Ltd.
3. Authorization Agreement entered into by and between Beijing Lebai Information Consulting Co., Ltd. and Beijing Xueersi Education Technology Co., Ltd.

Appendix II Shareholders' Book

Shareholders' Book of Beijing Lebai Education Consulting Co., Ltd.

Name of Shareholders	Amounts of Capital Contribution (RMB)	Proportion of Capital Contribution	Equity Interest Pledge
Beijing Xueersi Education Technology Co., Ltd.	RMB12,695,428.58	100%	100% of the equity interest has been pledged to Beijing Lebai Information Consulting Co., Ltd.

Beijing Lebai Education Consulting Co., Ltd. (Seal)
/Seal/

Authorized Representative:
/s/ Ying Wu
Name: Ying Wu
Occupation: Legal Representative

Power of Attorney

This Power of Attorney (“Agreement”) is entered into as of the date of October 26, 2015 by and among the following parties in Beijing, and is the revised and restated version of the Agreement executed by Beijing Lebai Information Consulting Co., Ltd. on August 2, 2012:

Party A:
Beijing Lebai Information Consulting Co., Ltd.; and

Party B:
Beijing Xueersi Education Technology Co., Ltd.

(Each of Party A and Party B, a “Party”, and collectively the “Parties”).

WHEREAS,

Party B holds 100% of equity interests (“**Equity Interests of Party B**”) of Beijing Lebai Education Consulting Co., Ltd. (“**Beijing Lebai**”).

NOW THEREFORE, Party A and Party B through mutual consultation hereby enter into this Agreement as follows:

Subject to the laws and regulations of PRC, Party B irrevocably authorizes Party A to exercise the following rights concerning the Equity Interests of Party B within the effective term of this Agreement:

Party B exclusively authorize Party A or its designated representative(s) (“**Trustee**”) to exercise its rights as its agent according to the agent’s own will, which include but not limited to:

1. Proposing the shareholders’ meeting according to Articles of Association of Beijing Lebai, participating in the shareholders’ meeting of Beijing Lebai and executing relevant resolutions;
2. Exercising all the shareholder rights of Party B on Beijing Lebai’s shareholders’ meetings according to relevant laws and regulations and the Articles of Association of Beijing Lebai, including but not limited to the right to nominate, the right to vote and the right to appoint;
3. Representing Party B to submit documents which shall be submitted by shareholders of Beijing Lebai to relevant competent governmental authorities;
4. Exercising the right of dividend, the right to sell, transfer or assign, pledge or dispose all or part of equity interests of Beijing Lebai owned by Party B, the right of distribution of residual properties after the liquidation of Beijing Lebai provided under the laws and Articles of Association of Beijing Lebai;
5. Constituting the liquidation group and exercising the authorities of liquidation group during the liquidation in the event of liquidation or dissolution, including but not limited to the management of company’s assets; and
6. Any other rights of Party B as a shareholder of Beijing Lebai.

Provided that it does not create any restriction to the authorization under this Agreement, Trustee shall have the right to execute and perform on behalf of Party B the transfer agreement of equity interest provided under Exclusive Option Agreement to which Party B is a party, and execute and perform the Equity Interest Pledge Agreement and Exclusive Agreement to which Party B is a party and any supplemental agreement thereof timely.

Within the effective term of this Power of Attorney and subject to the laws and regulations of PRC, Party B covenants to deliver the dividends, bonus or any other property distributed from Beijing Lebai to Party A or any third party designated by Party A as soon as possible within three (3) days after receipt of such dividends, bonus or any other property.

During the term that Party B is a shareholder of Beijing Lebai, this Agreement shall be irrevocable and continuously effective from the date of execution of this Agreement, regardless of the change of proportions of equity interests owned by Party B. When and only when Party A sends a written notice to Party B concerning the substitution of the Trustee, shall Party B immediately designate another Trustee designated by Party A to exercise the rights under this Agreement. Once the new authorization has been made, the new authorization shall supersede the original one. Party B shall not revoke the delegation and authorization it made to Trustee except for abovementioned event. During the effective term of this Agreement, Party B hereby waives all of the rights which have been authorized to Trustee through this Agreement and shall not exercise such rights. In the event that Party B becomes the person with no capacity for civil conduct or the person with limited capacity for civil conduct due to death, illness, etc., any successor, guardian or custodian of Party B is entitled to succeed or take custody of the rights of Party B as a shareholder of Beijing Lebai, provided that they covenants to continue to abide this Agreement.

Party B hereby acknowledges any legal consequence caused by Trustee's exercise of the authorities and agrees to bear any liabilities thereof. Party B hereby confirms that in any case Trustee shall not be required to bear any liabilities or make any economic compensation for exercise of such authorities. Moreover, Party B agrees to compensate for any damage suffered or probably suffered by Party A due to designating Trustee to exercise authorities and keep Party A harmless, including but not limited to any loss due to litigations, recoveries, arbitrations, claims for compensation or any other loss caused by inspect and punishment conducted by governmental authorities.

Party B will provide Trustee with sufficient assistance on the exercise of the abovementioned authorities, and cause Beijing Lebai to provide sufficient assistance, including timely executing the shareholders' decision or other legal documents provided by Trustee when necessary (for instance, documents required to be submitted with relevant governmental authorities for approval, registration or filing procedures), authorizing Trustee to get access to information concerning the operation, business, clients, finance, staff, etc. of Beijing Lebai in and to consult relevant materials of Beijing Lebai.

If the authorization or exercise of the abovementioned rights cannot be realized for any reason within the effective term of this Agreement (except for the reason that Party B violates this Agreement), the Parties shall seek an alternative method which is most similar with the arrangements hereunder and modify or adjust the terms and conditions of the Agreement by signing supplementary agreement as necessary to ensure the realization of the purpose of this Agreement.

This Agreement takes effect on the date of execution. This Agreement shall supersede and replace any and all covenants, memorandums, agreements and any other documents concerning the matters involved in this Agreement, including but not limited to the Power of Attorney executed by and among Party A and other relevant parties on August 2, 2012, and the Agreement shall be continuously effective during the effective term of Exclusive Business Cooperation Agreement executed by and among Party A, Beijing Lebai, Party B and other parties. During the effective term of this Agreement Party B hereby waives the rights related to Equity Interests of Party B that have been authorized to Party A, and shall not exercise such rights.

Any dispute concerning the explanation and exercise of this Agreement shall be firstly resolve through friendly negotiation by and between the Parties. In the event the Parties fail to reach an agreement on the dispute within 30 days after either Party's request to the other Parties for resolution of the dispute through negotiations, either Party may submit the relevant dispute to China International Economic and Trade Arbitration Commission, and to be solved in accordance with then effective Arbitration Rules. The place of arbitration shall be in Beijing. The language of arbitration shall be Chinese. The arbitration ruling shall be final and be binding on the Parties.

The Agreement is executed in two (2) counterparts, and each of Party A and Party B holds one counterpart. Each counterpart shall have equal legal force.

(There is no text in the remaining page.)

IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute the Agreement as of the date written in the beginning of the Agreement.

Party A: Beijing Lebai Information Consulting Co., Ltd. (Seal) /Seal/

/s/ Wu Ying

Name:

Occupation: Legal Representative

IN WITNESS WHEREOF, the Parties have caused their authorized representatives to execute the Agreement as of the date written in the beginning of the Agreement.

Party B: Beijing Xueersi Education Technology Co., Ltd. (Seal) /Seal/

/s/ YANG Qiang

Name:

Occupation:

Power of Attorney

We, Beijing Lebai Education Consulting Co., Ltd., is duly established and validly registered under the laws of the People's Republic of China ("PRC") with legal address at 4-02, 4-09, 4-10, 4-15, No. 6 Building 4 Floor 4, Wangjingfutong Street, Chaoyang District, Beijing, and holds equity interests and interests of sponsors of the following entities:

- 1) 51% of equity interests of Beijing Tianxun Education Consulting Co., Ltd.;
- 2) 100% of founders' interests of Beijing Shijingshan District Firstleap Children English Training School;
- 3) 100% of founders' interests of Beijing Chaoyang District Firstleap Children English Training School;
- 4) 100% of equity interests of Nanjing Lebai Education Information Consulting Co., Ltd.;
- 5) 100% of equity interests of Chongqing Firstleap Education Information Consulting Co., Ltd.;
- 6) 100% of equity interests of Hefei Lebai Education Consulting Co., Ltd.;
- 7) 100% of equity interests of Shenyang Libei Education Information Consulting Co., Ltd. (1-7 are collectively hereinafter referred to as "Equity Interests")

Any time after the date of the execution of this Power of Attorney, in the event that we invest in or control any other entities, including but not limited to companies, schools and other affiliates of which we hold at least 50% of investment interests, we promise to add the equity interests of such new entities to the scope of Equity Interests hereunder.

Subject to the laws and regulations of PRC, we hereby irrevocably authorize Beijing Lebai Information Consulting Co., Ltd. ("WFOE") to exercise the following rights concerning the abovementioned Equity Interests within the effective term of this Power of Attorney:

We exclusively authorize WFOE or its designated representative(s) ("Trustee") to exercise our rights as our agent according to the agent's own will, which include but not limited to:

1. Proposing the shareholders' meeting or the board meeting according to Articles of Association of the companies or schools (as applicable), participating in the shareholders' meeting and the board meeting of the companies or schools, and executing relevant resolutions;
 2. Exercising all the rights of shareholder or sponsor of the companies or schools on their shareholders' meetings or board meetings according to relevant laws and regulations and the Articles of Association of such companies or schools, including but not limited to the right to nominate, the right to vote and the right to appoint;
 3. Representing us to submit documents which shall be submitted by shareholders or sponsors to relevant competent governmental authorities;
 4. Exercising the right of dividend, the right to sell, transfer or assign, pledge or dispose all or part of equity interests owned by us, the right of distribution of residual properties after the liquidation of the companies provided under the laws and Articles of Association of the companies;
 5. Constituting the liquidation group and exercising the authorities of liquidation group during the liquidation in the event of liquidation or dissolution, including but not limited to the management of companies' assets; and
 6. Any other rights of us as a shareholder of the companies.
-

Within the effective term of this Power of Attorney and subject to the laws and regulations of PRC, we covenant to deliver the dividends, bonus or any other property distributed from the companies to WFOE or any third party designated by WFOE as soon as possible within three (3) days after receipt of such dividends, bonus or any other property.

During the term that we are a shareholder of the companies, this Power of Attorney shall be irrevocable and continuously effective from the date of execution of this Power of Attorney, regardless of the change of proportions of equity interests owned by us. When and only when WFOE sends a written notice to us concerning the substitution of the Trustee, shall us immediately designate another Trustee designated by WFOE to exercise the rights under this Power of Attorney. Once the new authorization has been made, the new authorization shall supersede the original one. We shall not revoke the delegation and authorization it made to Trustee except for abovementioned event. During the effective term of this Power of Attorney, we hereby waive all of the rights which have been authorized to Trustee through this Power of Attorney and shall not exercise such rights.

We hereby acknowledge any legal consequences caused by Trustee's exercise of the authorities and agree to bear any liabilities thereof. We hereby confirm that in any case Trustee shall not be required to bear any liabilities or make any economic compensation for exercise of such authorities. Moreover, we agree to compensate for any damage suffered or probably suffered by WFOE due to designating Trustee to exercise authorities and keep WFOE harmless, including but not limited to any loss due to litigations, recoveries, arbitrations, claims for compensation or any other loss caused by inspect and punishment conducted by governmental authorities.

We will provide Trustee with sufficient assistance on the exercise of the abovementioned authorities, and cause the companies to provide sufficient assistance, including timely executing the shareholders' decision or other legal documents provided by Trustee when necessary (for instance, documents required to be submitted with relevant governmental authorities for approval, registration or filing procedures), authorizing Trustee to get access to information concerning the operation, business, clients, finance, staff, etc. of the companies and to consult relevant materials of the companies.

If the authorization or exercise of the abovementioned rights cannot be realized for any reason within the effective term of the Power of Attorney (except for the reason that we violates this Power of Attorney), the parties shall seek an alternative method which is most similar with the arrangements hereunder and modify or adjust the terms and conditions of the Power of Attorney by signing supplementary agreement as necessary to ensure the realization of the purpose of the Power of Attorney.

This Power of Attorney takes effect on the date of execution, and shall be continuously effective during the effective term of Exclusive Business Cooperation Agreement executed by and among WFOE, the companies, we and other parties.

Beijing Lebai Education Consulting Co., Ltd. (Seal) /Seal/
Authorized Representative: /s/ Wu Ying
Date: October 26, 2015

VIE TERMINATION AGREEMENT

AMONG

EACH PERSON LISTED IN SCHEDULE 1 HERETO

BEIJING CENTURY TAL EDUCATION TECHNOLOGY CO., LTD.

AND

BEIJING DONGFANGRENLI SCIENCE & COMMERCE CO., LTD.

VIE Termination Agreement

This VIE Termination Agreement (this "Agreement"), dated as of July 2, 2015, is made in Beijing, the People's Republic of China ("China"), by and among:

- (1) Each person listed in Schedule 1 hereto (individually and jointly, "Party A");
- (2) Beijing Century TAL Education Technology Co., Ltd. ("Party B");
Address: Room 1702-03, Lantian Hesheng Building, 32 Zhongguancun Street, Haidian District, Beijing
Legal representative: ZHANG Bangxin

And

- (3) Beijing Dongfangrenli Science & Commerce Co., Ltd. ("Party C" or the "Company");
Address: 305, Floor 3, Building 7, 1 Balizhuang Beili, Chaoyang District, Beijing
Legal representative: LIU Yachao

In this Agreement, Party A, Party B and Party C is referred to as individually, a "Party", and collectively, the "Parties".

WHEREAS:

1. Party A, Party B and Party C have entered into an Exclusive Service Agreement, an Option Agreement, and an Equity Pledge Agreement dated December 27, 2011;
2. Party A has issued a Power of Attorney dated December 27, 2011;
3. Each of the Parties intends to terminate all of the rights and obligations under the Exclusive Service Agreement, the Option Agreement, the Equity Pledge Agreement and the Power of Attorney (collectively, the "Control Agreements"); and
4. The terms used but not defined in this Agreement shall have the meaning ascribed to it in the Control Agreements.

NOW, THEREFORE, the Parties agree as follows:

1. Termination of rights and obligations under the Control Agreement

- 1.1 The Parties agree that the effect and force of the Control Agreements shall be terminated as of the date hereof, and the rights and obligations of each of the Parties therein shall be simultaneously terminated, including without limitation all rights of obligations of each of Party B and Party C under the Exclusive Service Agreement, the equity pledge between Party A and Party B under the Equity Pledge Agreement, and the call option of Party B under the Option Agreement.

1.2 Notwithstanding the foregoing, the terms regarding confidentiality, governing law and dispute resolution (if any) in the Control Agreements shall survive the termination.

1.3 If any Party is held liable for any damages due to its breach of any term of the Control Agreements prior to the date hereof, the other Parties agree to waive such liability and not to hold the breach Party liable therefor.

2. Representations and Warranties

Each of the Parties represents and warrants to the other Parties that as of the date hereof:

2.1 This Agreement, upon execution, constitutes its legal, valid and binding obligation, and enforceable against its pursuant to the terms hereof; and

2.2 Its execution, delivery and performance of this Agreement will not conflict with, restrict or breach any law, regulation or agreement to which it is subject or a party.

3. Breach Liability

If this Agreement is wholly or partially unenforceable due to breach by any Party of any term under this Agreement, the breaching Party shall be held liable for any loss incurred by the non-breaching Parties (including any lawsuit and legal fees arising therefrom).

4. Notice

4.1 Any notice, request, demand and other communication required or otherwise made under this Agreement shall be delivered to the applicable Party in writing.

4.2 The notice or any other communication shall be deemed duly received upon transmission if it is delivered by facsimile or telex, and upon delivery by person and five (5) days after it is deposited with the mailing services provider if it is delivered by mail.

5. Confidentiality

Each of the Parties acknowledges and confirms that the contents of this Agreement and any oral or written information communicated among the Parties regarding this Agreement shall be confidential. Each of the Parties shall keep such information in confidence and may not disclose it to any third party without prior written consent from the other Parties, except for any information that is (a) known or to be known by the general public without unauthorized disclosure by the receiving Party; (b) required to be disclosed under applicable laws or regulations; or (c) disclosed by any Party to its legal or financial advisor in connection with the transaction contemplated hereunder, provided that such legal or financial advisor is subject to confidentiality obligation similar to this Section 5. Unauthorized disclosure by any Party's employee or service provider shall be deemed disclosure by such Party for which it shall be held liable. This Section 5 shall survive termination of this Agreement for any cause.

6. Governing Law and Dispute Resolution

- 6.1 The execution, validity, interpretation, performance, amendment and termination of this Agreement and the resolution of any dispute arising therefrom shall be governed by the PRC laws.
- 6.2 Any dispute arising from or in connection with this Agreement shall be resolved through negotiations by the Parties and, if the negotiations fail to resolve it within 30 days, by submission by any of the Parties to arbitration by China International Economic and Trade Arbitration Commission in accordance its arbitration rules then in effect in Beijing. The arbitrary award shall be final and binding upon each of the Parties.
- 6.3 If any dispute arising from interpretation or performance of this Agreement occurs or is under arbitration, other than the matter involved in such dispute, the Parties shall continue to perform their respective rights and obligations under this Agreement.

7. Miscellaneous

- 7.1 This Agreement shall be effective as of its execution and affixture of seal by the Parties.
- 7.2 This Agreement is made in Chinese.
- 7.3 This Agreement may be amended and supplemented with agreement by the Parties in writing. Any such amendment or supplement is an integral part of this Agreement and shall have the same effect with this Agreement.
- 7.4 Invalidity of any term under this Agreement shall not affect the remainder of this Agreement.
- 7.5 The schedule hereto is an integral part of and shall have the same effect with this Agreement.

(No text below)

IN WITNESS WHEREOF, each of the Parties has, or caused his/her authorized representative to have, signed this VIE Termination Agreement on the date first written above.

Party A:

ZHANG Bangxin

Signature: /s/ ZHANG Bangxin

LIU Yachao

Signature: /s/ LIU Yachao

BAI Yunfeng

Signature: /s/ BAI Yunfeng

Signature page of VIE Termination Agreement

IN WITNESS WHEREOF, each of the Parties has, or caused his/her authorized representative to have, signed this VIE Termination Agreement on the date first written above.

Party B: Beijing Century TAL Education Technology Co., Ltd. (seal) /seal/

By: /s/ ZHANG Bangxin

Name: ZHANG Bangxin

Title: Legal representative

Party C: Beijing Dongfangrenli Science & Commerce Co., Ltd. (seal) /seal/

By: /s/ LIU Yachao

Name: LIU Yachao

Title: legal representative

Signature page of VIE Termination Agreement

Schedule 1:

Party A's Name List

Name	ID Number
ZHANG Bangxin	321182198010012913
LIU Yachao	211103198110152138
BAI Yunfeng	360521198109240073

Schedule 1 of VIE Termination Agreement

STOCK PURCHASE AGREEMENT

among

TAL Education Group

Firstleap Education

**THE SHAREHOLDERS LISTED
ON PART I OF EXHIBIT A**

and

WU YING(吴颖)

and

CAO WEI(曹伟)

Dated as of September 18, 2015

This **STOCK PURCHASE AGREEMENT** (this "Agreement"), dated as of September 18, 2015, among TAL Education Group, a company incorporated in the Cayman Islands (the "Purchaser"), Firstleap Education, a company incorporated in the Cayman Islands (the "Company"), the shareholders of the Company listed on Part I of Exhibit A hereto (collectively, the "Sellers" and individually, a "Seller") and WU Ying(吴颖), a PRC national with PRC ID No. 32640219750830001X, and CAO Wei(曹伟), a PRC national with PRC ID No. 110105197203204113 (WU Ying and CAO Wei collectively are referred to as the "Founders" and individually, a "Founder").

