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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2015.

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 001-36363

Tarena International, Inc.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

Suite 10017, Building E, Zhongkun Plaza, A18 Bei San Huan West Road, Haidian District
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(Address of principal executive offices)

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares, each representing one Class A ordinary share, par value US\$0.001 per share	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)
Class A ordinary shares, par value US\$0.001 per share	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)*

* Not for trading, but only in connection with the listing on The NASDAQ Global Select Market of American depositary shares, each representing one Class A ordinary share.

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 December 31, 2015, there were 54,563,321 ordinary shares outstanding, par value \$0.001 per share, being the sum of 43,988,425 Class A ordinary shares and 10,574,896 Class B ordinary shares.

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 been 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

TABLE OF CONTENTS

INTRODUCTION	1
FORWARD-LOOKING INFORMATION	2
PART I.	3
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	3
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	3
ITEM 3. KEY INFORMATION	3
ITEM 4. INFORMATION ON THE COMPANY	38
ITEM 4.A. UNRESOLVED STAFF COMMENTS	67
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	67
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	87
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	97
ITEM 8. FINANCIAL INFORMATION	100
ITEM 9. THE OFFER AND LISTING	100
ITEM 10. ADDITIONAL INFORMATION	101
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	112
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	113
PART II.	115
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	115
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	115
ITEM 15. CONTROLS AND PROCEDURES	115
ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT	116
ITEM 16.B. CODE OF ETHICS	117
ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	117
ITEM 16.D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	117
ITEM 16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	117
ITEM 16.F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT	118
ITEM 16.G. CORPORATE GOVERNANCE	118
ITEM 16.H. MINE SAFETY DISCLOSURE	118
PART III.	119
ITEM 17. FINANCIAL STATEMENTS	119
ITEM 18. FINANCIAL STATEMENTS	119
ITEM 19. EXHIBITS	119

INTRODUCTION

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

- “we,” “us,” “our company,” “our” and “Tarena” refer to Tarena International, Inc., a Cayman Islands company, and its subsidiaries, and, in the context of describing our operations, risk factors and financial results, also include our variable interest entities;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report only, Taiwan, Hong Kong and Macau;
- “shares” or “ordinary shares” refers to our ordinary shares, par value US\$0.001 per share, which include both Class A ordinary shares and Class B ordinary shares;
- “ADSs” refers to our American depositary shares, each of which represents one Class A ordinary share; the ADSs are evidenced by American depositary receipts, or “ADRs”;
- “IT” refers to information technology;
- “variable interest entities,” or “VIEs,” refer to Beijing Tarena Jinqiao Technology Co., Ltd. and Shanghai Tarena Software Technology Co., Ltd., which are domestic PRC companies in which we do not have any equity interests but whose financial results have been consolidated into our consolidated financial statements in accordance with U.S. GAAP because we have effective financial control over, and Tarena International, Inc. is the primary beneficiary of these companies; Shanghai Tarena Software Technology Co., Ltd. is in the process of voluntary winding down; and
- all references to “RMB” or “Renminbi” refer to the legal currency of China; all references to “US\$,” “dollars” and “U.S. dollars” refer to the legal currency of the United States.

Certain operating data, economic and market data and regulatory information shown in Renminbi amounts in this annual report are accompanied by translations into U.S. dollars solely for the convenience of the reader. Unless otherwise noted, all such translations from Renminbi to U.S. dollars in this annual report were made at RMB6.4778 to US\$1.0000, the noon buying rate for December 31, 2015 set forth in the H.10 statistical release of the Federal Reserve Board. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government restricts the conversion of Renminbi into foreign currency and foreign currency into Renminbi for certain types of transactions. On April 15, 2016, the noon buying rate set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.4730 to US\$1.0000.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

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

- our goals and growth strategies;
- our expectations regarding demand for and market acceptance of our courses;
- our ability to retain and increase our student enrollments;
- our ability to maintain and increase the utilization rate of our learning centers;
- our ability to offer new courses in existing and new subject areas;
- our ability to replicate the success and growth of our adult education services to the kid education market;
- our ability to maintain and increase the tuition fees of our courses;
- our ability to deepen and expand our corporate employer relationships;
- our ability to maintain our relationships with universities and colleges;
- our future business development, results of operations and financial condition;
- the expected growth of, and trends in, the markets for our services in China;
- relevant government policies and regulations relating to our corporate structure, business and industry; and
- assumptions underlying or related to any of the foregoing.