WHEREAS, the Company, through Beijing Lebai Educating Consulting Co., Ltd. (北京乐柏教育咨询有限公司) ("Lebai"), a limited liability company organized under the laws of the People's Republic of China (the "PRC"), is engaged in the business of providing full-service English training courses for children in the PRC (the "Business"); Lebai and its Affiliate, Beijing Tian Xun, are sponsors of the schools and training centers set forth in Exhibit C (the "Schools");

WHEREAS, each Seller owns such number of ordinary shares or Series A preferred shares, par value US\$0.0001 per share, of the Company, as is set forth opposite such Seller's name on Part I of Exhibit A hereto, which collectively represent all of the outstanding share capital of the Company (the "Shares");

WHEREAS, each of the individuals specified in Part II of Exhibit A hereto (the "Onshore Shareholders") and the Founders owns such amount of the registered capital of Lebai as is set forth opposite such Onshore Shareholder or Founder's name on Part II of Exhibit A hereto, which collectively represent all of the subscribed and contributed registered capital of Lebai as of the date hereof (the "Registered Capital");

WHEREAS, each of the Sellers wishes to sell to the Purchaser, severally but not jointly and the Purchaser wishes to purchase from each of the Sellers, the Shares, upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the Founders wish to sell and cause Onshore Shareholders to sell to the Purchaser, and the Purchaser wishes to purchase or to cause its designee(s) (the "Purchaser Designee(s)") to purchase from the Founders and Onshore Shareholders, the Registered Capital, upon the terms and subject to the conditions set forth in this Agreement and that certain Equity Transfer Agreement set forth in the form attached as Exhibit F (the "Equity Transfer Agreement");

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants hereinafter set forth, and intending to be legally bound, the Purchaser, the Sellers, the Company and the Founders hereby agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.01. Certain Defined Terms. For purposes of this Agreement:

“Action” means any claim, action, suit, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority.

“Affiliate” means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person. For the avoidance of doubt, Lebai and its subsidiaries are Affiliates of the Company.

“Ancillary Agreements” means the Shareholders’ Agreement, Employment Contracts and the Equity Transfer Agreement.

“Approval” means any approval, license, authorization, release, order, or consent required to be obtained from, or any registration, qualification, designation, declaration, filing, notice, statement or other communication required to be filed with or delivered to, any Governmental Authority or any other Person, or any waiver of any of the foregoing.

“Beijing Tian Xun” means Beijing Tian Xun Education Consulting Co., Ltd. (北京天荀教育咨询有限公司), a limited liability company duly incorporated and validly existing under the Laws of the PRC with its registered address at Room 03-901, 8th Floor of Building 2, No. 8 Courtyard, Workers’ Stadium North Road, Chaoyang District, Beijing (北京市朝阳区工人体育场北路8号院2号楼8层03-901室).

“Business Day” means any day (other than a Saturday or Sunday) on which commercial banking institutions in the Hong Kong Special Administrative Region and the PRC are open for business.

“Circular 37” means the Circular 37, issued by SAFE on July 4, 2014, titled “*Circular on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles,*” effective as of July 4, 2014, and any of its predecessors.

“Consideration Shares” has the meaning set forth in Section 9.01.

“Contract” means, as to any Person, any contract, agreement, undertaking, understanding, indenture, note, bond, loan, instrument, lease, mortgage, deed of trust, franchise, or license to which such Person is a party or by which such Person or any of its property is bound, whether oral or written.

“Control” (including the terms “controlled by” and “under common control with”), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly or as trustee, personal representative or executor, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, as trustee, personal representative or executor, by contract, credit arrangement or otherwise.

“Disclosure Schedule” means the Disclosure Schedule attached hereto, dated as of the date hereof, delivered by the Company, the Founders and the Sellers to the Purchaser in connection with this Agreement.

“Domestic Resident” has the meaning set forth in Circular 37 and/or other Law related to Circular 37.

“Encumbrance” means any security interest, pledge, hypothecation, mortgage, lien (including environmental and tax liens), violation, charge, lease, license, encumbrance, servient easement, adverse claim, reversion, reverter, preferential arrangement, restrictive covenant, condition or restriction of any kind, including any restriction on the use, voting, transfer, receipt of income or other exercise of any attributes of ownership.

“Equity Amount” means RMB 14,000,000.00, the purchase price for the Registered Capital paid by the Purchaser or the Purchaser Designee(s) pursuant to Section 2.02 of this Agreement and the Equity Transfer Agreement as of the date hereof.

“Equity Securities” means, with respect to a Person, any shares, share capital, registered capital, ownership interest, equity interest, or other securities of such Person, and any option, warrant, or right to subscribe for, acquire or purchase any of the foregoing, or any other security or instrument convertible into or exercisable or exchangeable for any of the foregoing, or any equity appreciation, phantom equity, equity plans or similar rights with respect to such Person, or any Contract of any kind for the purchase or acquisition from such Person of any of the foregoing, either directly or indirectly.

“ESOP” means the employee stock option plan adopted by the Company in 2013 and 2015

“ESOP Redemption Price” means RMB 4,321,886 as consideration for the Company to terminate the ESOP and redeem all the options granted thereunder pursuant to Section 6.02 (ix) hereof.

“Governmental Authority” means any PRC or non-PRC national, supranational, state, provincial, local, or similar government, governmental, regulatory or administrative authority, agency or commission or any court, tribunal, or judicial or arbitral body.

“Governmental Order” means any order, ruling, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“Group Company” means each of the Company, Firstleap Education HK Limited, Firstleap USA, Inc., the WFOE, Beijing Tianxun, and Lebai (and its subsidiaries), and “Group” refers to all of Group Companies collectively. The particulars of the Group Companies are set forth in Exhibit B attached hereto.

“Indebtedness” means, with respect to any Person, (a) all indebtedness of such Person, whether or not contingent, for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services, (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all obligations of such Person as lessee under leases that have been or should be, in accordance with U.S. GAAP, recorded as capital leases, (f) all obligations, contingent or otherwise, of such Person under acceptance, letter of credit or similar facilities, (g) all obligations of such Person to purchase, redeem, retire, defease or otherwise acquire for value any capital stock or registered capital of such Person or any warrants, rights or options to acquire such capital stock or registered capital, (h) all Indebtedness of others referred to in clauses (a) through (g) above guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (i) to pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness, (ii) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss, (iii) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (iv) otherwise to assure a creditor against loss, and (i) all Indebtedness referred to in clauses (a) through (g) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Encumbrance on property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness.

“Indemnifiable Loss” means, with respect to any Person, any action, claim, cost, damage, deficiency, diminution in value, disbursement, expense, liability, loss, obligation, penalty, settlement, suit, or Tax of any kind or nature, together with all interest, penalties, legal, accounting and other professional fees and expenses incurred in the investigation, collection, prosecution and defense of claims and amounts paid in settlement, that may be imposed on or otherwise incurred or suffered by such Person, whether directly or indirectly.

“Intellectual Property” means (i) patents, patent applications and statutory invention registrations, (ii) trademarks, service marks, Company Marks, Internet domain names, trade dress, trade names, logos, and other source identifiers, including registrations and applications for registration thereof, (iii) copyrights, including registrations and applications for registration thereof, (iv) software, and (v) confidential and proprietary information, including trade secrets, know-how, designs and drawings, engineering documents, technical manuals, patterns, processes, formulae, inventions and discoveries (whether patentable or not), and all related documentation, developer notes, comments and annotations, and other similar rights of the Company and its Affiliates, and all applications therefor and registrations thereof, and all rights to sue for past, present and future infringement or other violations of the Intellectual Property, and all goodwill associated with any of the foregoing.

“Law” means any PRC or non-PRC national, supranational, state, provincial, local or similar statute, law, ordinance, regulation, rule, code, Governmental Order, requirement or rule of law (including common law).

“Liabilities” means any and all debts, liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured or determined or determinable, including those arising under any Law (including any Tax Law), Action or Governmental Order and those arising under any contract, agreement, arrangement, commitment or undertaking.

“Management Sellers” means Chi Mei(池梅), Bai Yun(白云), Cheng Wai(郑炜) and the Founders.

“Management Sellers Entities” means Ace Frontier Developments Limited, Talent Journey Limited, Constant Success Investments Limited and Agnita Investments Limited.

“Material Adverse Effect” means any event, circumstance, change in or effect on the Business, the Company and the Affiliates or the Purchaser and its Affiliates, as the context dictates, that, individually or in the aggregate with all other events, circumstances, changes in or effects on the Business, the Company and the Affiliates or the Purchaser and its Affiliates, as the context dictates, has had or is reasonably expected to have a material adverse effect on the business, operations, prospect assets or liabilities (including without limitation, contingent liabilities) results of operations or the condition (financial or otherwise) of the Business, the Company and the Affiliates or the Purchaser and its Affiliates, as the context dictates, taken as a whole.

“National Securities Exchange” means mean the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, or any of their respective successor exchanges.

“Option Shares” means all the Shares held by the Remaining Sellers from time to time, being 58,823,528 Shares in the aggregate, as at the Closing Date.

“PRC GAAP” means PRC Accounting Standards for Business Enterprises and other relevant accounting laws and regulations in effect from time to time applied consistently throughout the periods involved.

“Permitted Encumbrances” means such of the following as to which no enforcement, collection, execution, levy or foreclosure proceeding shall have been commenced and as to which neither the Company nor any Affiliate is otherwise subject to civil or criminal liability due to its existence: (a) liens for Taxes not yet due and payable, for which adequate reserves have been maintained in accordance with U.S. GAAP; (b) Encumbrances imposed by Law, such as materialmen’s, mechanics’, carriers’, workmen’s and repairmen’s liens and other similar liens arising in the ordinary course of business securing obligations that (i) are not overdue for a period of more than 30 days and (ii) are not in excess of RMB50,000 in the case of a single property or RMB500,000 in the aggregate at any time; (c) pledges or deposits to secure obligations under workers’ compensation laws or similar legislation or to secure public or statutory obligations; and (d) minor survey exceptions, reciprocal easement agreements and other customary encumbrances on title to real property that (i) were not incurred in connection with any Indebtedness, (ii) do not render title to the property encumbered thereby unmarketable and (iii) do not, individually or in the aggregate, materially adversely affect the value of or the use of such property for its current and anticipated purposes.

“Person” means any individual, partnership, firm, corporation, limited liability company, association, trust, unincorporated organization or other entity, as well as any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Securities Exchange Act of 1934.

“Purchaser Common Share” means Class A common share of the Purchaser, par value \$0.0001 per share.

“RMB” or “¥” means Renminbi Yuan, the lawful currency of the PRC.

“Restructuring Documents” means the restructuring documents entered into by and among the WFOE, Lebai and certain Onshore Shareholders on August 2, 2012;

“SAFE” means State Administration of Foreign Exchange of the PRC.

“Seller’s Sole Owner” means, with respect to each of the entity Sellers, each of the individuals whose name is set forth opposite such entity Seller on Part I of Exhibit A, including, among others, the Founders;

“Shareholders’ Agreement” means the shareholders’ agreement entered into by and between the Purchaser, the Remaining Sellers and the Company substantially in the form and substance as attached in Exhibit G on or prior to the Closing.

“Tax” or “Taxes” shall mean any and all taxes, fees, levies, duties, tariffs, imposts and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any Governmental Authority or taxing authority, including: taxes or other charges on or with respect to income, franchise, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers’ compensation, unemployment compensation or net worth; taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value-added or gains taxes; license, registration and documentation fees; and customers’ duties, tariffs and similar charges.

“Tax Return” means any return, declaration, report, estimate, claim for refund, claim for extension, information return, or statement relating to any Tax, including any schedule or attachment thereto.

“Transaction Agreements” means this Agreement and the Ancillary Agreements, the schedules and exhibits attached to any of the foregoing and each of the agreements and other documents otherwise required in connection with implementing the transactions contemplated by any of the foregoing.

“USD” or “U.S. \$” means the dollars of the United States, the lawful currency of the United States.

“U.S. GAAP” means United States generally accepted accounting principles and practices in effect from time to time applied consistently throughout the periods involved.

“WFOE” means Beijing Lebai Information Consulting Co., Ltd. (北京乐柏信息咨询有限公司), a limited liability company incorporated and existing under the PRC Law.

SECTION 1.02. Definitions The following terms have the meanings set forth in the Sections set forth below:

<u>Definition</u>	<u>Location</u>
“ <u>Aggregate Purchase Price</u> ”	2.02(a)
“ <u>Agreement</u> ”	Preamble
“ <u>Arbitration Rules</u> ”	10.09(b)
“ <u>Business</u> ”	Recitals
“ <u>Call Option Closing Date</u> ”	9.01
“ <u>Closing</u> ”	2.03
“ <u>Closing Date</u> ”	2.03
“ <u>Closing Deliveries</u> ”	2.02(d)
“ <u>Company</u> ”	Preamble
“ <u>Company Security Holder</u> ”	3.06(b)
“ <u>Employment Contracts</u> ”	6.02
“ <u>Equity Transfer Agreement</u> ”	Recitals
“ <u>Financial Statements</u> ”	3.08
“ <u>Founders</u> ”	Preamble
“ <u>HKIAC</u> ”	10.09(b)
“ <u>Lebai</u> ”	Recitals
“ <u>Material Contracts</u> ”	3.12(a)
“ <u>Offshore Consideration</u> ”	2.02(a)
“ <u>Permits</u> ”	3.15
“ <u>PRC</u> ”	Recitals
“ <u>PRC Tax Matters</u> ”	5.10
“ <u>Purchaser</u> ”	Preamble
“ <u>Purchaser Designee(s)</u> ”	Recitals
“ <u>Registered Capital</u> ”	Recitals
“ <u>Remaining Sellers</u> ”	9.01
“ <u>Restricted Period</u> ”	5.07(a)
“ <u>Restricted Shares</u> ”	9.02
“ <u>SAFE Rules and Regulations</u> ”	3.06(b)
“ <u>Social Insurance</u> ”	3.18(b)
“ <u>Sellers</u> ”	Preamble
“ <u>Shares</u> ”	Recitals
“ <u>Transfer Shares</u> ”	2.01(a)

SECTION 1.03. Interpretation and Rules of Construction. In this Agreement, except to the extent otherwise provided or that the context otherwise requires:

(a) when a reference is made in this Agreement to an Article, Section, Exhibit or Schedule, such reference is to an Article or Section of, or a Schedule or Exhibit to, this Agreement unless otherwise indicated;

(b) the table of contents and headings for this Agreement are for reference purposes only and do not affect in any way the meaning or interpretation of this Agreement;

(c) whenever the words “include,” “includes” or “including” are used in this Agreement, they are deemed to be followed by the words “without limitation”;

(d) the words “hereof,” “herein” and “hereunder” and words of similar import, when used in this Agreement, refer to this Agreement as a whole and not to any particular provision of this Agreement;

(e) all terms defined in this Agreement have the defined meanings when used in any certificate or other document made or delivered pursuant hereto, unless otherwise defined therein;

(f) the definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms;

(g) any Law defined or referred to herein or in any agreement or instrument that is referred to herein means such Law or statute as from time to time amended, modified or supplemented, including by succession of comparable successor Laws;

(h) references to a Person are also to its successors and permitted assigns; and

(i) the use of “or” is not intended to be exclusive unless expressly indicated otherwise.

ARTICLE II

PURCHASE AND SALE

SECTION 2.01. Purchase and Sale of the Shares and the Registered Capital.

(a) Upon the terms and subject to the conditions of this Agreement, at the Closing, each of the Sellers shall sell, assign, transfer, convey and deliver, or cause to be sold, assigned, transferred, conveyed and delivered, severally but not jointly, to the Purchaser, such number of Shares (“Transfer Shares”) for such a price as set forth opposite its name on Part I of Exhibit A and any and all right, title and interest of any Seller in and to such Shares, and the Purchaser shall purchase such Shares.

(b) Each of the Founders shall sell, assign, transfer, convey and deliver and cause the Onshore Shareholders to sell, assign, transfer, convey and deliver to Purchaser Designee, and the Purchaser shall cause the Purchaser Designee to purchase, such amount of the Registered Capital for such Equity Amount as set forth opposite such Founder or Onshore Shareholder's name on Part II of Exhibit A pursuant to the terms of the Equity Transfer Agreement and as set forth herein prior to the Closing.

SECTION 2.02. Purchase Price.

(a) The aggregate purchase price for the Shares and the Registered Capital shall be one hundred and sixty six million one hundred and fifteen thousand eight hundred and thirty three RMB (RMB166,115,833) (the "Aggregate Purchase Price"). The Aggregate Purchase Price shall consist of (i) Equity Amounts payable in accordance with the terms of the Equity Transfer Agreement and as set forth herein and (ii) RMB 152,115,833.00 ("Offshore Consideration").

(b) Subject to Section 2.02(d), the Aggregate Purchase Price shall be paid as follows:

- (i) at the closing, the Purchaser shall pay to each of the Sellers the US dollar equivalent of such amount of Offshore Consideration as set forth opposite to its name on Part I of Exhibit A, and
- (ii) at the closing, the Purchaser shall cause the Purchaser Designee(s) to pay to each of the Founders and Onshore Shareholders such Equity Amount as set forth opposite to his/her name on Part II of Exhibit A.

(c) The Purchaser's obligation to pay the Aggregate Purchase Price will be subject to the continued accuracy as of the date hereof and the closing of the Warrantors' (as defined below) representations and warranties made herein and in the Equity Transfer Agreement. At the Closing, the Company, the Sellers and the Founders shall make the closing deliveries as set forth in Section 2.04 and 2.05, as applicable and the Purchaser or the Purchaser Designee(s) shall make the closing deliveries as set forth in Section 2.06 (the "Closing Deliveries").

SECTION 2.03. Closing. Subject to the terms and conditions of this Agreement, the sale and purchase of the Shares contemplated by this Agreement shall take place at a closing (the "Closing") to be held at the offices of the Purchaser, which are located at Haidian District, Beijing, PRC following the satisfaction or, if permissible, waiver of all conditions to the obligations of the parties set forth in Article VI hereof (other than those conditions that will be satisfied at the Closing) which shall be targeted for [•], 2015 but shall be no later than [•], 2015, or at such other place or at such other time or on such other date as the parties may mutually agree upon in writing. The date and time of the Closing are herein referred to as the "Closing Date".

SECTION 2.04. Closing Deliveries by the Company. At the Closing, the Company shall deliver and the Founders shall cause to be delivered to the Purchaser:

(a) a copy of (i) the board resolutions duly and validly adopted by the Board of Directors of the Company and (ii) the resolutions of the shareholders of the Company, evidencing their respective authorization and approval of the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby;

(b) a copy of the board resolutions duly and validly adopted by the Board of Directors and a copy of the resolutions of the shareholders of the Company approving (i) the registration of the Purchaser as a shareholder of the Transfer Shares of the Company; (ii) approving the appointment of Bai Yunfeng as directors of the Company; and (iii) approving the resignation of Jin Xin, Christine Lu-Wong, Zhang Xi, and Wang Jianguo as directors of the Company;

(c) a copy of the updated register of members of the Company, certified by the registered agent of the Company, reflecting the Transfer Shares being purchased by the Purchaser at the Closing;

(d) a copy of the share certificates representing the Transfer Shares being purchased by the Purchaser at the Closing; and

(e) all filings, consents, approvals, permits and authorizations set forth in Section 6.02(iii);

(f) executed counterparts of the Shareholders' Agreement;

(g) executed counterparts of Employment Contracts on Key Employees' part;

(f) the opinion, certificates and other documents required to be delivered pursuant to Section 6.02.

SECTION 2.05. Closing Deliveries by the Sellers and Founders. At the Closing, each of the Sellers and Founders (as applicable) shall deliver or cause to be delivered to Purchaser:

(a) duly executed instrument of transfer in respect of the relevant Transfer Shares in favor of the Purchaser together with the relevant share certificate evidencing the relevant Transfer Shares,;

(b) executed counterparts of the Shareholders' Agreement with respect only to the Remaining Sellers and the Founders;

(c) a letter of resignation for each of Jin Xin, Christine Lu-Wong, Zhang Xi, and Wang Jianguo the director appointed by such Seller or Founder as director of the Company, if applicable;

(d) the Equity Transfer Agreement executed by the Onshore Shareholders;

(e) the opinion, certificates and other documents required to be delivered pursuant to Section 6.02.

SECTION 2.06. Closing Deliveries by the Purchaser and/or the Purchaser Designee. At the Closing, the Purchaser and/or the Purchaser Designee shall deliver to the Company, the Founders or the Sellers:

(a) subject to Section 2.02 (d), the relevant Offshore Consideration for the Transfer Shares to be paid pursuant to 0, in U.S. dollars by wire transfer in immediately available funds to the bank account designated by each of the Sellers;

(b) subject to Section 2.02 (d), the Equity Amount to be paid pursuant to Section 2.02(b)(i), in RMB by wire transfer in immediately available funds to the bank account designated by the Founders;

(c) 40% of the ESOP Redemption Price, namely, ¥1,728,754, in RMB by wire transfer in immediately available funds to the bank account designated by the Company;

(d) executed counterparts of the Equity Transfer Agreement;

(e) executed counterparts of the Shareholders' Agreement;

(f) executed counterparts of the Employment Contracts;

(g) a true and complete copy of the resolutions duly and validly adopted by the Board of Directors of the Purchaser evidencing its authorization and approval of the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby; and

(d) the certificates and other documents required to be delivered pursuant to Section 6.01.

ARTICLE III
REPRESENTATIONS AND WARRANTIES
OF THE COMPANY, EACH SELLER AND EACH FOUNDER

As an inducement to the Purchaser to enter into this Agreement, the Company and each Founder (collectively the “Warrantors” and each a “Warrantor”), jointly and severally, represent and warrant to the Purchaser that: including those and as otherwise qualified or excepted as set forth in the Disclosure Schedule as attached hereto as Exhibit I, as of the date hereof, and the Closing Date hereunder (or, if such representations and warranties are made with respect to a certain date, as of such date), each of the statements contained in this Article III is true, accurate and complete.

SECTION 3.01. Organization, Good Standing and Qualification. The Company is duly organized, validly existing and in good standing under the Laws of the Cayman Islands. Each other Group Company is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation. Each School is duly organized, validly existing and in good standing under the applicable laws of PRC. Each Group Company and each School has all requisite legal and corporate power and authority to own, lease and operate its properties and assets and to carry on the Business, and is duly qualified to transact business in each jurisdiction. The Company and the HK Company were formed solely to acquire and hold the equity interests in the other Group Companies and since its formation have not engaged in any other business and have not incurred any Liability. Except as disclosed in the Disclosure Schedule, all material Approvals by the applicable Governmental Authorities required in respect of the Group Companies and the Schools and their operations have been duly completed in accordance with the relevant Laws.

SECTION 3.02. Capitalization. Immediately prior to the Closing, the authorized share capital of the Company consists of the following:

- (a) Series A Preferred Shares. 16,759,610 Series A Preferred Shares of the Company, par value US\$0.0001 per share, all of which are issued and outstanding.
- (b) Ordinary Shares. A total of 483,240,390 Ordinary Shares, par value US\$0.0001 per share, of which 102,142,802 shares are issued and outstanding.

(c) Options, Warrants, Reserved Shares. The Company has reserved (i) 1,959,604 Ordinary Shares for issuance under the ESOP; and (ii) 16,759,610 Ordinary Shares for issuance upon the conversion of the Series A Preferred Shares. Except as described above, there are no options, warrants, conversion privileges or other rights, or agreements with respect to the issuance thereof, presently outstanding to purchase any of the Shares of the Company. Apart from the exceptions noted in this Section 3.02 and the Ancillary Agreements, no shares (including the Ordinary Shares and Series A Preferred Shares) of the Company's outstanding share capital, or shares issuable upon exercise or exchange of any outstanding options or other shares issuable by the Company, are subject to any pre-emptive rights, rights of first refusal or other rights to purchase such shares (whether in favor of the Company or any other Person). All the issued and outstanding Ordinary Shares, Series A Preferred Shares constitute the Shares and are owned of record and beneficially by the Sellers, free and clear of any Encumbrances (other than Encumbrances created by this Agreement), in the numbers set forth on Part I of Exhibit A hereto.

(d) The share of the Registered Capital owned by each Founder and each Onshore Shareholders as set out on Part II of Exhibit A is true, complete and accurate. Upon the consummation of the transactions contemplated by the Equity Transfer Agreement and this Agreement, the Purchaser or the Purchaser Designees will own all of the Registered Capital, beneficially and of record, free and clear of all Encumbrances.

(e) The registered capital of each Lebai's subsidiaries have been fully paid according to the PRC Law and its articles of association on the date hereof.

(f) All presently outstanding Equity Securities of each Group Company were duly and validly issued (or subscribed for) in compliance with all applicable Laws, preemptive rights of any Person, and applicable Contracts, and are fully paid and nonassessable. All share capital of each Group Company is and as of the Closing shall be free of any and all Encumbrances (except as provided under the Transaction Agreements). There are no (a) resolutions pending to increase the share capital of any Group Company or cause the liquidation, winding up, or dissolution of any Group Company or (b) dividends which have accrued or been declared but are unpaid by any Group Company.

SECTION 3.03. Subsidiaries, Exhibit B and Exhibit C sets forth (i) a complete structure chart showing the Group Companies, and indicating the ownership and Control relationships among all Group Companies and the Founders, and (ii) a full list of all Schools operated by the Group Companies. Except for the Restructuring Documents, there is no agreement between any Founder, any Group Company and/or any other Person with respect to the ownership or Control of any of the Group Companies and/or the Schools. No Group Company owns or Controls, or has ever owned or Controlled, directly or indirectly, any interest or share in any other Person or is or was a participant in any joint venture, partnership or similar arrangement. No Group Company is obligated to make any investment in or capital contribution in or on behalf of any other Person.

SECTION 3.04. Due Authorization. Each Warrantor has all requisite power and authority to execute and deliver the Transaction Agreements to which it is a party and to carry out and perform its obligations thereunder. All action on the part of each Warrantor (and, as applicable, its officers, directors and shareholders) necessary for the authorization, execution and delivery of the Transaction Agreements to which it is a party, the performance of all obligations of each Warrantor thereunder, and, in the case of the Company, the authorization, issuance (or reservation for issuance), sale, transfer and delivery of the Shares, has been taken or will be taken prior to the Closing. This Agreement has been duly executed and delivered by each Warrantor. This Agreement and each of the Transaction Agreements are, or when executed and delivered by such Warrantor shall be, valid and legally binding obligations of such Warrantor, enforceable against such Warrantor in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other Laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by Laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

SECTION 3.05. Governmental Consents. No Approval with respect to or on the part of any Group Company or any Founder is required in connection with its valid execution, delivery, or performance of this Agreement or the Ancillary Agreements or the sale and transfer of any Transfer Shares and the Registered Capital.

SECTION 3.06. Regulatory Matters.

(a) Except as disclosed in the Disclosure Schedule, the Group Companies have obtained any and all Approvals from applicable Governmental Authorities and have fulfilled any and all filings and registration requirements with applicable Governmental Authorities necessary with respect to the Founders' investment in the Group Companies, and with respect to the Group Companies and their operations. Except as disclosed in the Disclosure Schedule, the Schools have obtained any and all Approvals from applicable Governmental Authorities and have fulfilled any and all filings and registration requirements with applicable Governmental Authorities necessary with respect to their establishments and operations. All filings and registrations with applicable Governmental Authorities required with respect to the Group Companies and the Schools have been duly completed in accordance with applicable Law. No Group Company has received any letter or notice from any applicable Governmental Authorities notifying it of the revocation of any Approval issued to it or any Schools or the need for compliance or remedial actions with respect to the activities carried out directly or indirectly by any Group Company or any School. Each Group Company and each School has been conducting its business activities within the permitted scope of business or is otherwise operating its Businesses in full compliance with all relevant Laws and Governmental Orders, including providing products and/or services with all requisite licenses, permits and approvals granted by the competent Governmental Authorities. Neither any Founder nor any Group Company has reason to believe that any authorization of any Governmental Authority, license or permit required for the conduct of any part of its Business and/or for the operation of any School which is subject to periodic renewal will not be granted or renewed by the relevant Governmental Authorities.

(b) Each holder of any Equity Securities of the Company or any Sellers (each, a “Company Security Holder”), who is a Domestic Resident and subject to any of the registration or reporting requirements of Circular 37 or any other applicable SAFE rules and regulations (collectively, the “SAFE Rules and Regulations”), has complied with such reporting and/or registration requirements under the SAFE Rules and Regulations. Neither the Warrantors nor any of the Company Security Holders has received any oral or written inquiries, notifications, orders or any other forms of official correspondence from SAFE or any of its local branches with respect to any actual or alleged non-compliance with the SAFE Rules and Regulations and the Company and the Company Security Holders have made all oral or written filings, registrations, reporting or any other communications required by SAFE or any of its local branches. Each Group Company has obtained all certificates, approvals, permits, licenses, registration receipts and any similar authority necessary under the PRC Law to conduct foreign exchange transactions as now being conducted by it.

(c) Lebai has obtained any and all Approvals from applicable Governmental Authorities and has fulfilled any and all filings and registration requirements with applicable Governmental Authorities necessary with respect to its franchising agreements entered into with any and all franchisees for Firstleap Education and the relevant businesses conducted thereunder. Lebai has not violated any of such franchising agreements in any material aspect and, to the best knowledge of the Warrantors, each of the training centres of Lebai is duly established under PRC Law and has been operating in full compliance with PRC Law. To the best knowledge of the Warrantors, each of the franchised schools and training centers of Beijing Company (the “Franchised Schools”) is duly established and operated in accordance with the Law of the People’s Republic of China on the Promotion of Privately-run Schools («中华人民共和国民办教育促进法») and relevant regulations.

SECTION 3.07. Tax Matters.

(a) Each Group Company and each School (i) has timely filed all Tax Returns that are required to have been filed by it with any Governmental Authority, (ii) has timely paid all Taxes owed by it which are due and payable (whether or not shown on any Tax Return) and withheld and remitted to the appropriate Governmental Authority all Taxes which it is obligated to withhold and remit from amounts owing to any employee, creditor, customer or third party, and (iii) has not waived any statute of limitations with respect to Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency other than, in the case of clauses (i) and (ii), unpaid Taxes that are in contest with the Tax authority by any Group Company or any School in good faith or are nonmaterial in amount.

(b) Each Tax Return referred to in paragraph (a) above was properly prepared in compliance with applicable Law and was (and will be) true, correct and complete. None of such Tax Returns contains a statement that is false or misleading or omits any matter that is required to be included or without which the statement would be false or misleading. No reporting position was taken on any such Tax Return which has not been disclosed to the appropriate Tax authority or in such Tax Return, as may be required by Law. All records relating to such Tax Returns or to the preparation thereof required by applicable Law to be maintained by applicable Group Company or School have been duly maintained. No written claim has been made by a Governmental Authority in a jurisdiction where any Group Company or any School does not file Tax Returns that any Group Company or any School is or may be subject to taxation by that jurisdiction.

(c) The assessment of any additional Taxes with respect to the applicable Group Company or School for periods for which Tax Returns have been filed is not expected to exceed the recorded Liability therefor in the most recent balance sheet in the Financial Statements (as defined in Section 3.08 below), and there are no unresolved questions or claims concerning any Tax Liability of any Group Company or any School. Since the Statement Date, no Group Company/School has incurred any Liability for Taxes outside the ordinary course of business or otherwise inconsistent with past custom and practice. There is no pending dispute with, or notice from, any Tax authority relating to any of the Tax Returns filed by any Group Company/School, and there is no proposed Liability for a deficiency in any Tax to be imposed upon the properties or assets of any Group Company/School.

(d) No Group Company/School has been the subject of any examination or investigation by any Tax authority relating to the conduct of its business or the payment or withholding of Taxes that has not been resolved or is currently the subject of any examination or investigation by any Tax authority relating to the conduct of its business or the payment or withholding of Taxes. No Group Company/School is responsible for the Taxes of any other Person by reason of contract, successor liability or otherwise.

(e) No Group Company/School is or has ever been a PFIC or CFC. No Group Company anticipates that it will become a PFIC or CFC for the current taxable year.

SECTION 3.08. Financial Statements. The Warrantors have provided the Purchaser with the financial statements of the Group Companies consisting of (i) the audited balance sheet and statements of operations and cash flows for the Group Companies and the Schools for the fiscal year ended as of December 31, 2013, (ii) the audited balance sheet and statements of operations and cash flows for the Group Companies and the Schools for the fiscal year ended as of December 31, 2014, and (iii) the unaudited balance sheet and statements of operations and cash flows for the Group Companies and the Schools for the period from January 1, 2015 to July 31, 2015 (collectively, the "Financial Statements"). The Financial Statements (i) have been prepared in accordance with the books and records of the relevant Group Company, (ii) fairly present the financial condition and position of the relevant Group Company as of the dates indicated therein and the results of operations and cash flows of the relevant Group Company for the periods indicated therein, except in the case of unaudited financial statements for the absence of notes, and (iii) were prepared in accordance with PRC GAAP applied on a consistent basis throughout the periods involved. All of the accounts receivable owing to any of the Group Companies, including without limitation all accounts receivable set forth on the Financial Statements, constitute valid and enforceable claims and are good and collectible in the ordinary course of business, net of any reserves shown on the Financial Statements (which reserves are adequate and were calculated on a basis consistent with PRC GAAP), and no further goods or services are required to be provided in order to complete the sales and to entitle the applicable Group Company to collect in full. There are no contingent or asserted claims, refusals to pay, or other rights of set-off with respect to any accounts receivable of the Group Companies.

SECTION 3.09. Activities since the Statement Date. Since the Statement Date and except as provided by the Transaction Documents, the Group Companies and the Schools have operated the Business in the ordinary course consistent with its past practice, there has not been any Material Adverse Effect or any change in the way the Group Companies and the Schools conduct the Business, no Group Company/School has entered into any transaction outside of the ordinary course of business consistent with its past practice, and there has not been by or with respect to any Group Company/School:

(a) any purchase, acquisition, sale, lease, disposal of or other transfer of any assets (including any license of Intellectual Property Rights to third parties) that are individually or in the aggregate material to its business, whether tangible or intangible, other than the purchase or sale of inventory in the ordinary course of business consistent with its past practice, and no acquisition (by merger, consolidation or other combination, or acquisition of stock or assets, or otherwise) of any business or other Person or division thereof;

(b) any waiver, termination, settlement or compromise of a valuable right or of a debt;

(c) any incurrence, creation, assumption, repayment, satisfaction, or discharge of (i) any Lien or (ii) any indebtedness or guarantee, or the making of any loan or advance (other than reasonable and normal advances to employees for bona fide expenses that are incurred in the ordinary course of business consistent with its past practice), or the making of any investment or capital contribution;

(d) any amendment to any Material Contract, any entering of any new Material Contract, or any termination of any Contract that would have been a Material Contract if in effect on the date hereof, or any amendment to any Charter Document, or any amendment to or waiver under any Charter Document;

(e) any change in any compensation arrangement or agreement with any Key Employee of any Group Company, or adoption of any new benefit plan, or any change in any existing benefit plan (other than the termination of the ESOP as contemplated herein);

(f) any declaration, setting aside or payment or other distribution with respect to any Equity Securities, or any direct or indirect redemption, purchase or other acquisition of any Equity Securities;

(g) any damage, destruction or loss, whether or not covered by insurance, adversely affecting the assets, properties, financial condition, operation or Business of any Group Company/School;

(h) any change in accounting methods or practices or any revaluation of any of its assets;

(i) except in the ordinary course of business consistent with its past practice, entry into any closing agreement with respect to Taxes, settlement of any claim or assessment with respect to any Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment with respect to any Taxes, entry or change of any Tax election, change of any method of accounting resulting in any amount of additional Tax or filing of any amended Tax Return;

(j) any commencement or settlement of any Action; or

(k) any agreement or commitment to do any of the things described above in this Section 3.09.

SECTION 3.10. Action and Governmental Orders. There is no Action pending or currently threatened against any Group Company/School or any of the officers, directors or key employees of any Group Company/School with respect to the respective businesses of each Group Company/School, nor is any Warrantor aware of any basis for any of the foregoing. There is no Governmental Order in effect and binding on any Group Company/School or their respective assets or properties. There is no Action by any Group Company/School pending. No Governmental Authority has at any time challenged or questioned in writing the legal right of any Group Company/School to conduct its Business as presently being conducted. No Group Company/School has received any opinion or memorandum or advice from legal counsel to the effect that it is exposed, from a legal standpoint, to any liability or disadvantage which may be material to its Business.

SECTION 3.11. Liabilities. The total amount of outstanding Liabilities of the Group Companies and Schools as of the date hereof is RMB 250,427,545.92. From the date hereof till the Closing Date, no Group Company/School will incur any additional Liabilities except for (i) Liabilities set forth in the Financial Statements that have not been satisfied since the date hereof, and (ii) current Liabilities incurred since the date hereof in the ordinary course of the Group's business consistent with its past practices. There will not be any material Liabilities undisclosed to the Investor as of the Closing Date.

SECTION 3.12. Material Contracts.

(a) The Warrantors have provided the Purchaser with each of the Contracts the term of which has not yet expired and to which a Group Company or a School is bound that (i) involves obligations (contingent or otherwise) of, or payments in excess of, RMB500,000 individually or in the aggregate per annum or that has terms in excess of one (1) year, (ii) involves Intellectual Property that is material to a Group Company or a School (other than generally-available "off-the-shelf" shrink-wrap software licenses obtained by the Group Companies on non-exclusive and non-negotiated terms), (iii) restricts the ability of a Group Company or a School to compete or to conduct or engage in any business or activity in any territory, (iv) relates to the sale, issuance, grant, exercise, award, purchase, repurchase or redemption of any Equity Securities, (v) involves any provisions providing exclusivity, "change in control", "most favored nation" status, rights of first refusal or first negotiation or similar rights, or grants a power of attorney, agency or similar authority, (vi) is with a key employee, director, shareholder or Affiliate, (vii) involves an extension of material credit, a guaranty or assumption of any obligation of any third party, or the grant of a Lien, (viii) involves the lease, license, sale, use, disposition or acquisition of a material amount of assets (including any Intellectual Property Rights) or of a material business, (ix) involves the waiver, compromise, or settlement of any material dispute, claim, litigation or arbitration, (x) involves the ownership or lease of, title to, use of, or any material leasehold or other interest in, any material real or personal property, (xi) involves the establishment, contribution to, or operation of a partnership, joint venture or involving a sharing of profits or losses, or any investment in, loan to or acquisition or sale of the securities, equity interests or assets of any Person, (xii) is between any two (2) or more Group Companies/Schools, (xiii) is with a Governmental Authority or any state-owned enterprise, (xiv) related to establishment, subdivision or termination of any School or is franchising or lease agreement with any third party; or (xv) is otherwise material to a Group Company or a School (collectively, the "Material Contracts").