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

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Selected Consolidated Financial Data

The following selected consolidated statements of comprehensive income data (other than ADS data) for the years ended December 31, 2013, 2014 and 2015 and the selected consolidated balance sheet data as of December 31, 2014 and 2015 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The following selected consolidated statements of comprehensive income data (other than ADS data) for the years ended December 31, 2011 and 2012 and the selected consolidated balance sheet data as of December 31, 2012 and 2013 have been derived from our audited consolidated financial statements which are not included in this annual report. Our historical results for any period are not necessarily indicative of results to be expected for any future period. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our audited consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP.

	For the Year Ended December 31,				
	2011	2012	2013	2014	2015
(In thousands of US\$, except for share, per share and per ADS data)					
Selected Consolidated Statements of Comprehensive Income Data:					
Net revenues	25,741	56,820	92,834	136,204	189,190
Cost of revenues ⁽¹⁾	(8,714)	(17,762)	(29,068)	(39,080)	(53,570)
Gross profit	17,027	39,058	63,766	97,124	135,620
Operating expenses ⁽¹⁾ :					
Selling and marketing	(7,676)	(16,875)	(30,252)	(42,562)	(61,824)
General and administrative	(7,832)	(9,948)	(16,224)	(29,948)	(40,359)
Research and development	(1,159)	(1,792)	(3,807)	(5,446)	(8,113)
Operating income	360	10,443	13,483	19,168	25,324
Interest income	275	1,165	1,541	4,360	6,863
Foreign exchange gain (loss)	—	—	—	1,197	(4,738)
Income before income taxes	840	11,771	16,318	27,096	29,346
Net income	701	9,552	14,047	24,691	28,709
Net income (loss) attributable to ordinary shareholders	(9,593)	(16,993)	(30,313)	24,115	28,709
Weighted average number of ordinary shares used in per share calculations ⁽²⁾ :					
Basic	12,518,419	10,851,287	10,930,412	41,223,389	53,767,810
Diluted	12,518,419	10,851,287	10,930,412	47,770,132	58,750,856
Income (loss) per Class A ordinary share, and per Class B ordinary share ⁽³⁾					
Basic	(0.77)	(1.57)	(2.77)	0.51	0.53
Diluted	(0.77)	(1.57)	(2.77)	0.44	0.49
Income (loss) per ADS ⁽⁴⁾					
Basic	(0.77)	(1.57)	(2.77)	0.51	0.53
Diluted	(0.77)	(1.57)	(2.77)	0.44	0.49

Notes:

(1) Share-based compensation expenses were allocated in cost of revenues and operating expenses as follows:

	For the Year Ended December 31				
	2011	2012	2013	2014	2015

	(in thousands US\$)				
Cost of revenues	—	—	17	57	107
Selling and marketing expenses	1	1	45	169	315
General and administrative expenses	59	125	654	3,627	4,541
Research and development expenses	3	3	48	210	325

- (2) The weighted average number of ordinary shares represents the sum of the weighted average number of Class A and Class B ordinary shares. See Note 14 to our audited consolidated financial statements included in this annual report for additional information regarding the computation of the per share amounts and the weighted average numbers of Class A and Class B ordinary shares.
- (3) As holders of Class A and Class B ordinary shares have the same dividend right and the same participation right in our undistributed earnings, the basic and diluted income (loss) per Class A ordinary share and Class B ordinary share are the same for all the periods presented.
- (4) Each ADS represents one Class A ordinary share.