(b) A complete, accurate, true, and fully-executed copy of each Material Contract has been delivered to the Purchaser or its counsel. Each Material Contract is a valid and binding agreement of the relevant Group Company or School that is a party thereto, the performance of which does not and will not violate any applicable Law or Governmental Order, and is in full force and effect, and such Group Company or School has duly performed all of its obligations under each Material Contract to the extent that such obligations to perform have accrued, and no breach or default, alleged breach or alleged default, or event which would (with the passage of time, notice or both) constitute a material breach or default thereunder by such Group Company/School or any other party or obligor with respect thereto, has occurred, or as a result of the execution, delivery, and performance of the Transaction Agreements will occur. No Group Company/School has given notice (whether or not written) that it intends to terminate a Material Contract or that any other party thereto has breached, violated or defaulted under any Material Contract. No Group Company/School has received any notice (whether written or not) that it has breached, violated or defaulted under any Material Contract or that any other party thereto intends to terminate such Material Contract.

SECTION 3.13. Compliance with Laws and Governmental Orders.

(a) Except as disclosed in the Disclosure Schedule, each Group Company and each School has been and is in compliance with all Laws and all Governmental Orders that are applicable to it or to the conduct or operation of its Business or the ownership or use of any of its assets or properties, in all material respects. The Business conducted by each Group Company and each School is in full compliance with applicable Laws.

(b) No event has occurred and no circumstance exists that (with or without notice or lapse of time) (i) may constitute or result in a violation by any Group Company/School of, or a failure on the part of such Group Company/School to comply with, any Law or Governmental Order or (ii) may give rise to any obligation on the part of a Group Company/School to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

(c) No Group Company/School has received any notice from any Governmental Authority regarding (i) any actual, alleged, possible or potential violation of, or failure to comply with, any Law or Governmental Order or (ii) any actual, alleged, possible or potential obligation on the part of such Group Company/School to undertake, or to bear all or any portion of the cost of, any remedial action of any nature. None of the Group Companies and the Schools is under investigation with respect to a violation of any Law or Governmental Order.

(d) Each of the Group Companies and the Schools, and each of its directors, officers key employees and the Founders (collectively, the “Representatives”), are in compliance with and have complied with all applicable anti-bribery, anti-corruption, anti-money laundering, recordkeeping and internal controls Laws. Without limiting the foregoing, neither any Group Company/School nor any Representative has, directly or indirectly, offered, authorized, promised, condoned, participated in, or received notice of any allegation of the following: (i) the making of any gift or payment of anything of value to any Public Official by any Person to obtain any improper advantage, affect or influence any act or decision of any such Public Official with respect to any Group Company or the Business of any Group Company/School, or assist any Group Company/School in obtaining or retaining business for, or with, or directing business to, any Person; (ii) the taking of any action by any Person which would violate the Foreign Corrupt Practices Act of the United States of America (the “FCPA”), as amended, if taken by an entity subject to the FCPA, or could reasonably be expected to constitute a violation of any applicable Law; or (iii) the making of any false or fictitious entries in the books or records of any Group Company/School by any Person.

(e) The business of each Group Company and each School as now conducted is, in compliance with all Laws and regulations that may be applicable, including without limitation all PRC Law with respect to mergers, acquisitions, foreign investment and foreign exchange transactions in all material respects. The business to be conducted by each Group Company and each School is in compliance with all PRC Law that may be applicable, including without limitation all PRC Law with respect to mergers, acquisitions, foreign investment and foreign exchange transactions in all material respects.

SECTION 3.14. Titles and Properties.

(a) The Group Companies and the Schools have good and valid title to, or a valid leasehold interest in, all of the material assets they use or may need to use in the conduct of their respective businesses, whether real, personal or mixed (including but not limited to all such assets reflected in the Financial Statements), free and clear of any Liens (other than Permitted Liens) or third party claims, including any creditors’ rights. The foregoing assets collectively represent all material assets, rights and properties necessary for the conduct of the Business of the Group Companies and the Schools in the manner conducted during the periods covered by the Financial Statements. Except for leased items, no Person other than a Group Company/School owns any interest in any such assets. All leases of real or personal property to which a Group Company/School is a party are fully effective and afford the Group Company/School valid leasehold possession of the real or personal property that is the subject of the lease.

(b) No Group Company/School owns any real property or has any easements, licenses, rights of way, or other interests in or to real property, except for the leasehold interests to real property that the registered offices of Lebai, Beijing Tian Xun and the Schools are located. All such leasehold properties are held under valid, binding and enforceable leases of a Group Company or a School. There are no facilities, services, assets or properties shared with any other Person which is not a Group Company/School, which are used in connection with the Business of the Group Companies and the Schools.

(c) All machinery, vehicles, equipment and other tangible personal property owned or leased by a Group Company/School (i) in good condition and repair (reasonable wear and tear excepted) and (ii) not obsolete or in need of renewal or replacement, except for renewal or replacement in the ordinary course of Business.

SECTION 3.15. Permits. Save as disclosed in the Disclosure Schedule, each Group Company/School has all franchises, authorizations, approvals, permits, certificates and licenses, including without limitation any special approval or permits required under the PRC Law and each Franchised Schools has all franchises, authorizations, approvals, permits, certificates and licenses, including without limitation any special approval or permits required under the Law of the People's Republic of China on the Promotion of Privately-run Schools («中华人民共和国民办教育促进法») (the "Permits") necessary for its respective business and operations. (a) Each such Permit is valid and in full force and effect, (b) no Group Company/School is in default or violation in any respect of any such Permit, (c) no Group Company/School has received any written notice from any Governmental Authority regarding any actual or possible default or violation of any such Permit, (d) each such Permit will remain in full force and effect upon the consummation of the transactions contemplated hereby, and (e) no suspension, cancellation or termination of any such Permits is threatened or imminent.

SECTION 3.16. Compliance with Other Instruments. No Group Company/School is in violation, breach or default of its Charter Documents. The execution, delivery and performance by each Group Company and each Founder of, and compliance by each Group Company and each Founder with each of this Agreement and the Ancillary Agreement, and the consummation of the transactions contemplated hereby and thereby, will not result in (a) any such violation, breach or default, or be in conflict with or constitute, with or without the passage of time or the giving of notice or both, a default under (i) the Charter Documents of any Group Company, (ii) any Material Contract, or (iii) any applicable Law except, for clause (ii), any violation, breach, default, or conflict which would not reasonably be expected to constitute a breach thereunder, (b) the creation or imposition of any Lien upon, or with respect to, any of the properties, assets or rights of any Group Company, or (c) any termination, modification, cancellation, or suspension of any right of, or any augmentation or acceleration of any obligation of, any Group Company.

SECTION 3.17. Intellectual Property Rights.

(a) The Group Companies and the Schools own or otherwise have the sufficient right or license to use all Intellectual Property necessary for the Business without any violation or infringement of the rights of others, free and clear of all Liens. There is no pending or threatened claim or litigation against any Group Company/School contesting the right to use its Intellectual Property, asserting the misuse thereof, or asserting the infringement or other violation of any Intellectual Property of any third party. All inventions and know-how conceived by employees of the Group Companies and the Schools, including without limitation the Founders, and related to the Businesses of the Group Companies and the Schools are “works made for hire”, and all right, title, and interest therein, including any applications therefor, have been transferred and assigned to, and are currently owned by, the Group Companies and/or the Schools.

(b) No proceedings or claims in which any Group Company/School alleges that any Person is infringing upon, or otherwise violating, any Group Company/School’s Intellectual Property rights are pending, and none has been served, instituted or asserted by any Group Company/School.

(c) To the best knowledge of the Warrantors, none of the employees of any Group Company/School is obligated under any Contract, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of his or her best efforts to promote the interests of the Group Companies and the Schools or that would conflict with the Business of any Group Company/School as presently being conducted. It will not be necessary to utilize in the course of any Group Company/School’s business operations any inventions of any of the respective employees of any Group Company or any School made prior to their employment by the latter, except for inventions that have been validly and properly assigned or licensed to the Group Companies and/or the Schools as of the date hereof.

(d) The Group Companies and the Schools have each taken all security measures that are commercially prudent in order to protect the secrecy, confidentiality and value of their respective Intellectual Property.

(e) Lebai has duly performed and has not breached any provision of the license agreement entered into with NCS Pearson, Inc. (“Pearson”) on March 30, 2009 (the “License Agreement”), which was amended on February 18, 2010. The License Agreement is not under performance since March 31, 2010 and currently Lebai does not have any future plan to purchase any license from Pearson during the term of such License Agreement. The Group Companies are not abusing any materials provided or licensed by Pearson under such License Agreement or any logo, trade name, intellectual properties rights or other legal rights of or license by Pearson, and has not received any oral or written notice from Pearson for any breach or claim in any respect and has no reason to expect any such notice will be received in the future. The education materials currently used or proposed to be used by the Schools are legally bought or licensed from third parties or independently developed by the Group Companies and/or the Schools without infringing any intellectual properties rights or other legal rights of Pearson.

SECTION 3.18. Labor and Employment Matters.

(a) Exhibit E enumerates each Key Employee of the Group Companies and the Schools. Each such individual is currently devoting all of his or her business time to the conduct of the business of the respective Group Company/School. To the best knowledge of the Warrantors, no such individual (and no group of employees) has given any notice of an intention to resign, and no Group Company/School has any intention of terminating the employment of any such individual or any group of employees. To the best knowledge of the Warrantors, no Key Employee is obligated under, or in violation of any term of, any Contract or any Governmental Order relating to the right of any such individual to be employed by, or to contract with, such Group Company/School. No Group Company/School has received any notice alleging that any such violation has occurred. No Group Company/School is a party to any collective bargaining agreements or other Contract with any union or guild, and none of the Group Companies and the Schools has been informed by their employees regarding the establishment of any trade union, work council or other organizations representing the employees of any Group Company/School. No employee of any Group Company/School is owed any back wages or other compensation for services rendered (except for the current pay period or as otherwise set forth on the Financial Statements).

(b) There is no, and there has not been during the past three (3) years, any Action relating to the violation or alleged violation of any Law by any Group Company/School pertaining to labour relations or employment matters, including any charge or complaint filed by an employee with any Governmental Authority or any Group Company/School. Each Group Company/School has complied with all Laws relating to employment, wages, hours, overtime, working conditions, benefits, retirement, termination, Taxes, and health and safety. Each Group Company/School is in compliance with the PRC Law relating to its provision of any form of social insurance and housing fund (the "Social Insurance"), and has fully and timely paid, or made provision for the payment of, all Social Insurance contributions required under the PRC Law for all of employees. There has not been, and there is not now pending or, threatened, any strike, union organization activity, lockout, slowdown, picketing, or work stoppage with respect to the employees of any Group Company/School or any unfair labor practice charge against any Group Company/School. There is no pending internal investigation related to any employee or consultant of any Group Company/School.

(c) Except for statutory social insurance schemes and housing fund schemes, the Group Companies and the Schools have not adopted or implemented any Benefit Plan. There are no pending investigations by any Governmental Authority involving any Benefit Plan and no threatened or pending claims against any Benefit Plan (except for claims for benefits payable in the normal operation of any Benefit Plan). All contributions to, and payments from, each Benefit Plan have been timely made. Each Group Company/School maintains, and has fully funded, any pension plan and any other labour-related plans that it is required by Law or by Contract to maintain.

(d) Neither the execution and delivery of this Agreement nor the consummation of the transaction contemplated by this Agreement or the Ancillary Agreements will (i) entitle any current or former employee or director of any Group Company/School to any severance pay, or any payment contingent upon a change in control of any Group Company/School, (ii) increase or enhance any benefits payable under any Benefit Plan, or (iii) accelerate the time of payment or vesting, or increase the amount of any compensation due to any employee or former employee.

SECTION 3.19. Insurance. There is no claim pending under the insurance policies and bonds maintained by each Group Company/School as to which coverage has been questioned, denied or disputed. Each Group Company and each School has procured sufficient insurance for their operations, including without limitation the third party liability insurance. All premiums due and payable under all such insurance policies and bonds have been timely paid, and each Group Company/School is otherwise in compliance in all respects with the terms of such insurance policies and bonds. All such insurance policies and bonds are in full force and effect.

SECTION 3.20. Restructuring Documents.

(a) Each Group Company, each Founder and each other party to any of the Restructuring Documents has the legal right, power and authority (corporate and other) to enter into and perform its/his/her obligations under each of the Restructuring Documents to which it/he/she is a party and has taken all necessary corporate action to authorize the execution, delivery and performance of, and has authorized, executed and delivered, each of the Restructuring Document to which it/he/she is a party.

(b) Each of the Restructuring Documents constitutes a valid and legally binding obligation of the parties named therein, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other laws of general application relating to or affecting the enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

(c) The execution and delivery by each party named in each of the Restructuring Documents, and the performance by such party of its obligations thereunder and the consummation by it of the transactions contemplated therein shall not (i) result in any violation of, be in conflict with, or constitute a default under, with or without the passage of time or the giving of notice, any provision of its constitutional documents as in effect at the date hereof, any applicable law, or any Material Contract to which a Group Company is a party or by which a Group Company is bound, (ii) accelerate, or constitute an event entitling any Person to accelerate, the maturity of any indebtedness or other liability of any Group Company or to increase the rate of interest presently in effect with respect to any indebtedness of any Group Company, or (iii) result in the creation of any lien, claim, charge or encumbrance upon any of the properties or assets of any Group Company.

(d) All consents required in connection with the Restructuring Documents have been made or unconditionally obtained in writing, and no such consent has been withdrawn or be subject to any condition precedent which has not been fulfilled or performed.

(e) Each of the Restructuring Documents is in full force and effect and no party to any of the Restructuring Documents is in breach or default in the performance or observance of any of the terms or provisions of such Restructuring Documents. None of the parties to any of the Restructuring Documents has sent or received any communication regarding termination of or intention not to renew any of the Restructuring Documents, and no such termination or nonrenewal has been threatened by any of the parties thereto.

SECTION 3.21. Disclosure. Each Warrantor has provided the Purchaser with all the material information regarding the Group Companies requested by the Purchaser for deciding whether to purchase the Shares and all the information that are available to such Warrantor. No representation or warranty of the Warrantors contained in this Agreement or any certificate furnished or to be furnished to any Purchaser at the Closing under this Agreement, when taken as a whole, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. Except as set forth in this Agreement or the Disclosure Schedule, there is no material fact that the Warrantors have not disclosed to the Purchaser in response to the Purchaser's enquiry and of which any of its officers, directors or executive employees has Knowledge.

SECTION 3.22. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Founders, the Sellers, the Company or any of the Affiliates.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES
OF THE PURCHASER

As an inducement to the Company, the Sellers and the Founders to enter into this Agreement, the Purchaser hereby represents and warrants to the Company, each Seller and each Founder as follows:

SECTION 4.01. Organization and Qualification. The Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of the Cayman Islands and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted. The Purchaser is duly qualified or licensed as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary.

SECTION 4.02. Authority; No Conflict; Required Filings and Consents.

(a) The Purchaser has all necessary corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Purchaser and the consummation by the Purchaser of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action and no other corporate proceedings on the part of the Purchaser are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Purchaser and, assuming the due authorization, execution and delivery by the Company, the Sellers and the Founders, constitutes a legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms.

(b) The execution and delivery of this Agreement by the Purchaser do not, and the performance of this Agreement by the Purchaser will not, (i) conflict with or violate the organizational documents of the Purchaser, (ii) conflict with or violate any Law applicable to the Purchaser or by which any property or asset of the Purchaser is bound or affected, or (iii) result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of any Encumbrance on any property or asset of the Purchaser pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation.

(c) The execution and delivery of this Agreement by the Purchaser do not, and the performance of this Agreement by the Purchaser will not, require any consent, approval, authorization or permit of, or filing with or notification to, any third party or Governmental Authority, other than any of the foregoing required under US securities laws or which will not materially impair the Purchaser's ability to perform its obligations hereunder.

SECTION 4.03. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Purchaser.

ARTICLE V

ADDITIONAL AGREEMENTS

SECTION 5.01. Conduct of Business.

(a) The Company and the Founders covenant and agree that, between the date hereof and the time of the Closing, neither the Company nor any Affiliate shall conduct its business other than in the ordinary course and consistent with the Company's and such Affiliate's prior practice. Without limiting the generality of the foregoing, the Company shall, and the Company shall cause each Affiliate to (i) preserve intact their business organizations and the business organization of the Business, (ii) maintain the stability of the key employees of the Company and each Affiliate, (iii) preserve their current relationships with their customers, suppliers and other Persons with whom they have had significant business relationships and (iv) maintain the properties, equipment, facilities and other assets necessary for conduct of the Business in the manner consistent with its past practices and keep the same in no worse shape and conditions than they are as of the date hereof.

(b) The Company and the Founders covenant and agree that, between the date hereof and the time of the Closing, without the prior written consent of the Purchaser, neither the Company nor any Affiliate will:

- (i) sell, transfer, lease or create any Encumbrances on or otherwise dispose of any of its assets, properties or interests or rights (including but not limited to those in Intellectual Property) other than in its ordinary course of business;
- (ii) split off or divest any assets or businesses; or
- (iii) acquire substantive assets or make equity investments.

- (ii) amend, terminate, cancel or compromise any material claims of, or waive any other rights of substantial value to, the Company or any Affiliate;
- (iii) sell, transfer, lease, sublease, license or otherwise dispose of any properties or assets, real, personal or mixed, with a value in excess of U.S.\$12,000 individually or in the aggregate (including, without limitation, leasehold interests and intangible property);
- (iv) issue or sell any share capital, notes, bonds or other securities, or any option, warrant or other right to acquire the same, of the Company or any Affiliate;
- (v) redeem any of the share capital or declare, make or pay any dividends or distributions (whether in cash, securities or other property) to the holders of share or registered capital of the Company or any Affiliate or otherwise, other than dividends, distributions and redemptions declared, made or paid by any Affiliate solely to the Company;
- (vi) merge with, enter into a consolidation with or acquire an interest of 5% or more in any Person or acquire a substantial portion of the assets or business of any Person or any division or line of business thereof, or otherwise acquire any material assets other than in the ordinary course of business consistent with past practice;
- (vii) make any capital expenditure or commitment for any capital expenditure in excess of U.S. \$100,000 individually or in the aggregate;
- (viii) incur any Indebtedness in excess of U.S. \$12,000 individually or in the aggregate except in the ordinary course of business;
- (ix) fail to pay any creditor any amount owed to such creditor when due;
- (x) (i) grant any increase, or announce any increase, in the wages, salaries, compensation, bonuses, incentives, pension or other benefits payable by the Company or any Affiliate to any of its employees, including, without limitation, any increase or change pursuant to any plan, or (ii) establish or increase or promise to increase any benefits under any plan, in either case, except as required by Law for any severance payment;
- (xi) enter into any agreement, arrangement or transaction with any of its directors, officers, employees or shareholders (or with any relative, beneficiary, spouse or Affiliate of such Persons);
- (xii) allow any Permit that was issued or relates to the Company or any Affiliate or otherwise relates to the Business to lapse or terminate or fail to renew any insurance policy or Permit that is scheduled to terminate or expire prior to that date that is 45 calendar days after the Closing Date;

(xiii) amend, modify or consent to the termination of any Material Contract or the Company's or any Affiliate's rights thereunder;

(xiv) amend or restate the Memorandum of Association and Articles of Association (or other organizational documents) of the Company or any Affiliate, except as provided in the Equity Transfer Agreement;

(xv) change any content of books of accounts and records; or

(xvi) agree, whether in writing or otherwise, to take any of the actions specified in this Section 5.01 or grant any options to purchase, rights of first refusal, rights of first offer or any other similar rights or commitments with respect to any of the actions specified in this Section 5.01, except as expressly contemplated by this Agreement and the Ancillary Agreements.

SECTION 5.02. Access to Information. From the date hereof until the Closing, upon reasonable notice, the Company shall cause its officers, directors, employees, agents, representatives, accountants and counsel and shall cause the Affiliates and each of the Affiliates' officers, directors, employees, agents, representatives, accountants and counsel to afford the officers, employees, agents, accountants, counsel, financing sources and representatives of the Purchaser reasonable access, during normal business hours, to the offices, properties, plants, other facilities, books and records of the Company and each Affiliate and to those officers, directors, employees, agents, accountants and counsel of the Company and of each Affiliate who have any knowledge relating to the Company, any Affiliate or the Business.

SECTION 5.03. Confidentiality. The Company, the Sellers and the Founders agree to, and shall cause their respective agents, representatives, affiliates, employees, officers and directors to: (a) treat and hold as confidential all (and not disclose or provide access to any Person to) any information relating to trade secrets, processes, patent and trademark applications, product development, price, customer and supplier lists, pricing and marketing plans, policies and strategies, details of client and consultant contracts, operations methods, product development techniques, business acquisition plans, new personnel acquisition plans and any and all other confidential or proprietary information with respect to the Business, the Company and each Affiliate, (b) in the event that the Company, any Seller, Founder or any such agent, representative, affiliate, employee, officer or director becomes legally compelled to disclose any such information, provide the Purchaser with prompt written notice of such requirement so that the Purchaser, the Company or any Affiliate may seek a protective order or other remedy or waive compliance with this Section 5.03, (c) in the event that such protective order or other remedy is not obtained, or the Purchaser waives compliance with this Section 5.03, furnish only that portion of such confidential information which is legally required to be provided and exercise its best efforts to obtain assurances that confidential treatment will be accorded such information, and (d) promptly furnish (prior to, at, or as soon as practicable following, the Closing) to the Company or the Purchaser any and all copies (in whatever form or medium) of all such confidential information (and any analysis, compilations, studies or other documents prepared in whole or in part on the basis thereof) then in the possession of the Sellers and the Founders or any of their agents, representatives, affiliates, employees, officers and directors and destroy any and all additional copies then in the possession of the Sellers and the Founders or any of their agents, representatives, affiliates, employees, officers and directors of such information, analyses, compilations, studies or other documents; provided, however, that this sentence shall not apply to any information that, at the time of disclosure, is available publicly and was not disclosed in breach of this Agreement or other obligation of confidentiality by the Company (prior to the Closing) or the Sellers or the Founders or any of their agents, representatives, affiliates, employees, officers or directors; and provided further that, with respect to Intellectual Property, specific information shall not be deemed to be within the foregoing exception merely because it is embraced in general disclosures in the public domain. In addition, with respect to Intellectual Property, any combination of features shall not be deemed to be within the foregoing exception merely because the individual features are in the public domain unless the combination itself and its principle of operation are in the public domain. The Company, the Sellers and the Founders agree and acknowledge that remedies at law for any breach of its obligations under this Section 5.03 are inadequate and that in addition thereto the Purchaser shall be entitled to seek equitable relief, including injunction and specific performance, in the event of any such breach.

SECTION 5.04. Regulatory and Other Authorizations; Notices and Consents. (a) Each of the Company, the Sellers and the Founders shall use its best efforts to obtain (or cause the Affiliates to obtain) all authorizations, consents, orders and approvals of all Governmental Authorities and officials that may be or become necessary for its execution and delivery of, and the performance of its obligations pursuant to, this Agreement and the Ancillary Agreements and will cooperate fully with the Purchaser in promptly seeking to obtain all such authorizations, consents, orders and approvals.

(b) The Company and the Founders shall, or shall cause the Affiliates to, give promptly such notices to third parties and use its or their best efforts to obtain such third party consents and estoppel certificates as the Purchaser may in its sole discretion deem necessary or desirable in connection with the transactions contemplated by this Agreement.

(c) The Purchaser shall cooperate and use all reasonable efforts to assist the Company in giving such notices and obtaining such consents and estoppel certificates; provided, however, that the Purchaser shall have no obligation to give any guarantee or other consideration of any nature in connection with any such notice, consent or estoppel certificate or to consent to any change in the terms of any agreement or arrangement which the Purchaser in its sole discretion may deem adverse to the interests of the Purchaser, the Company, any Affiliate or the Business.

(d) None of the Company and the Founders knows of any reason why all the consents, approvals and authorizations necessary for the consummation of the transactions contemplated by this Agreement and the Ancillary Agreement will not be received.

SECTION 5.05. Notice of Developments. Prior to the Closing, the Company and the Founders shall promptly notify the Purchaser in writing of (a) all events, circumstances, facts and occurrences arising subsequent to the date of this Agreement which could result in any breach of a representation or warranty or covenant of the Company or a Founder in this Agreement, or which could have the effect of making any representation or warranty of the Company or a Founder in this Agreement untrue or incorrect in any respect, and (b) all other material developments affecting the Assets, Liabilities, business, condition (financial or otherwise), operations, results of operations, customer or supplier relations, employee relations, projections or prospects of the Company, any Affiliate or the Business.

SECTION 5.06. No Solicitation or Negotiation. Each of the Company, the Sellers and the Founders agrees that between the date of this Agreement and the earlier of (a) the Closing and (b) the termination of this Agreement, it will not, shall cause each of its respective Affiliates, officers, directors, representatives or agents not to (i) solicit, initiate, consider, encourage or accept any other proposals or offers from any Person (A) relating to any acquisition or purchase of all or any portion of the share or registered capital of the Company or any Affiliate or of the Assets (other than inventory to be sold in the ordinary course of business consistent with past practice), (B) to enter into any merger, consolidation or other business combination with the Company or any Affiliate or (C) to enter into a recapitalization, reorganization or any other extraordinary business transaction involving or otherwise relating to the Company or any Affiliate or (ii) participate in any discussions, conversations, negotiations and other communications regarding, or furnish to any other Person any information with respect to, or otherwise cooperate in any way, assist or participate in, facilitate or encourage any effort or attempt by any other Person to seek to do, any of the foregoing. Each of the Company, the Sellers and the Founders immediately shall cease and cause to be terminated all existing discussions, conversations, negotiations and other communications with any Persons conducted heretofore with respect to any of the foregoing. Each of the Company, the Sellers or the Founders, as the case may be, shall notify the Purchaser promptly if any such proposal or offer, or any inquiry or other contact with any Person with respect thereto, is made and shall, in any such notice to the Purchaser, indicate in reasonable detail the identity of the Person making such proposal, offer, inquiry or contact and the terms and conditions of such proposal, offer, inquiry or contact. Each of the Company, the Sellers and the Founders agrees not to, and the Company and the Founder shall cause each Affiliate of the Company not to, without the prior written consent of the Purchaser, release any Person from, or waive any provision of, any confidentiality or standstill agreement to which the Company, any Affiliate of the Company, any Founder or any Seller is a party.

SECTION 5.07. Non-Competition. (a) For a period of [three (3) years] after the Closing (the “Restricted Period”), the Management Sellers and the Management Sellers Entities shall not engage, directly or indirectly, in any business anywhere in the PRC that manufactures, produces or supplies products or services of the kind manufactured, produced or supplied by the Business, the Company, or any Affiliate as of the Closing Date or, without the prior written consent of the Purchaser, directly or indirectly, own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant or otherwise, any Person that competes with the Purchaser, the Business, the Company, or any Affiliate in manufacturing, producing or supplying products or services of the kind produced or supplied by the Business, the Company, or any Affiliate as of the Closing Date; provided, however, that, for the purposes of this Section 5.07, ownership of securities having no more than one percent of the outstanding voting power of any competitor which are listed on any national securities exchange shall not be deemed to be in violation of this Section 5.07 as long as the Person owning such securities has no other connection or relationship with such competitor.

(b) The Restricted Period shall be extended by the length of any period during which a Management Seller or Management Seller Entity is in breach of the terms of this Section 5.07.

(c) The Management Seller Entities and the Founders acknowledge that the covenants of the Management Sellers and the Management Seller Entities set forth in this Section 5.07 are an essential element of this Agreement and that, but for the agreement of the Management Sellers and the Management Sellers Entities to comply with these covenants, the Purchaser would not have entered into this Agreement. The Management Seller Entities and the Founders acknowledge that this Section 5.07 constitutes an independent covenant and shall not be affected by performance or nonperformance of any other provision of this Agreement by the Purchaser. The Management Seller Entities and Founders have independently consulted with their counsel and after such consultation agree that the covenants set forth in this Section 5.07 are reasonable and proper._

SECTION 5.08. Equity Transfer. The Founders shall transfer and cause to be transferred by Onshore Shareholders 100% equity interests in Lebai to the Purchaser Designees pursuant to the Equity Transfer Agreement, and as soon as practicable but no later than 60 business days after the closing, complete the registration of such transfer of shares with relevant PRC tax authorities and PRC administration for industry and commerce.

SECTION 5.09. PRC TAX Matters. The Sellers shall report or cause any of the Group Companies to report to the PRC Governmental Authority and pay any Tax which may be assessed and imposed by the PRC Governmental Authority in connection with the transactions contemplated hereunder (“PRC Tax Matters”) pursuant to the PRC Laws.

SECTION 5.10. Further Action. Each of the parties hereto shall use all reasonable efforts to take, or cause to be taken, all appropriate action, do or cause to be done all things necessary, proper or advisable under applicable Law, and to execute and deliver such documents and other papers, as may be required to carry out the provisions of this Agreement or the Ancillary Agreements and consummate and make effective the transactions contemplated by this Agreement or the Ancillary Agreements.

SECTION 5.11. Bank Signatories. As soon as possible but no later than 60 business days after the Closing, each of the Group Companies shall remove those Persons who were bank signatories to any and all bank and deposit accounts of the Group Companies and appoint the Persons designated by the Purchasers in their places.

ARTICLE VI

CONDITIONS TO THE TRANSACTIONS

SECTION 6.01. Conditions to Obligations of the Company, the Sellers and the Founders. The obligations of the Company, the Sellers and the Founders to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or written waiver, at or prior to the Closing, of each of the following conditions:

(i) Representations, Warranties and Covenants. The representations and warranties of the Purchaser contained in this Agreement shall have been true and correct when made and shall be true and correct in all material respects as of the Closing, except to the extent such representations and warranties are as of another date, in which case, such representations and warranties shall be true and correct as of that date, in each case, with the same force and effect as if made as of the Closing Date, other than such representations and warranties as are made as of another date, the covenants and agreements contained in this Agreement to be complied with by the Purchaser on or before the Closing Date shall have been complied with in all material respects, and the Sellers shall have received a certificate from the Purchaser to such effect signed by a duly authorized officer thereof; and

(ii) No Proceeding or Litigation. No Action shall have been commenced by or before any Governmental Authority against either the Company or the Purchaser, seeking to restrain or materially and adversely alter the transactions contemplated by this Agreement which is likely to render it impossible or unlawful to consummate such transactions; provided, however, that the provisions of this Section 6.01(ii) shall not apply if the Company or any Seller or Founder has directly or indirectly solicited or encouraged any such Action.

SECTION 6.02. Conditions to Obligations of the Purchaser. The obligations of the Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or written waiver, at or prior to the Closing, of each of the following conditions:

(i) Representations, Warranties and Covenants. The representations and warranties of the Company or the Founders contained in Article III of this Agreement shall have been true and correct in all material respects when made and shall be true and correct in all material respects as of the Closing Date with the same force and effect as if made as of the Closing Date, except to the extent such representations and warranties are as of another date, in which case, such representations and warranties shall be true and correct as of that date, in each case, with the same force and effect as if made as of the Closing Date, other than such representations and warranties as are made as of another date, the covenants and agreements contained in this Agreement to be complied with by the Company or the Founders on or before the Closing Date shall have been complied with, and the Purchaser shall have received a certificate signed by the Company and the Founders to such effect;

(ii) No Proceeding or Litigation. No Action shall have been commenced or threatened by or before any Governmental Authority against either the Company and its Affiliates, seeking to restrain or materially and adversely alter the transactions contemplated by this Agreement which is likely to render it impossible or unlawful to consummate such transactions or which could have a Material Adverse Effect or otherwise render inadvisable the consummation of the transactions contemplated by this Agreement;

(iii) Approvals. The Purchaser, the Company, Lebai and the Company Security Holders (where applicable) shall have received all Approvals for the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements.

(iv) Equity Transfer Agreement. The Equity Transfer Agreements shall have been signed by the Onshore Shareholders and the Purchase De signee(s);

(v) Shareholders' Agreement. The Purchaser, the Remaining Sellers, the Founders and the Company shall have entered into the Shareholders' Agreement;

(vi) Employment Contracts. Each of the Key Employees as listed in Exhibit E shall have entered into an restated employment contract with the Company, WOFE or Lebai for an employment term of no less than [three (3)] years commencing from the Closing Date and employee confidentiality and non-compete agreements for a term of three (3) years commencing after the termination of their employment with the Company, WOFE or Lebai (or such other longest term permitted by law), in each case substantially in the form satisfactory to the Purchaser as attached in Exhibit H attached hereto (collectively, the "Employment Contracts"), and such Employment Contracts shall be valid and binding with full force and effect;

(vii) Register of Directors. The Purchaser shall have received a copy of the Company's register of directors, certified by the registered agent of the Company as of the date of the Closing, updated to show the appointment of Bai Yunfeng as directors of the Company; and the resignation of Jin Xin, Christine Lu-Wong, Zhang Xi, and Wang Jianguo as directors of the Company;

(viii) ESOP. The Company shall have terminated the ESOP and have redeemed all the options granted to any employees (whether or not vested) in consideration of the ESOP Redemption Price; and

(ix) Opinion of Counsel. An opinion of counsel to the Company shall have been delivered to the Purchaser.

ARTICLE VII

INDEMNIFICATION

SECTION 7.01. Indemnification. (a) Each Warrantor hereby agrees to jointly and severally indemnify and hold harmless the Purchaser, and Purchaser Designees, the Purchaser's Affiliates, directors, officers, agents and assigns, from and against any and all Indemnifiable Losses suffered by the Purchaser, or the Purchaser Designee(s), Purchaser's Affiliates, directors, officers, agents and assigns (each, an "Indemnified Person"), directly or indirectly, as a result of, or based upon or arising from (i) any inaccuracy in any of the representations or warranties made by any Warrantor in Article III of this Agreement, (ii) any breach or non-performance of any of the covenants or agreements made by any Warrantor in or pursuant to the Transaction Documents, (iii) any Tax Liability of any Group Company/School not reflected in the Financial Statements and occurring before the Closing, or (iv) any Liability incurred before the Closing by any Group Company/School arising in respect of, by reference to or in consequence of its non-compliance with any applicable Law, including without limitation the SAFE Rules and Regulations. Each Warrantor and the Seller hereby agrees to, severally and not jointly, indemnify and hold harmless the Indemnified Persons, directly or indirectly, as a result of, or based upon or arising from any Tax Liability of such Seller in connection with the transactions contemplated hereby. The rights contained in this Section 7.01 shall not be deemed to preclude or otherwise limit in any way the exercise of any other rights or pursuit of other remedies for the breach of this Agreement or with respect to any misrepresentation.

(b) For the avoidance of doubt, each of the Warrantors hereby agrees and covenants that (i) it will not challenge or raise a defense to any claim against such Warrantor or the exercise of any right or remedy against such Warrantor (whether under this Section 7.01 or any other provision of this Agreement or any Ancillary Agreement) on the grounds that such claim, right or remedy is not enforceable or permitted by applicable Law, and (ii) it will do all such things and undertake all such actions, including without limitation any applications to and registrations with the Governmental Authorities and any other protective measures reasonably requested by the Purchaser, to ensure that the agreement of the parties with respect to joint and several liability of the Warrantors under the Transaction Agreements is given full force and effect.

(c) Notwithstanding any other provision contained herein, the Warrantors, the Sellers and the Purchaser acknowledge that the indemnities under Section 7.01 shall be subject to the following provisions: (i) any Indemnified Person shall not bring any indemnity claim against any of the Warrantors and/or any of the Sellers for such matter of which has been disclosed, shown or reflected in the Disclosure Schedule and/or any of the Transaction Documents; (ii) the aggregate liability of the Company for all indemnification obligations under the Transaction Documents (including but not limited to this Section 7.01) shall not exceed an amount equal to the Aggregate Purchase Price, other than in the case of fraud or intentional misconduct of it; (iii) the aggregate liability of each of the Founders and the Sellers (excluding Xueda Education Group) for all indemnification obligations under the Transaction Documents (including but not limited to this Section 7.01) shall not exceed an amount equal to eighty percent (80%) of the relevant Aggregate Purchase Price as set forth opposite his/her/its name on Part I of Exhibit A, other than in the case of fraud or intentional misconduct of such Founder or Seller; (iv) the aggregate liability of Xueda Education Group for all indemnification obligations under the Transaction Documents (including but not limited to this Section 7.01) shall not exceed an amount equal to fifty percent (50%) of the relevant Aggregate Purchase Price as set forth opposite its name on Part I of Exhibit A and actually received by Xueda Education Group; (v) the Warrantors, the Sellers and the Purchaser agree that in respect of any claims against any Warrantor or any Seller, any such claim, which shall be accompanied by preliminary written evidence and reasonable detail, and shall be made to any Warrantor or any Seller on or before the first (1st) anniversary of the Closing, and the Warrantors and the Sellers are not liable for any claims made after the first (1st) anniversary of the Closing as mentioned above; (vi) the Warrantors and the Sellers are not liable to indemnify the Indemnified Persons in respect of any claims under this Agreement to the extent that such claims would not have arisen but for a change in any law, regulation or government decrees promulgated after the Closing; (vii) the Warrantors or the Sellers shall not be liable in respect of any claim unless the aggregate liability for all the claims exceeds US\$100,000 in which case the relevant Warrantor(s) or the relevant Seller(s) shall be liable for all of the excess part. provided, however, that none of the limitations on liability or indemnification contained provided in items (i),(ii),(iii), (v), (vi) and (vii) of this 0 shall apply to any claim in respect of Tax Liability arising from or in connection with the breach or non-performance of any Seller's covenant as to the PRC Tax Matters which shall continue until the expiry of the applicable limitation period prescribed by Law in relation to the underlying claim (whether brought or initiated by a governmental authority, a third party or otherwise)

ARTICLE VIII

TERMINATION, AMENDMENT AND WAIVER

SECTION 8.01. Termination. This Agreement and the Equity Transfer Agreement may be terminated at any time prior to the Closing:

(i) by the Purchaser if, between the date hereof and the Closing: (i) an event or condition occurs that has resulted in a Material Adverse Effect, (ii) any representations and warranties of the Warrantors contained in this Agreement or the Equity Transfer Agreement shall not have been true and correct in all material respects when made, (iii) the Company, the Sellers and the Founders shall not have complied with the covenants or agreements contained in this Agreement or the Equity Transfer Agreement to be complied with by it which may bring Material Adverse Effect, or (iv) the Company or any Affiliate makes a general assignment for the benefit of creditors, or any proceeding shall be instituted by or against the Company or any Affiliate seeking to adjudicate any of them a bankrupt or insolvent, or seeking liquidation, winding up or reorganization, arrangement, adjustment, protection, relief or composition of its debts under any Law relating to bankruptcy, insolvency or reorganization;

(ii) by the Purchaser or the Company if the Closing shall not have occurred by [•], 2015; provided, however, that the right to terminate this Agreement under this Section 8.01(ii) shall not be available to the Purchaser or the Company if its failure to fulfill any obligation under this Agreement or the Equity Transfer Agreement or its misrepresentation shall have been the cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date;

(iii) by either the Purchaser or the Company in the event that any Governmental Authority shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and nonappealable; or

(iv) by the mutual written consent of the Company, the Purchaser, the Sellers and the Founders.