	As of December 31,			
	2012	2013	2014	2015

	(In thousands of US\$)			
Selected Consolidated Balance Sheet Data:				
Cash and cash equivalents	16,197	26,139	42,660	79,145
Time deposits, including non-current portion	795	12,162	124,148	86,871
Restricted time deposits	—	—	—	23,100
Accounts receivable, net of allowance for doubtful accounts, including non-current portion	16,984	15,417	24,672	23,834
Property and equipment, net	8,172	12,806	13,374	19,691
Total assets	46,870	73,673	217,954	254,696
Deferred revenue	9,656	15,487	19,277	25,336
Total liabilities	14,738	25,578	35,067	48,552
Total mezzanine equity	67,099	111,379	—	—
Total shareholders' equity (deficit)	(34,967)	(63,284)	182,887	206,144

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Relating to Our Business

If we are not able to continue to attract students to enroll in our courses, 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. Therefore, our ability to continue to attract students to enroll in our courses is critical to the continued success and growth of our business. This in turn will depend on several factors, including our ability to develop new courses and enhance existing courses to respond to changes in market trends and student demands, expand our learning center network and geographic footprint, manage our growth while maintaining consistent and high education quality, broaden our relationships with corporate employers and market our courses effectively to a broader base of prospective students, including young kids. Furthermore, our ability to attract students also depends on our ability to provide educational content that is perceived as more effective than the standard curricula of universities in China in terms of practical job-oriented training and as complementary to standard curricula of primary and secondary schools in China. If we are unable to continue to attract students to enroll in our courses, our net 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 instructors and teaching assistants, who are critical to the success of our business and effective delivery of our education services to students.

Our instructors and teaching assistants are critical to maintaining the quality of our educational services and our reputation. We seek to hire highly qualified instructors with rich industry experience and strong teaching skills. We recruit dedicated teaching assistants primarily from outstanding graduates of our courses. There is a limited pool of instructors and teaching assistants with these attributes and we must provide competitive compensation packages to attract and retain them. We must also provide ongoing training to our instructors and teaching assistants to ensure that they stay abreast of changes in curriculum, student demands, industry standards and other trends necessary to teach and tutor effectively. We have not experienced major difficulties in recruiting, training or retaining qualified instructors and teaching assistants in the past. However, we may not always be able to recruit, train and retain enough qualified instructors and teaching assistants in the future to keep pace with our growth and maintain consistent education quality. A shortage of qualified teaching staff, a decrease in the quality of our teaching staff's classroom performance, whether actual or perceived, or a significant increase in compensation to retain qualified instructors and teaching assistants would have a material adverse effect on our business, financial condition and results of operations.

If we are not able to continually tailor our curriculum to market demand and enhance our courses to adequately and promptly respond to developments in the professional job market, our courses may become less attractive to students.

New trends in the global economy and rapid developments in the professional services industries may change the type of skills required for professionals in the marketplace. This requires us to continually develop, update and enhance our course materials to adapt to the needs of the professional job market in China. We may be unable to update our courses in a timely and cost-effective manner, or at all, to keep pace with changes in market requirements. Any inability to track and respond to these changes in a cost-effective and timely manner or to tailor our courses to the professional services markets in China would render our courses less attractive to students, which may materially and adversely affect our reputation and ability to continue to attract students and cause us to lose market share.

If we fail to develop and introduce new courses in anticipation of market demand in a timely and cost-effective manner, our competitive position and ability to generate revenues may be materially and adversely affected.

Since inception, our primary focus has been on providing IT professional education services. We have since expanded our course offerings to include non-IT training courses, including digital art, online sales and marketing and accounting. We intend to continue developing new courses in anticipation of market demand. The introduction of new courses is subject to risks and uncertainties. Unexpected technical, operational, logistical, regulatory or other problems could delay or prevent the introduction of one or more new courses. Moreover, we cannot assure you that any of these new courses will match the quality or popularity of those developed by our competitors, achieve widespread market acceptance or generate the desired level of income for our students.