SECTION 8.02. Effect of Termination. (a) In the event of termination of this Agreement and the Equity Transfer Agreement as provided in Section 8.01, this Agreement and the Equity Transfer shall forthwith become void and there shall be no liability on the part of any party hereto except (a) as set forth in Sections 5.03 and 10.01; (b) as specifically set forth in the Equity Transfer Agreement and (b) that nothing herein shall relieve any party from liability for any breach of this Agreement or the Equity Transfer Agreement.

SECTION 8.03. Amendment. This Agreement may not be amended or modified except (a) by an instrument in writing signed by, or on behalf of, the Company, the Purchaser, the Sellers and the Founders or (b) by a waiver in accordance with Section 8.04.

SECTION 8.04. Waiver. Any party to this Agreement may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties of the other parties contained herein or in any document delivered by the other parties pursuant hereto or (c) waive compliance with any of the agreements of the other parties or conditions to such parties' obligations contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition of this Agreement. The failure of any party to assert any of its rights hereunder shall not constitute a waiver of any of such rights. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

ARTICLE IX

POST CLOSING COVENANTS

SECTION 9.01. Call Option. At any time from the date that is 6 months after the Closing Date to the date that is 12 months after the date of the Closing Date, the Purchaser shall have the right and obligation to request each of such Sellers as may hold any Shares for the time being (the “**Remaining Sellers**”) and each of the Remaining Sellers shall, within fourteen (14) Business Days after receiving a written request from the Purchaser or within such other period as agreed by the parties, sell all and not less than all of the Option Shares for consideration in such amount and in such form as set forth opposite its name in Exhibit D at the Call Option Closing Date, as defined and provided for in more detail in the Shareholders Agreement. Without limiting the generality of the foregoing and for avoidance of doubt, the Purchaser shall deliver to the Management Seller Entities or if the Management Seller Entities so elect, the corresponding Seller’s Sole Owners, and Cheng Wai such number of Purchaser Common Shares (“Consideration Shares”) equal to (A) RMB 57,716,822 in the aggregate, divided by (B) the average closing price of such shares on the National Securities Exchange on which the Purchaser Common Shares are then listed for trading during the ninety (90) trading day period ending on the day immediately prior to the Call Option Closing Date. Consideration Shares so acquired by the Management Seller Entities (or the corresponding Seller’s Sole Owners, as the case may be), and Cheng Wai shall be subject to a three (3)-year lockup period following the Call Option Closing Date during which 1/3 of the Consideration Shares shall be unlocked on the anniversary date each year of the Call Option Closing Date, among such other restrictions as may be provided for by the stock purchase agreement in connection with the purchase and sale of the Option Shares among the Purchaser, the Remaining Sellers and the Company and certain other parties (if any).

SECTION 9.02. Restricted Shares. In consideration of the Key Employees commencing and continuing their employment with the Purchaser, the Purchaser shall, within sixty (60) days following the Closing, deliver to each of the Key Employees certificate representing such number of Purchaser Common Shares equal to (A) such number in RMB as set forth opposite his/her names in Exhibit E, divided by (B) the average closing price of such shares on the National Securities Exchange on which the Purchaser Common Shares are then listed for trading during the ninety (90) trading day period ending on the day immediately prior to the Closing Date, duly authorized, validly issued, fully paid for and non-assessable (“Restricted Shares”). The certificates representing the Restricted Shares will bear the following or similar legends:

“THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN THE 2010 AND 2013 RESTATED SHARE INCENTIVE PLAN OF TAL EDUCATION GROUP AND A RESTRICTED SHARES AWARD AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND TAL EDUCATION GROUP. ANY ATTEMPT TO DISPOSE OF THESE SHARES IN CONTRAVENTION OF SUCH RESTRICTIONS, INCLUDING BY WAY OF SALE, ASSIGNMENT, TRANSFER, PLEDGE, HYPOTHECATION OR OTHERWISE, SHALL BE NULL AND VOID AND WITHOUT EFFECT AND SHALL RESULT IN THE FORFEITURE OF SUCH SHARES AS PROVIDED BY SUCH PLAN AND AGREEMENT.

SECTION 9.03. Remaining ESOP Redemption Price. The Purchaser shall pay the Company the remaining 60% of ESOP Redemption Price, which is RMB 2,593,132, at the Call Option Closing Date.

SECTION 9.04. Further Assurances. At any time and from time to time, the Sellers and Founders, on the one hand, and Purchaser, on the other hand, shall promptly execute, acknowledge and deliver any other assurances or documents reasonably requested by the other, as the case may be, and necessary for it, as the case may be, to satisfy its respective obligations hereunder or obtain the benefits contemplated hereby.

ARTICLE X.

GENERAL PROVISIONS

SECTION 10.01. Expenses. Except as otherwise expressly provided in this Agreement, all costs and expenses, including, without limitation, all fees and disbursements of counsel, accountants, financial advisors, experts and consultants incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred. All stamp duty payable under any applicable law in connection with the completion of the transactions contemplated hereunder shall be borne by the Purchaser and the Sellers in equal shares and on a pro rata basis based on the amount the Transfer Shares held by each of the them among the Sellers, if any.

SECTION 10.02. Notices. Except as may be otherwise provided herein, all notices, requests, waivers and other communications made pursuant to this Agreement shall be in writing and shall be conclusively deemed to have been duly given (a) when hand delivered to the other parties; (b) when sent by facsimile at the number set forth in the Schedule of Notice attached hereto; (c) seven (7) Business Days after deposit in the mail as air mail or certified mail, receipt requested, postage prepaid and addressed to the parties as set forth in the Schedule of Notice; or (d) three (3) Business Days after deposit with an overnight delivery service, postage prepaid, addressed to the parties as set forth in the Schedule of Notice with next-Business Day delivery guaranteed, provided that the sending party receives a confirmation of delivery from the delivery service provider.

Each person making a communication hereunder by facsimile shall promptly confirm by telephone to the person to whom such communication was addressed each communication made by it by facsimile pursuant hereto but the absence of such confirmation shall not affect the validity of any such communication. A party may change or supplement the addresses given above, or designate additional addresses, for purposes of this Section 10.02 by giving, the other parties written notice of the new address in the manner set forth above.

SECTION 10.03. Third-Party Beneficiaries. Except for the provisions of Article VII relating to indemnified parties, this Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person, including, without limitation, any union or any employee or former employee of the Company, any legal or equitable right, benefit or remedy of any nature whatsoever, including, without limitation, any rights of employment for any specified period, under or by reason of this Agreement.

SECTION 10.04. Public Announcements. No party to this Agreement shall make, or cause to be made, any press release or public announcement in respect of this Agreement or the transactions contemplated by this Agreement or otherwise communicate with any news media without prior notification to the other parties, and the parties shall cooperate as to the timing and contents of any such press release or public announcement.

SECTION 10.05. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law or public policy, all other terms, conditions and provisions of this Agreement shall nevertheless remain in full force and effect for so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated by this Agreement be consummated as originally contemplated to the fullest extent possible.

SECTION 10.06. Assignment; Binding Effect. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties; provided, that, the Purchaser may assign any of its rights, interests or obligations to any Affiliate or Affiliate of the Purchaser. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

SECTION 10.07. Incorporation of the Disclosure Schedule and the Exhibits. The Disclosure Schedule and all Exhibits attached hereto and referred to herein are hereby incorporated herein by reference and made a part of this Agreement for all purposes as if fully set forth herein.

SECTION 10.08. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to its laws of conflict.

SECTION 10.09. Dispute Resolution, Negotiation Between Parties; Mediations.

(a) The parties agree to negotiate in good faith to resolve any dispute between them arising out of, relating to, or concerning any interpretation, construction, performance or breach of this Agreement (the "Dispute"). If the negotiations do not resolve the Dispute to the reasonable satisfaction of all parties within thirty (30) days, Section 10.09(b) shall apply.

(b) Arbitration. Each of the parties hereto irrevocably (i) agrees that any Dispute or controversy arising out of, relating to, or concerning any interpretation, construction, performance or breach of this Agreement, shall be settled by arbitration to be held in Hong Kong which shall be administered by the Hong Kong International Arbitration Centre ("HKIAC") in accordance with the Hong Kong International Arbitration Centre Administered Arbitration Rules in force at the time of the commencement of the arbitration (the "Arbitration Rules"), (ii) waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of venue of any such arbitration, and (iii) submits to the exclusive jurisdiction of Hong Kong in any such arbitration. There shall be three arbitrators, selected in accordance with the Arbitration Rules, and at least one arbitrator shall be qualified to practice Hong Kong Law. The decision of the arbitration tribunal shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitration tribunal's decision in any court having jurisdiction. The parties to the arbitration shall each pay an equal share of the costs and expenses of such arbitration, and each party shall separately pay for its respective counsel fees and expenses; provided, however, that the prevailing party in any such arbitration shall be entitled to recover from the non-prevailing party its reasonable costs and attorney fees. The parties acknowledge and agree that, in addition to contract damages, the arbitrators may award provisional and final equitable relief, including injunctions, specific performance, and lost profits.

SECTION 10.10. Headings. The descriptive headings contained in this Agreement are included for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 10.11. Counterparts. This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different parties hereto in separate counterparts, each of which, when executed and delivered, shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

SECTION 10.12. Currency Exchange. To the extent that any payment denominated in RMB shall be made in U.S. Dollars or monetary value of any Purchaser Common Stocks is expressed in RMB pursuant hereto, such amount shall be translated into U.S. Dollars at the USD:RMB exchange rate of the average median price of foreign exchange rate of the People's Bank of China within the thirty-day period prior to the date of payment or delivery of the Restricted Shares, as the case maybe.

SECTION 10.13. Entire Agreement. This Agreement (including the Exhibits and the Disclosure Schedule) and the Ancillary Agreements constitute the entire agreement among the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and thereof.

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“Purchaser”

TAL EDUCATION GROUP

By: /s/ YANG Qiang

Name: YANG Qiang

Title: Authorized Signatory

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“COMPANY”

FIRSTLEAP EDUCATION

By: /s/ Authorized Signatory

Name:

Title:

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“FOUNDERS”

WU YING(吴颖)

By: /s/ WU Ying _____

Name:

Title:

CAO WEI(曹伟)

By: /s/ CAO Wei _____

Name:

Title:

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“SELLERS”

ACE FRONTIER DEVELOPMENTS LIMITED

By: /s/ Authorized Signatory
Name:
Title:

BERTRAM HOLDINGS LIMITED

By: /s/ Authorized Signatory
Name:
Title:

DRAGON YEAR INVESTMENTS LIMITED

By: /s/ Authorized Signatory
Name:
Title:

GREAT TIME DEVELOPMENTS LIMITED

By: /s/ Authorized Signatory
Name:
Title:

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“SELLERS”

CHENG WAI

By: /s/ CHENG Wai
Name:
Title:

SPLENDOR BOUND LIMITED

By: /s/ Authorized Signatory
Name:
Title:

TALENT JOURNEY LIMITED

By: /s/ Authorized Signatory
Name:
Title:

CONSTANT SUCCESS INVESTMENTS LIMITED

By: /s/ Authorized Signatory
Name:
Title:

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“SELLERS”

LION HIGH INVESTMENTS LIMITED

By: /s/ Authorized Signatory

Name:

Title:

AGNITA INVESTMENTS LIMITED

By: /s/ Authorized Signatory

Name:

Title:

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“SELLERS”

CUPITO HOLDINGS LIMITED

By: /s/ Authorized Signatory

Name:

Title:

YU Yang

By: /s/ YU Yang

Name:

Title:

NEW GENIOUS GLOBAL LIMITED

By: /s/ Authorized Signatory

Name:

Title:

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“SELLERS”

XUEDA EDUCATION GROUP

By: /s/ Authorized Signatory

Name:

Title:

January 22, 2016

SHARE SALE AND PURCHASE AGREEMENT

between

TAL Education Group

and

**the parties listed
in SCHEDULE A**

THIS SHARE SALE AND PURCHASE AGREEMENT (the “Agreement”) is made on the twenty-second day of January, 2016.

BETWEEN:

- (1) **TAL Education Group**, a company incorporated under the laws of the Cayman Islands whose registered office is situated at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands (the “Purchaser”); and
- (2) **the parties listed in Schedule A** (collectively, the “Sellers” and individually, a “Seller”).

(The Purchaser and the Sellers are collectively referred to as the “Parties” and each a “Party”.)

WHEREAS:

- (A) Each Seller owns, beneficially and of record, such number of ordinary shares, par value US\$0.0001 per share, of Firstleap Education, a company limited by shares incorporated in the Cayman Islands (the “Company”), as is set forth opposite such Seller’s name in Schedule A hereto (the “Sale Shares”).
- (B) Pursuant to the Amended and Restated Shareholders Agreement, dated September 18, 2015, by and among, the Purchaser, the Sellers, the Company, and certain other parties (the “Shareholders Agreement”), the Purchaser sent a Call Option Notice (as defined in Section 6.1 of the Shareholders Agreement) requesting the Sellers to sell all and not less than all of the Sale Shares; by acknowledging the receipt of the Call Option Notice, each of the Sellers agrees to waive any rights and claims in respect of the Call Option Period (as defined in Section 6.1 of the Shareholders Agreement) and be bound by the Section 6 of the Shareholders Agreement. Thus, each of the Sellers wishes to sell, and the Purchaser wishes to purchase, all the Sale Shares, subject to Section 6 of the Shareholders Agreement and the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements and covenants hereinafter set forth, and intending to be legally bound, the Purchaser and the Sellers hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Certain Defined Terms. For purposes of this Agreement:

“Action” means any claim, action, suit, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority.

“ADSs” means the American Depositary Shares of the Purchaser, each representing two (2) Purchaser Common Shares.

“Affiliate” means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person.

“Approval” means any approval, license, authorization, release, order, or consent required to be obtained from, or any registration, qualification, designation, declaration, filing, notice, statement or other communication required to be filed with or delivered to, any Governmental Authority or any other Person, or any waiver of any of the foregoing.

“Business” means full-service English training courses for children in the PRC, provided by the Company and/or its Affiliates.

“Business Day” means any day (other than a Saturday or Sunday) on which commercial banking institutions in the Hong Kong Special Administrative Region and the PRC are open for business.

“Circular 37” means the Circular 37, issued by SAFE on July 4, 2014, titled “*Circular on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles*,” effective as of July 4, 2014, and any of its predecessors.

“Consideration Shares Recipient” means each of Agnita Investments Limited, Talent Journey Limited, Constant Success Investments Limited, Ace Frontier Developments Limited and Cheng Wai.

“Control” (including the terms “controlled by” and “under common control with”), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly or as trustee, personal representative or executor, of the power to direct or cause the direction of the affairs or management

of a Person, whether through the ownership of voting securities, as trustee, personal representative or executor, by contract, credit arrangement or otherwise.

“Domestic Resident” has the meaning set forth in Circular 37 and/or other Law related to Circular 37.

“Encumbrance” means any security interest, pledge, hypothecation, mortgage, lien (including environmental and tax liens), violation, charge, lease, license, encumbrance, servient easement, adverse claim, reversion, reverter, preferential arrangement, restrictive covenant, condition or restriction of any kind, including any restriction on the use, voting, transfer, receipt of income or other exercise of any attributes of ownership.

“Equity Securities” means, with respect to a Person, any shares, share capital, registered capital, ownership interest, equity interest, or other securities of such Person, and any option, warrant, or right to subscribe for, acquire or purchase any of the foregoing, or any other security or instrument convertible into or exercisable or exchangeable for any of the foregoing, or any equity appreciation, phantom equity, equity plans or similar rights with respect to such Person, or any contract of any kind for the purchase or acquisition from such Person of any of the foregoing, either directly or indirectly.

“ESOP” means the employee stock option plan adopted by the Company in 2013 and 2015.

“ESOP Redemption Price” means RMB 4,321,886 as consideration for the Company to terminate the ESOP and redeem all the options granted thereunder.

“Governmental Authority” means any PRC or non-PRC national, supranational, state, provincial, local, or similar government, governmental, regulatory or administrative authority, agency or commission or any court, tribunal, or judicial or arbitral body.

“Governmental Order” means any order, ruling, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“Indemnifiable Loss” means, with respect to any Person, any action, claim, cost, damage, deficiency, diminution in value, disbursement, expense, liability, loss, obligation, penalty, settlement, suit, or Tax of any kind or nature, together with all interest, penalties, legal, accounting and other professional fees and expenses incurred in the investigation, collection, prosecution and defense of claims and amounts paid in settlement, that may be imposed on or otherwise incurred or suffered by such Person, whether directly or indirectly.

“Intellectual Property” means (i) patents, patent applications and statutory invention registrations, (ii) trademarks, service marks, Company Marks, Internet domain names, trade dress, trade names, logos, and other source identifiers, including registrations and applications for registration thereof, (iii) copyrights, including registrations and applications for registration thereof, (iv) software, and (v) confidential and proprietary information, including trade secrets, know-how, designs and drawings, engineering documents, technical manuals, patterns, processes, formulae, inventions and discoveries (whether patentable or not), and all related documentation, developer notes, comments and annotations, and other similar rights of the Company and its Affiliates, and all applications therefor and registrations thereof, and all rights to sue for past, present and future infringement or other violations of the Intellectual Property, and all goodwill associated with any of the foregoing.

“Law” means any PRC or non-PRC national, supranational, state, provincial, local or similar statute, law, ordinance, regulation, rule, code, Governmental Order, requirement or rule of law (including common law).

“Liabilities” means any and all debts, liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured or determined or determinable, including those arising under any Law (including any Tax Law), Action or Governmental Order and those arising under any contract, agreement, arrangement, commitment or undertaking.

“Material Adverse Effect” means any event, circumstance, change in or effect on the Business, the Company and the Affiliates or the Purchaser and its Affiliates, as the context dictates, that, individually or in the aggregate with all other events, circumstances, changes in or effects on the Business, the Company and the Affiliates or the Purchaser and its Affiliates, as the context dictates, has had or is reasonably expected to have a material adverse effect on the business, operations, prospect assets or liabilities (including without limitation, contingent liabilities) results of operations or the condition (financial or otherwise) of the Business, the Company and the Affiliates or the Purchaser and its Affiliates, as the context dictates, taken as a whole.

“National Securities Exchange” means mean the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, or any of their respective successor exchanges.

“Person” means any individual, partnership, firm, corporation, limited liability company, association, trust, unincorporated organization or other entity, as well as any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Securities Exchange Act of 1934.

“PRC” means People’s Republic of China.

“Purchaser Common Share” means Class A common share of the Purchaser, par value \$0.0001 per share.

“RMB” or “¥” means Renminbi Yuan, the lawful currency of the PRC.

“SAFE” means State Administration of Foreign Exchange of the PRC.

“Tax” or “Taxes” shall mean any and all taxes, fees, levies, duties, tariffs, imposts and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any Governmental Authority or taxing authority, including: taxes or other charges on or with respect to income, franchise, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers’ compensation, unemployment compensation or net worth; taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value-added or gains taxes; license, registration and documentation fees; and customers’ duties, tariffs and similar charges.

“Tax Liability” means Liability resulting from any claim of Taxes arising from an event relating to Taxes occurred before the Closing, except for such Liability is (i) promptly cured without recourse to cash or other assets of the applicable Person; (ii) has been clearly disclosed in the financial statements of the applicable Person.

“USD” or “U.S. \$” means the dollars of the United States, the lawful currency of the United States.

“U.S. GAAP” means United States generally accepted accounting principles and practices in effect from time to time applied consistently throughout the periods involved.