Offering new courses requires us to make investments in content development, recruit and train additional qualified instructors and teaching assistants, increase marketing efforts and re-allocate resources away from other uses. We may have limited experience with the content of new courses and may need to modify our systems and strategies to incorporate new courses into our existing course offerings. In offering courses in new subject areas, we may face new risks and challenges that we are not familiar with. Furthermore, we may experience difficulties in recruiting or otherwise identifying qualified instructors to develop the content for these new courses. If we are unable to offer new courses in a timely and cost-effective manner, our results of operations and financial condition could be adversely affected.

We rely on digital art and Java courses for a majority of our total net revenues, and a decrease in the popularity and usage of Adobe design or Java technology would have a material adverse effect on our business and results of operations.

A majority of our total net revenues are generated from the digital art and Java courses. In 2013, 2014 and 2015, our digital art course contributed 10.8%, 31.5% and 30.8% of our total student enrollments, respectively. In 2013, 2014 and 2015, our Java courses contributed 56.4%, 36.0% and 28.5% of our total student enrollments, respectively. The historical rapid growth of our business has been driven by the popularity and usage of Adobe design and Java technology, and we expect net revenues from these courses to continue to represent a substantial portion of our total net revenues in the near future. We believe our reliance on digital art and Java courses is mainly attributable to the wide adoption of Adobe design and Java technology. However, whether Adobe design technology as a digital art tool or Java as a programming language can maintain their popularity is beyond our control. Any factor that materially and adversely affects student enrollment in our digital art or Java course, such as a decrease in the popularity and usage of Adobe design or Java technology, would have a material adverse effect on business and our results of operations.

Our business depends on the market recognition of our brand, and if we are unable to maintain or enhance our brand recognition, our business, financial condition and results of operations may be materially and adversely affected.

We believe that the market recognition of our “Tarena” (达内) brand has significantly contributed to the success of our business and believe that maintaining and enhancing the reputation of this brand is critical to sustaining our competitive advantage. Our ability to maintain and enhance our brand recognition and reputation depends primarily on the perceived effectiveness and quality of our courses as well as the success of our marketing and promotion efforts. As we continue to grow and expand into new course areas, we may not be able to maintain the quality and consistency of our educational services as we did in the past. We have devoted significant resources to promoting our courses and brand in recent years, including Internet-based marketing and advertising, traditional media advertising and sponsoring industry trade seminars and software design competitions. However, our marketing and promotion efforts may not be successful or may inadvertently negatively impact our brand recognition and reputation. For example, if any governmental authority or competitor publicly alleges that any of our advertisements are misleading, our brand reputation may be adversely impacted. If we are unable to maintain and further enhance our brand recognition and reputation and increase awareness of our courses, or if we incur excessive marketing and promotion expenses, our results of operations may be materially and adversely affected. If we are unable to sustain our brand image, we may not be able to maintain premium tuition fees over our competitors, which may further exacerbate the extent of any adverse effect on our results of operations. Furthermore, any negative publicity relating to our company or our courses and services, regardless of its veracity, could harm our brand image and in turn materially and adversely affect our business and operating results.

We may not be able to maintain our high job placement rate for students, which could harm our ability to attract student enrollments.

Our student job placement rate depends on a wide range of external and internal factors. External factors include the macroeconomic conditions, the performance of the professional services sector in China and the recruiting demand of corporate employers. Internal factors include our education quality, the efforts of our career services personnel, our ability to provide adequate staffing to achieve desired results and our relationships with corporate employers. A number of such external and internal factors are outside of our control. Our historical job placement rates have been high. However, we cannot assure you that we will be able to maintain our current level of job placement rate for our students in the future. Any decrease in our job placement rate could harm our ability to recruit students, which may materially and adversely affect our business, financial condition and results of operations.

Our business, financial condition and results of operations may be adversely affected by a downturn in the global or Chinese economy.