SECTION 1.02. Definitions The following terms have the meanings set forth in the Sections set forth below:

<u>Definition</u>	<u>Location</u>
“ <u>Aggregate Purchase Price</u> ”	2.02(a)
“ <u>Agreement</u> ”	Preamble
“ <u>Arbitration Rules</u> ”	10.09(b)
“ <u>Cash Consideration</u> ”	2.02(a)
“ <u>Consideration Shares</u> ”	2.02(a)

“ <u>Closing</u> ”	2.03
“ <u>Closing Date</u> ”	2.03
“ <u>Closing Deliveries</u> ”	2.02(c)
“ <u>Company</u> ”	Preamble
“ <u>Company Security Holder</u> ”	3.03
“ <u>HKIAC</u> ”	10.09(b)
“ <u>Lockup Agreement</u> ”	9.01
“ <u>PRC Tax Matters</u> ”	5.02
“ <u>Purchaser</u> ”	Preamble
“ <u>SAFE Rules and Regulations</u> ”	3.03
“ <u>Sale Shares</u> ”	Recitals
“ <u>Sellers</u> ”	Preamble
“ <u>Shareholders Agreement</u> ”	Recitals

SECTION 1.03. Interpretation and Rules of Construction. In this Agreement, except to the extent otherwise provided or that the context otherwise requires:

(a) when a reference is made in this Agreement to an Article, Section, Exhibit or Schedule, such reference is to an Article or Section of, or a Schedule or Exhibit to, this Agreement unless otherwise indicated;

(b) the table of contents and headings for this Agreement are for reference purposes only and do not affect in any way the meaning or interpretation of this Agreement;

(c) whenever the words “include,” “includes” or “including” are used in this Agreement, they are deemed to be followed by the words “without limitation”;

(d) the words “hereof,” “herein” and “hereunder” and words of similar import, when used in this Agreement, refer to this Agreement as a whole and not to any particular provision of this Agreement;

(e) all terms defined in this Agreement have the defined meanings when used in any certificate or other document made or delivered pursuant hereto, unless otherwise defined therein;

(f) the definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms;

(g) any Law defined or referred to herein or in any agreement or instrument that is referred to herein means such Law or statute as from time to time amended, modified or supplemented, including by succession of comparable successor Laws;

(h) references to a Person are also to its successors and permitted assigns;
and

(i) the use of “or” is not intended to be exclusive unless expressly indicated otherwise.

ARTICLE II

PURCHASE AND SALE

SECTION 2.01. Purchase and Sale of the Sale Shares.

Upon the terms and subject to the conditions of this Agreement, at the Closing, each of the Sellers shall sell, assign, transfer, convey and deliver, or cause to be sold, assigned, transferred, conveyed and delivered, severally but not jointly, to the Purchaser, such number of Sale Shares for such a price as set forth opposite its name in Schedule A and any and all right, title and interest of any Seller in and to such Sale Shares, and the Purchaser shall purchase such Sale Shares.

SECTION 2.02. Purchase Price

(a) The aggregate purchase price for the Sale Shares shall be one hundred and twenty nine million five hundred and sixty two thousand two hundred and eighty two RMB (RMB 129,562,282) (the “Aggregate Purchase Price”). The Aggregate Purchase Price shall consist of (i) RMB 71,845,460 in cash (“Cash Consideration”) and (ii) such number of the Purchaser Common Shares equal to (A) RMB 57,716,822 in the aggregate, divided by (B) the average closing price of such shares on the National Securities Exchange on which the Purchaser Common Shares are then listed for trading during the one hundred and eighty (180) trading day period ending on the day immediately prior to the Closing Date (“Consideration Shares”).

(b) The Aggregate Purchase Price shall be paid as follows:

- (i) at the Closing (as defined below), the Purchaser shall pay to each of the Sellers the US dollar equivalent of such amount of Cash Consideration as set forth opposite to his/her/its name in Schedule A; and
- (ii) at the Closing (as defined below), the Purchaser shall deliver to each of the Consideration Shares Recipients such number of Consideration Shares equal to (A) the applicable amount as set forth opposite to his/her/its names in Schedule A, divided by

(B) the average closing price of such shares on the National Securities Exchange on which the Purchaser Common Shares are then listed for trading during the one hundred and eighty (180) trading day period ending on the day immediately prior to the Closing Date.

(c) The Purchaser's obligation to pay the Aggregate Purchase Price will be subject to the continued accuracy as of the date hereof and the Closing of the Sellers' representations and warranties made herein. At the Closing, the Sellers shall make the closing deliveries as set forth in Section 2.04, as applicable and the Purchaser shall make the closing deliveries as set forth in Section 2.05 (the "Closing Deliveries").

SECTION 2.03. Closing. Subject to the terms and conditions of this Agreement, the sale and purchase of the Sale Shares contemplated by this Agreement shall take place at a closing (the "Closing") to be held at the offices of the Purchaser, which are located at Haidian District, Beijing, PRC or remotely via exchange of documents and signatures following the satisfaction or, if permissible, waiver of all conditions to the obligations of the Parties set forth in Article VI hereof (other than those conditions that will be satisfied at the Closing) which shall be targeted for January 22, 2016 but shall be no later than January 22, 2016, or at such other place or at such other time or on such other date as the Parties may mutually agree upon in writing. The date and time of the Closing are herein referred to as the "Closing Date".

SECTION 2.04. Closing Deliveries by the Sellers. At the Closing, each of the Sellers shall deliver or cause to be delivered to Purchaser:

(a) duly executed instruments of transfer in respect of the relevant Sale Shares in favor of the Purchaser together with the relevant share certificate evidencing the relevant Sale Shares;

(b) the share certificates of the Company representing the Sale Shares being purchased by the Purchaser at the Closing;

(c) a true and complete copy of the resolutions duly and validly adopted by the board of directors of each of Sellers evidencing its authorization and approval of the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby; and

(d) the Lockup Agreement executed and delivered by the Consideration Shares Recipients.

SECTION 2.05. Closing Deliveries by the Purchaser. At the Closing, the Purchaser shall deliver to the Sellers:

(a) the relevant Cash Consideration for the Sale Shares to be paid pursuant to Section 2.02(b)(i), in U.S. dollars by wire transfer in immediately available funds to the bank account designated by each of the Sellers;

(b) the relevant Consideration Shares to be delivered to the Consideration Shares Recipients pursuant to Section 2.02(b)(ii) to be represented by the share certificate duly signed and sealed for and on behalf of the Purchaser, and evidence proving the registration of the Consideration Shares Recipients as the legal and beneficial holder of the Consideration Shares in the extract of the register of members of the Purchaser certified by the by the registered agent of the Purchaser;

(c) a true and complete copy of the resolutions duly and validly adopted by the board of directors of the Company evidencing its authorization and approval of the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby;

(d) a true and complete copy of the resolutions duly and validly adopted by the board of directors of the Purchaser evidencing its authorization and approval of the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby; and

(e) the Lockup Agreement executed by the Purchaser and delivered to the Consideration Shares Recipients.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF EACH SELLER

As an inducement to the Purchaser to enter into this Agreement, each Seller, severally but not jointly, represent and warrant to the Purchaser that: as of the date hereof, and the Closing Date hereunder, each of the statements contained in this Article III is true, accurate and complete.

SECTION 3.01. Organization and Qualification. Each Seller (to the extent that such Seller is a corporate entity) is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction where it is registered and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted.

SECTION 3.02. Authority; No Conflict; No Encumbrances.

(a) Each Seller has all necessary corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Sellers and the consummation by the Sellers of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action and no other corporate proceedings on the part of the Seller are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Sellers and, assuming the due authorization, execution and delivery by the Purchaser, constitutes a legal, valid and binding obligation of the Sellers, enforceable against the Sellers in accordance with its terms.

(b) The execution and delivery of this Agreement by the Sellers do not, and the performance of this Agreement by the Sellers will not, (i) conflict with or violate the organizational documents of the Sellers, (ii) conflict with or violate any Law applicable to the Sellers or by which any property or asset of the Purchaser is bound or affected, or (iii) result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of any Encumbrance on any property or asset of the Seller pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation.

(c) Except those contemplated in the Shareholders Agreements and the applicable Law, no Sale Shares are subject to any pre-emptive rights, rights of first refusal or other rights to purchase such shares (other than in favor of the Purchaser). All the Sale Shares are owned of record and beneficially by the Sellers, free and clear of any Encumbrances (other than Encumbrances created by this Agreement and the Shareholders Agreements), in the numbers set forth in Schedule A hereto.

SECTION 3.03 Regulatory Matters. Any Sellers or each holder of any Equity Securities of any Sellers (each, a “Company Security Holder”), who is a Domestic Resident and subject to any of the registration or reporting requirements of Circular 37 or any other applicable SAFE rules and regulations (collectively, the “SAFE Rules and Regulations”), has complied with such reporting and/or registration requirements under the SAFE Rules and Regulations. None of the Company Security Holders has received any oral or written inquiries, notifications, orders or any other forms of official correspondence from SAFE or any of its local branches with respect to any actual or alleged non-compliance with the SAFE Rules and Regulations and the Company and the Company Security Holders have made all oral or written filings, registrations, reporting or any other communications required by SAFE or any of its local branches.

SECTION 3.04. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of any Sellers.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

As an inducement to the Sellers to enter into this Agreement, the Purchaser hereby represents and warrants to each Seller as of the date hereof, and the Closing Date hereunder, each of the statements contained in this Article IV is true, accurate and complete.

:

SECTION 4.01. Organization and Qualification. The Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of the Cayman Islands and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted. The Purchaser is duly qualified or licensed as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary.

SECTION 4.02. Authority; No Conflict; Required Filings and Consents.

(a) The Purchaser has all necessary corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Purchaser and the consummation by the Purchaser of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action and no other corporate proceedings on the part of the Purchaser are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Purchaser and, assuming the due authorization, execution and delivery by the Sellers, constitutes a legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms.

(b) The execution and delivery of this Agreement by the Purchaser do not, and the performance of this Agreement by the Purchaser will not, (i) conflict with or violate the organizational documents of the Purchaser, (ii) conflict with or violate any Law applicable to the Purchaser or by which any property or asset of the Purchaser is bound or affected, or (iii) result in any breach of or constitute a default (or an event

which with notice or lapse of time or both would become a default) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of any Encumbrance on any property or asset of the Purchaser pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation.

(c) The execution and delivery of this Agreement by the Purchaser do not, and the performance of this Agreement by the Purchaser will not, require any consent, approval, authorization or permit of, or filing with or notification to, any third party or Governmental Authority, other than any of the foregoing required under US securities laws or which will not materially impair the Purchaser's ability to perform its obligations hereunder.

SECTION 4.03. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Purchaser.

ARTICLE V

ADDITIONAL AGREEMENTS

SECTION 5.01. Confidentiality. The Sellers agree to, and shall cause their respective agents, representatives, affiliates, employees, officers and directors to: (a) treat and hold as confidential all (and not disclose or provide access to any Person to) any information relating to trade secrets, processes, patent and trademark applications, product development, price, customer and supplier lists, pricing and marketing plans, policies and strategies, details of client and consultant contracts, operations methods, product development techniques, business acquisition plans, new personnel acquisition plans and any and all other confidential or proprietary information with respect to the Business, the Company and each Affiliate, (b) in the event that any Seller or any such agent, representative, affiliate, employee, officer or director becomes legally compelled to disclose any such information, provide the Purchaser with prompt written notice of such requirement so that the Purchaser, the Company or any Affiliate may seek a protective order or other remedy or waive compliance with this Section 5.01, (c) in the event that such protective order or other remedy is not obtained, or the Purchaser waives compliance with this Section 5.01, furnish only that portion of such confidential information which is legally required to be provided and exercise its best efforts to obtain assurances that confidential treatment will be accorded such information, and (d) promptly furnish (prior to, at, or as soon as practicable following, the Closing) to the Company or the Purchaser any and all copies (in whatever form or medium) of all such confidential information (and any analysis, compilations, studies or other documents prepared in whole or in part on the basis thereof) then in the possession of the Sellers or any of their agents,

representatives, affiliates, employees, officers and directors and destroy any and all additional copies then in the possession of the Sellers or any of their agents, representatives, affiliates, employees, officers and directors of such information, analyses, compilations, studies or other documents; provided, however, that this sentence shall not apply to any information that, at the time of disclosure, is available publicly and was not disclosed in breach of this Agreement or other obligation of confidentiality by the Sellers or any of their agents, representatives, affiliates, employees, officers or directors; and provided further that, with respect to Intellectual Property, specific information shall not be deemed to be within the foregoing exception merely because it is embraced in general disclosures in the public domain. In addition, with respect to Intellectual Property, any combination of features shall not be deemed to be within the foregoing exception merely because the individual features are in the public domain unless the combination itself and its principle of operation are in the public domain. The Sellers agree and acknowledge that remedies at law for any breach of its obligations under this Section 5.01 are inadequate and that in addition thereto the Purchaser shall be entitled to seek equitable relief, including injunction and specific performance, in the event of any such breach.

SECTION 5.02. PRC TAX Matters. Each Seller shall, severally but not jointly, report to the PRC Governmental Authority and pay any Tax which may be assessed and imposed by the PRC Governmental Authority in connection with the transactions contemplated hereunder ("PRC Tax Matters") pursuant to the PRC Laws.

SECTION 5.03. Further Action. Each of the Parties hereto shall use all reasonable efforts to take, or cause to be taken, all appropriate action, do or cause to be done all things necessary, proper or advisable under applicable Law, and to execute and deliver such documents and other papers, as may be required to carry out the provisions of this Agreement and consummate and make effective the transactions contemplated by this Agreement.

ARTICLE VI

CONDITIONS TO THE TRANSACTIONS

SECTION 6.01. Conditions to Obligations of the Sellers. The obligations of the Sellers to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or written waiver, at or prior to the Closing, of each of the following conditions:

- (i) Representations, Warranties and Covenants. The representations and warranties of the Purchaser contained in this Agreement shall have been true and correct when made and shall be true and correct in all material respects as of the Closing, except to the extent such representations and

warranties are as of another date, in which case, such representations and warranties shall be true and correct as of that date, in each case, with the same force and effect as if made as of the Closing Date, other than such representations and warranties as are made as of another date, the covenants and agreements contained in this Agreement to be complied with by the Purchaser on or before the Closing Date shall have been complied with in all material respects, and the Sellers shall have received a certificate from the Purchaser to such effect signed by a duly authorized officer thereof; and

(ii) No Proceeding or Litigation. No Action shall have been commenced by or before any Governmental Authority against the Purchaser, seeking to restrain or materially and adversely alter the transactions contemplated by this Agreement which is likely to render it impossible or unlawful to consummate such transactions; provided, however, that the provisions of this Section 6.01(ii) shall not apply if any Seller has directly or indirectly solicited or encouraged any such Action.

SECTION 6.02. Conditions to Obligations of the Purchaser. The obligations of the Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or written waiver, at or prior to the Closing, of each of the following conditions:

(i) Representations, Warranties and Covenants. The representations and warranties of the Sellers contained in Article III of this Agreement shall have been true and correct in all material respects when made and shall be true and correct in all material respects as of the Closing Date with the same force and effect as if made as of the Closing Date, except to the extent such representations and warranties are as of another date, in which case, such representations and warranties shall be true and correct as of that date, in each case, with the same force and effect as if made as of the Closing Date, other than such representations and warranties as are made as of another date, the covenants and agreements contained in this Agreement to be complied with by the Seller on or before the Closing Date shall have been complied with, and the Purchaser shall have received a certificate signed by the Sellers to such effect;

(ii) No Proceeding or Litigation. No Action shall have been commenced or threatened by or before any Governmental Authority against any of the Sellers, seeking to restrain or materially and adversely alter the transactions contemplated by this Agreement which is likely to render it impossible or unlawful to consummate such transactions or which could have a Material Adverse Effect or otherwise render inadvisable the consummation of the transactions contemplated by this Agreement;

(iii) Approvals. The Purchaser and the Company Security Holders (where applicable) shall have received all Approvals for the consummation of the transactions contemplated by this Agreement.

ARTICLE VII

INDEMNIFICATION

SECTION 7.01. Indemnification. (a) Each Seller hereby agrees to severally but not jointly indemnify and hold harmless the Purchaser, and the Purchaser's Affiliates, directors, officers, agents and assigns, from and against any and all Indemnifiable Losses suffered by the Purchaser, or the Purchaser's Affiliates, directors, officers, agents and assigns (each, an "Indemnified Person"), directly or indirectly, as a result of, or based upon or arising from (i) any inaccuracy in any of the representations or warranties made by such Seller in Article III of this Agreement; or (ii) any breach or non-performance of any of the covenants or agreements made by such Seller in or pursuant to the this Agreement. Each Seller hereby agrees to, severally and not jointly, indemnify and hold harmless the Indemnified Persons, directly or indirectly, as a result of, or based upon or arising from any Tax Liability of such Seller in connection with the transactions contemplated hereby. The rights contained in this Section 7.01 shall not be deemed to preclude or otherwise limit in any way the exercise of any other rights or pursuit of other remedies for the breach of this Agreement or with respect to any misrepresentation.

(b) For the avoidance of doubt, each of the Sellers hereby agrees and covenants that it will not challenge or raise a defense to any claim against such Seller or the exercise of any right or remedy against such Seller (whether under this Section 7.01 or any other provision of this Agreement) on the grounds that such claim, right or remedy is not enforceable or permitted by applicable Law.

(c) Notwithstanding any other provision contained herein, the Sellers and the Purchaser acknowledge that the indemnities under Section 7.01 shall be subject to the following provisions: (i) any Indemnified Person shall not bring any indemnity claim against any of the Sellers for such matter of which has been disclosed, shown or reflected in this Agreement; (ii) the aggregate liability of each Seller for all indemnification obligations under this Agreement (including but not limited to this Section 7.01) shall not exceed an amount equal to the relevant Aggregate Purchase Price as set forth opposite his/her/its name in Schedule A, other than in the case of fraud or intentional misconduct of such Seller; (iii) the Sellers and the Purchaser agree that in respect of any claims against any Seller, any such claim, which shall be accompanied by preliminary written evidence and reasonable detail, and shall be made to such Seller on or before the first (1st) anniversary of the Closing, and none of the Sellers is liable for any claims made after the first (1st) anniversary of the Closing

as mentioned above; (iv) the Sellers are not liable to indemnify the Indemnified Persons in respect of any claims under this Agreement to the extent that such claims would not have arisen but for a change in any law, regulation or government decrees promulgated after the Closing; and (v) the Sellers shall not be liable in respect of any claim unless the aggregate liability for all the claims exceeds US\$100,000 in which case the relevant Seller(s) shall be liable for all of the excess part; provided, however, that none of the limitations on liability or indemnification contained provided in this Section 7.01(c) shall apply to any claim in respect of Tax Liability arising from or in connection with the breach or non-performance of any Seller's covenant as to the PRC Tax Matters which shall continue until the expiry of the applicable limitation period prescribed by Law in relation to the underlying claim (whether brought or initiated by a governmental authority, a third party or otherwise).

ARTICLE VIII

TERMINATION, AMENDMENT AND WAIVER

SECTION 8.01. Termination. This Agreement may be terminated at any time prior to the Closing:

(i) by the Purchaser if, between the date hereof and the Closing: (i) an event or condition occurs that has resulted in a Material Adverse Effect; (ii) any representations and warranties of the Sellers contained in this Agreement shall not have been true and correct in all material respects when made; (iii) the Sellers shall not have complied with the covenants or agreements contained in this Agreement to be complied with by it which may bring Material Adverse Effect;

(ii) by the Purchaser or the Sellers if the Closing shall not have occurred by January 22, 2016; provided, however, that the right to terminate this Agreement under this Section 8.01(ii) shall not be available to the Purchaser or the Sellers if its failure to fulfill any obligation under this Agreement or its misrepresentation shall have been the cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date;

(iii) by the Purchaser or the Sellers in the event that any Governmental Authority shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and nonappealable; or

(iv) by the mutual written consent of the Purchaser and the Sellers.