Because our student enrollment may depend on our students' and potential students' levels of disposable income, perceived job prospects and willingness to spend, as well as the level of hiring demand of professional services positions our business and prospects may be affected by economic conditions in China or globally. 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. It is unclear whether the Chinese economy will resume its high growth rate. The Chinese economy has slowed down in recent years. According to the National Bureau of Statistics of China, in 2015, China's gross domestic product grew at a rate of 6.9%. There have been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets, and over the prolonged crisis in Ukraine which contributed to the collapse in the value of the Russian ruble, and the resulting Russian financial crisis. There have also been concerns about the territorial disputes involving China in Asia and the economic effects. Economic conditions in China, including the performance of the IT and other professional services industries, 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. A decline in the economic prospects of IT and other professionals could alter current or prospective students' spending priorities and the recruiting demand from professional service industries. We cannot assure you that professional education spending in general or with respect to our course offerings in particular will increase, or not decrease, from current levels. Therefore, a slowdown in China's economy or the global economy may lead to a reduction in demand for professional education services, which could materially and adversely affect 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 growing our student enrollments for existing courses, expanding our course offerings, further enhancing the quality of our education services and expanding our corporate employer network. We may not succeed in executing our growth strategies due to a number of factors, including, without limitation, the following:

- we may fail to market our courses in new markets or promote new courses in existing markets effectively;
- we may not be able to replicate our successful business model in other geographic markets or in new course subject areas;
- we may fail to identify new cities with sufficient growth potential to expand our network;
- we may not be able to replicate the success and growth of our adult education services to the kid education market;
- we may not be able to recruit and retain learning center managers, teaching assistants and other key personnel;
- our analysis for selecting suitable new locations may not be accurate and the demand for our services at such new 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;
- we may not be able to continue to update our existing courses or offer new courses to adapt to changing market demand and technological advances; and
- we may fail to achieve the benefits we expect from our expansion.

If we fail to execute our growth strategies successfully, 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 may not be able to manage our business expansion effectively, which could harm our financial condition and results of operations.

We have expanded rapidly and we plan to continue to expand our operations in different geographic areas as we address the growth in our customer base and market opportunities. We increased the number of our learning centers from 92 as of December 31, 2013 to 134 as of December 31, 2015. This expansion has resulted, and will continue to result, in substantial demands on our management, personnel and operational, technological and other resources. To manage the expected growth of our operations, we will be required to expand our existing operational, administrative and technological systems and our financial systems, procedures and controls and to expand training and management of our growing employee base. In addition, the geographic dispersion of our operations requires significant management resources. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations, or that we will be able to effectively and efficiently manage the growth of our operations or recruit and retain qualified personnel to support our expansion. Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse effect on our financial condition and results of operations.

The growth of our business is in part dependent on our continuing access to a broad network of corporate employers.

We derive both direct benefits, such as increased enrollment driven by employer-specific customized courses, and indirect benefits, such as higher student job placement rate and strengthening of the Tarena brand, from our access to a large number of corporate employers. We believe our access to a large number of corporate employers in a wide range of industries is one of our core competitive strengths. If our access to these corporate employers were to become constrained or limited, or the benefits we derive from these access were to be diminished, whether by our own actions or actions of our competitors, our growth prospects and our business would be harmed.

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

Our future success depends heavily upon the continuing services of our senior management team. If any member of our senior management team leaves us and we fail to effectively manage a transition to new personnel, or if we fail to attract and retain experienced and passionate instructors, regional managers and other key personnel on acceptable terms, our business, financial conditions and results of operations could be adversely affected. We will need to continue to hire additional personnel, especially qualified instructors and regional managers, as our business grows. A shortage in the supply of personnel with requisite skills or our failure to attract and retain high quality executives or key personnel could impede our ability to increase revenues from our existing courses, to launch new course offerings and to expand our operations and would have an adverse effect on our business and financial results.