SECTION 8.02. Effect of Termination. (a) In the event of termination of this Agreement as provided in Section 8.01, this Agreement shall forthwith become void and there shall be no liability on the part of any party hereto except as set forth in Sections 5.01 and 10.01; and (b) that nothing herein shall relieve any party from liability for any breach of this Agreement.

SECTION 8.03. Amendment. This Agreement may not be amended or modified except (a) by an instrument in writing signed by, or on behalf of the Purchaser and the Sellers or (b) by a waiver in accordance with Section 8.04.

SECTION 8.04. Waiver. Any Party to this Agreement may (a) extend the time for the performance of any of the obligations or other acts of the other Parties, (b) waive any inaccuracies in the representations and warranties of the other Parties contained herein or in any document delivered by the other Parties pursuant hereto or (c) waive compliance with any of the agreements of the other Parties or conditions to such Parties' obligations contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition of this Agreement. The failure of any Party to assert any of its rights hereunder shall not constitute a waiver of any of such rights. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

ARTICLE IX

POST CLOSING COVENANTS

SECTION 9.01. Lockup Agreement. The Consideration Shares acquired by the Consideration Shares Recipients pursuant to this Agreement shall be subject to a three (3)-year lockup period following the Closing Date during which 1/3 of the Consideration Shares shall be unlocked on the anniversary date of each year of the Closing Date, among such other restrictions as provided for by a lockup agreement among the Purchaser and the Consideration Shares Recipients in such form and substance set forth in Exhibit A (the "Lockup Agreement").

Section 9.02. ESOP Redemption Price. The Purchaser shall pay the Company the ESOP Redemption Price by wire transfer in immediately available funds to the bank account designated by the Company.

SECTION 9.03. ADSs. Within two (2) months after the Closing Date or such a longer period agreed by the Consideration Shares Recipients, the Purchaser shall deliver each Consideration Shares Recipient ADSs representing the relevant Consideration Shares held by such Consideration Shares Recipient, and evidence

proving the registration of the Consideration Shares Recipients as the legal and beneficial holder of the Consideration Shares in the register of ADS holders (including but not limited a true copy of such register certified by the depositary of the Purchaser).

Section 9.03. Further Assurances. At any time and from time to time, the Sellers and Purchaser shall promptly execute, acknowledge and deliver any other assurances or documents reasonably requested by the other, as the case may be, and necessary for it, as the case may be, to satisfy its respective obligations hereunder or obtain the benefits contemplated hereby.

ARTICLE X.

GENERAL PROVISIONS

SECTION 10.01. Expenses. Except as otherwise expressly provided in this Agreement, all costs and expenses, including, without limitation, all fees and disbursements of counsel, accountants, financial advisors, experts and consultants incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the Party incurring such costs and expenses, whether or not the Closing shall have occurred. All stamp duty payable under any applicable law in connection with the completion of the transactions contemplated hereunder shall be borne by the Purchaser and the Sellers in equal shares and on a pro rata basis based on the amount the Sale Shares held by each of the them among the Sellers, if any.

SECTION 10.02. Notices. Except as may be otherwise provided herein, all notices, requests, waivers and other communications made pursuant to this Agreement shall be in writing and shall be conclusively deemed to have been duly given (a) when hand delivered to the other Parties; (b) when sent by facsimile at the number set forth in the Schedule of Notice attached hereto; (c) seven (7) Business Days after deposit in the mail as air mail or certified mail, receipt requested, postage prepaid and addressed to the Parties as set forth in the Schedule of Notice; or (d) three (3) Business Days after deposit with an overnight delivery service, postage prepaid, addressed to the Parties as set forth in the Schedule of Notice with next-Business Day delivery guaranteed, provided that the sending party receives a confirmation of delivery from the delivery service provider.

Each person making a communication hereunder by facsimile shall promptly confirm by telephone to the person to whom such communication was addressed each communication made by it by facsimile pursuant hereto but the absence of such confirmation shall not affect the validity of any such communication. A party may change or supplement the addresses given above, or designate additional addresses, for purposes of this Section 10.02 by giving, the other Parties written notice of the new address in the manner set forth above.

SECTION 10.03. Third-Party Beneficiaries. Except for the provisions of Article VII relating to indemnified Parties, this Agreement shall be binding upon and inure solely to the benefit of the Parties hereto and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person, including, without limitation, any union or any employee or former employee of the Company, any legal or equitable right, benefit or remedy of any nature whatsoever, including, without limitation, any rights of employment for any specified period, under or by reason of this Agreement.

SECTION 10.04. Public Announcements. No party to this Agreement shall make, or cause to be made, any press release or public announcement in respect of this Agreement or the transactions contemplated by this Agreement or otherwise communicate with any news media without prior notification to the other Parties, and the Parties shall cooperate as to the timing and contents of any such press release or public announcement.

SECTION 10.05. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law or public policy, all other terms, conditions and provisions of this Agreement shall nevertheless remain in full force and effect for so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated by this Agreement be consummated as originally contemplated to the fullest extent possible.

SECTION 10.06. Assignment; Binding Effect. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the Parties hereto (whether by operation of law or otherwise) without the prior written consent of the other Parties; provided, that, the Purchaser may assign any of its rights, interests or obligations to any Affiliate or Affiliate of the Purchaser. This Agreement shall be binding upon and shall inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

SECTION 10.07. Incorporation of the Exhibits. The Exhibits attached hereto and referred to herein are hereby incorporated herein by reference and made a part of this Agreement for all purposes as if fully set forth herein.

SECTION 10.08. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to its laws of conflict.

SECTION 10.09. Dispute Resolution. Negotiation Between Parties; Mediations.

(a) The parties agree to negotiate in good faith to resolve any dispute between them arising out of, relating to, or concerning any interpretation, construction, performance or breach of this Agreement (the "Dispute"). If the negotiations do not resolve the Dispute to the reasonable satisfaction of all Parties within thirty (30) days, Section 10.09(b) shall apply.

(b) Arbitration. Each of the Parties hereto irrevocably (i) agrees that any Dispute or controversy arising out of, relating to, or concerning any interpretation, construction, performance or breach of this Agreement, shall be settled by arbitration to be held in Hong Kong which shall be administered by the Hong Kong International Arbitration Centre ("HKIAC") in accordance with the Hong Kong International Arbitration Centre Administered Arbitration Rules in force at the time of the commencement of the arbitration (the "Arbitration Rules"), (ii) waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of venue of any such arbitration, and (iii) submits to the exclusive jurisdiction of Hong Kong in any such arbitration. There shall be three arbitrators, selected in accordance with the Arbitration Rules, and at least one arbitrator shall be qualified to practice Hong Kong Law. The decision of the arbitration tribunal shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitration tribunal's decision in any court having jurisdiction. The parties to the arbitration shall each pay an equal share of the costs and expenses of such arbitration, and each Party shall separately pay for its respective counsel fees and expenses; provided, however, that the prevailing Party in any such arbitration shall be entitled to recover from the non-prevailing Party its reasonable costs and attorney fees. The parties acknowledge and agree that, in addition to contract damages, the arbitrators may award provisional and final equitable relief, including injunctions, specific performance, and lost profits.

SECTION 10.10. Headings The descriptive headings contained in this Agreement are included for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 10.11. Counterparts This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different Parties hereto in separate counterparts, each of which, when executed and delivered, shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

SECTION 10.12. Currency Exchange. To the extent that any payment denominated in RMB shall be made in U.S. Dollars or monetary value of any

Purchaser Common Stocks is expressed in RMB pursuant hereto, such amount shall be translated into U.S. Dollars at the USD: RMB exchange rate of the average median price of foreign exchange rate of the People's Bank of China within the thirty-day period prior to the date of payment or delivery of the Consideration Shares, as the case may be.

SECTION 10.13. Entire Agreement. This Agreement (including the Exhibits) constitute the entire agreement among the Parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, both written and oral, among the Parties with respect to the subject matter hereof and thereof.

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“Purchaser”

TAL EDUCATION GROUP

By: /s/YANG Qiang
Name: _____
Title: Authorized Signatory

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“SELLERS”

CHENG WAI

By: /s/Cheng Wai
Name: Cheng Wai

SPLENDOR BOUND LIMITED

By: /s/Zhang Hui
Name: Zhang Hui
Title: Authorized Signatory

TALENT JOURNEY LIMITED

By: /s/Bai Yun
Name: Bai Yun
Title: Authorized Signatory

CONSTANT SUCCESS INVESTMENTS LIMITED

By: /s/Cao Wei
Name: Cao Wei
Title: Authorized Signatory

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“SELLERS”

LION HIGH INVESTMENTS LIMITED

By: /s/Ding Lingfang
Name: Ding Lingfang
Title: Authorized Signatory

AGNITA INVESTMENTS LIMITED

By: /s/Wu Ying
Name: Wu Ying
Title: Authorized Signatory

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“SELLERS”

CUPITO HOLDINGS LIMITED

By: /s/Zhang Yu
Name: Zhang Yu
Title: Authorized Signatory

YU Yang

By: /s/Yu Yang
Name: Yu Yang

NEW GENIOUS GLOBAL LIMITED

By: /s/Ni Fanli
Name: Ni Fanli
Title: Authorized Signatory

IN WITNESS WHEREOF, each of the Purchaser, the Sellers, the Company and the Founders has duly executed, or has caused to be duly executed by their respective officers thereunto duly authorized, this Agreement as of the date first written above.

“SELLERS”

ACE FRONTIER DEVELOPMENTS LIMITED

By: /s/Chi Mei
Name: Chi Mei
Title: Authorized Signatory

BERTRAM HOLDINGS LIMITED

By: /s/Zhang Liang
Name: Zhang Liang
Title: Authorized Signatory

DRAGON YEAR INVESTMENTS LIMITED

By: /s/Wang Yu
Name: Wang Yu
Title: Authorized Signatory

GREAT TIME DEVELOPMENTS LIMITED

By: /s/Wang Hao
Name: Wang Hao
Title: Authorized Signatory

List of the Registrant's Subsidiaries and Consolidated Affiliated Entities

Name	Jurisdiction of Incorporation
Subsidiaries:	
Beijing Century TAL Education Technology Co., Ltd.(formerly known as “TAL Education Technology (Beijing) Co., Ltd.”)	PRC
Beijing Huanqiu Zhikang Shidai Education Consulting Co., Ltd.	PRC
Beijing Lebai Information Consulting Co., Ltd.	PRC
Beijing Xintang Sichuang Education Technology Co., Ltd.	PRC
Firstleap Education	Cayman Islands
Firstleap Education (HK) Limited	Hong Kong
Fuzhou Gulou District Xueersi Training School	PRC
Maxstep Technology Inc.	Cayman Islands
Pengxin TAL Industrial Investment (Shanghai) Co., Ltd.	PRC
TAL Holding Limited	Hong Kong
Tianjin Dongxuetang Education Information Consulting Co., Ltd.	PRC
Wuxi TAL Education Consulting Co., Ltd.	PRC
Yidu Huida Education Technology (Beijing) Co., Ltd.	PRC
Yidu Technology Group	Cayman Islands
Yidu Technology Group Limited	Hong Kong
Yidu Xuedi Network Technology (Beijing) Co., Ltd.	PRC
Zhixuesi Education Consulting (Beijing) Co., Ltd.	PRC
VIEs:	
Beijing Lebai Education Consulting Co., Ltd.	PRC
Beijing Xueersi Education Technology Co., Ltd.	PRC
Beijing Xueersi Network Technology Co., Ltd.	PRC
Xinxin Xiangrong Education Technology (Beijing) Co., Ltd.	PRC
Subsidiaries and Schools of VIEs:	
Beijing Bangxue Education Technology Co., Ltd.	PRC
Beijing Changping District Xueersi Training School	PRC
Beijing Chaoyang District Firstleap Children's English Training School	PRC
Beijing Chaoyang District Xueersi Training School	PRC
Beijing Dongcheng District Xueersi Training School	PRC
Beijing Haidian District Lejiale Training School	PRC
Beijing Haidian District Xueersi Training School	PRC
Beijing Huaizhi Investing Management Center (Limited Partnership)	PRC
Beijing Jiazhangbang Network Technology Co., Ltd.	PRC
Beijing Jingshi Shifan Culture Distribution Co., Ltd	PRC
Beijing Ledulekao Education Technology Co., Ltd.	PRC
Beijing Shijingshan District Firstleap Children's English Training School	PRC
Beijing Shijingshan District Xueersi Training School	PRC
Beijing TAL Sichuang Investing Co., Ltd.	PRC
Beijing Tianxun Education Consulting Co., Ltd.	PRC
Beijing Xicheng District Xueersi Training School	PRC
Beijing Xueersi Nanjing Education Technology Co., Ltd.	PRC
Beijing Yinghe Youshi Technology Co., Ltd.	PRC
Beijing Zhikang Culture Distribution Co., Ltd.	PRC
Changsha TAL Education Technology Co., Ltd.	PRC
Changsha Yuhua District Xueersi Creative Education Training School	PRC
Chengdu Jinniu District Xueersi Training School	PRC
Chengdu Qingyang District Xueersi Training School	PRC

Chengdu Xueersi Education Consulting Co., Ltd.	PRC
Chongqing Firstleap Education Information Consulting Co., Ltd.	PRC
Chongqing Nan'an Xueersi Training School	PRC
Chongqing Shapingba District Xueersi Education Training School	PRC
Firstleap USA Inc.	USA
Guangzhou Liwan District Xueersi Training Center	PRC
Guangzhou Tianhe District Xueersi Training Center	PRC
Guangzhou Xueersi Education Technology Co., Ltd.	PRC
Guangzhou Yuexiu District Xueersi Training School	PRC
Hangzhou Xueersi Education Consulting Co., Ltd.	PRC
Hangzhou Xueersi Training School.	PRC
Hefei Lebai Education Consulting Co., Ltd.	PRC
Jinan Xueersi Education Training School	PRC
Lingheng Investing Holding (Beijing) Co., Ltd.	PRC
Luoyang Xueersi Culture Distribution Co., Ltd.	PRC
Nanjing Lebai Education Information Consulting Co., Ltd.	PRC
Nanjing Firstleap Children's English Training Center	PRC
Nanjing Xintang Sichuang Education Consulting Co., Ltd.	PRC
Nanjing Xueersi Education Training School	PRC
Ningbo Xueersi Peiyou Training School	PRC
Qingdao Xueersi Education Information Consulting Co., Ltd.	PRC
Qingdao Xueersi Wenli Training School	PRC
Shanghai Changning District Xueersi Training School	PRC
Shanghai Jiading Xueersi Training School	PRC
Shanghai Minhang District Xueersi Training School	PRC
Shanghai Xueersi Education Information Consulting Co., Ltd.	PRC
Shanghai Putuo District Xueersi Training School	PRC
Shenyang Firstleap Education Training School	PRC
Shenyang Heping District Firstleap Education Training School	PRC
Shenyang Libei Education Information Consulting Co., Ltd.	PRC
Shenyang Xueersi Education Information Consulting Co., Ltd.	PRC
Shenyang Xueersi Education Training School	PRC
Shenzhen Xueersi Education Technology Co., Ltd.	PRC
Shenzhen Xueersi Training Center.	PRC
Shijiazhuang Qiaoxi District Xueersi Culture Training School	PRC
Suzhou TAL Network Technology Co., Ltd (formerly known as "Suzhou Xueersi Network Technology Co., Ltd.")	PRC
Suzhou Xueersi Culture Training Center (formerly known as "Suzhou Zhikang Culture Training Center")	PRC
Taiyuan Xiaodian District Xueersi Training School	PRC
Taiyuan Yingze District Xueersi Training School	PRC
Tianjin Heping District Xueersi Training School	PRC
Tianjin Hexi District Xueersi Training School	PRC
Tianjin Xueersi Education Information Consulting Co., Ltd.	PRC
Wuhan Jiangnan District Xueersi English Training School	PRC
Wuhan Jiang'an District Xueersi Training School	PRC
Wuhan Jiang'an District Xueersi Education Yongqing Training School	PRC
Wuhan Wuchang District Xueersi Training School	PRC
Xi'an Beilin District Xueersi Education Training Center	PRC
Xi'an Lianhu Xueersi Education Training Center	PRC
Xi'an Xueersi Network Technology Co., Ltd.	PRC
Zhengzhou Gaoxin District Xueersi Training School	PRC
Zhengzhou Jinshui District Xueersi Shulihua Training Center	PRC
Zhengzhou Zhongyuan District Xueersi Training School	PRC

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Bangxin Zhang, certify that:

1. I have reviewed this annual report on Form 20-F of TAL Education Group;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 31, 2016

By: /s/ Bangxin Zhang
Name: Bangxin Zhang
Title: Chairman and Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Rong Luo, certify that:

1. I have reviewed this annual report on Form 20-F of TAL Education Group;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 31, 2016

By: /s/ Rong Luo
Name: Rong Luo
Title: Chief Financial Officer

**Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of TAL Education Group (the "Company") on Form 20-F for the year ended February 29, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bangxin, Zhang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 31, 2016

By: /s/ Bangxin Zhang
Name: Bangxin Zhang
Title: Chairman and Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of TAL Education Group (the "Company") on Form 20-F for the year ended February 29, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rong Luo, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 31, 2016

By: /s/ Rong Luo
Name: Rong Luo
Title: Chief Financial Officer

[Letterhead of Tian Yuan Law Firm]

TIAN YUAN LAW FIRM

10/F, CPIC Plaza, 28 Fengsheng Lane, Xicheng District

Beijing 100032, P. R. China

Tel: (8610) 5776-3888; Fax: (8610)5776-3777

Date: May 31, 2016
TAL Education Group
12/F Danling SOHO
6 Danling Street, Haidian District
Beijing 100080
People's Republic of China

Ladies and Gentlemen:

We hereby consent to the reference to our firm in “Item 3.D—Key Information—Risk Factors—Risks Related to Doing Business in China,” “Item 4.B—Business Overview—PRC Regulation,” “Item 4.C—Information on the Company—Organizational Structure,” “Item 5.A—Operating and Financial Review and Prospects—Operating Results” and “Item 10.E—Additional Information—Taxation” in the annual report on Form 20-F for the fiscal year ended February 29, 2016, which will be filed by TAL Education Group on May 31, 2016 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, and further consent to the incorporation by reference into the Registration Statement No. 333-172178 on Form S-8. We also consent to the filing with the Securities and Exchange Commission of this consent letter as an exhibit to the annual report on Form 20-F for the fiscal year ended February 29, 2016. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ Tian Yuan Law Firm
Tian Yuan Law Firm

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement No. 333-172178 on Form S-8 of our reports dated May 31, 2016, relating to the consolidated financial statements of TAL Education Group, its subsidiaries, its variable interest entities (the “VIEs”) and its VIEs’ subsidiaries and schools (collectively the “Group”), and the effectiveness of the Group’s internal control over financial reporting, appearing in the Annual Report on Form 20-F of TAL Education Group for the year ended February 29, 2016.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People’s Republic of China
May 31, 2016

[Letter Head of Maples and Calder]

Our ref RDS/658302 – 000001/9602778v1
Direct tel +852 2971 3046
Email richard.spooner@maplesandcalder.com

TAL Education Group
12/F Danling SOHO
No. 6 Danling Street, Haidian District
Beijing 100080
People's Republic of China

31 May 2016

Dear Sirs

TAL Education Group

We consent to the reference to our firm under the heading “Item 4.C—Information on the Company—Organizational Structure” in the annual report on Form 20-F for the fiscal year ended February 29, 2016, which will be filed by TAL Education Group in May 2016 with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, and further consent to the incorporation by reference of our opinions under this heading into the Company’s Registration Statement No. 333-172178 on Form S-8. We also consent to the filing with the Securities and Exchange Commission of this consent letter as an exhibit to the annual report on Form 20-F for the fiscal year ended February 29, 2016.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933 or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully

/s/ Maples and Calder

Maples and Calder