Mr. Shaoyun Han, our founder, chairman and chief executive officer, has played an important role in the growth and development of our business since its inception. To date, we have relied heavily on Mr. Han's expertise in, and familiarity with, our business operations, his leadership, and his reputation in the professional education services industry. If Mr. Han is unable or unwilling to continue in his present positions, we may not be able to easily replace him and may incur additional expenses to identify and train his successor. We do not maintain key man insurance on Mr. Han.

The operations of certain of our learning centers are, or may be deemed by relevant PRC government authorities to be, beyond their authorized business scope or without proper license or registration. If the relevant PRC government authorities take actions against such learning centers, our business and operations could be materially and adversely affected.

The principal 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*. Under these PRC laws and regulations and related administrative requirements, to provide professional education services, a company may, in the capacity of a school sponsor, establish a private school which obtains a school permit from the human resources and social security authorities under the *Law for Promoting Private Education*, and such school can then establish and operate learning centers within the approved districts to provide professional education services, provided that learning centers located outside the registered address of the private schools shall be registered with original approving authorities. Alternatively, a company may obtain approval from the competent industry and commerce administration authorities to include the relevant professional education services in the authorized scope of business as specified in its business licenses. A company with "professional education services" or an equivalent statement included in its approved scope of business can operate learning centers by itself or through its registered branches.

However, many local government authorities have different views on the relevant rules and regulations and have adopted different practices in granting school permits to private schools or issuing business licenses to companies that provide professional education services. Although some cities, such as Beijing, Shanghai and Hangzhou, allow companies to include “professional education services” in their business scope, the industry and commerce administration authorities in certain other areas have adopted regional policies of not allowing “professional education services” or similar statement to be included in the business scope of any company. In addition, when we applied for school permits or registrations of learning centers, the local human resources and social security authorities in some cities in China have either informed us that no school permits will be issued to new private schools in their jurisdictions or that they do not permit new learning centers established by private schools to be registered. These regional policies and practices have created significant obstacles for us to comply with all applicable rules and regulations for all of our local operations.

We use both ways discussed above to establish learning centers. As of December 31, 2015, we had a total of 134 learning centers, of which 36 were managed by schools and 98 were managed by our subsidiaries. Among the learning centers operated by our subsidiaries, 31 have neither professional education services nor education information related consultation as an authorized scope of business in the licenses of our subsidiaries or their registered branches operating these learning centers as of December 31, 2015, and these learning centers in the aggregate accounted for 23.3% of our student enrollments in 2015. We were not able to include professional education services in these companies’ authorized business scope mainly because the industry and commerce administration authorities in these areas have a general local policy prohibiting the inclusion of “professional education services” in the business scope of any company. In addition, 13 learning centers operated by our subsidiaries only have “education information related consultation” rather than “professional education services” in their respective authorized scopes of business, and these learning centers in the aggregate accounted for 8.2% of our student enrollments in 2015. The difference between “educational services” and “education information related consultation” is not very clear under applicable PRC laws and regulations, and it is possible that the relevant PRC government authorities may determine that operating learning centers in the way as currently conducted by our relevant subsidiaries is beyond the scope of “education information related consultation.” For these learning centers, we have been communicating, and will continue to communicate, with the competent industry and commerce administration authorities to expand the authorized business scope of the relevant subsidiaries to include “professional education services” or similar statement. For regions where it becomes apparent that we will not be able to expand the authorized business scope of the relevant subsidiaries, we will also explore the possibility of obtaining approval from the competent authorities to set up private schools to take over the operations of the relevant subsidiaries. If the relevant PRC government authorities discover or determine that our subsidiaries operate beyond their authorized business scope, they may order the relevant subsidiaries to complete the registration for change of business scope within a given period, failing which each company is subject to a one-time fine of RMB10,000 (US\$1,544) to RMB100,000 (US\$15,437), or may be ordered to cease its operation. We have been fined once for RMB50,000 (US\$7,719) for conducting business outside the authorized business scope since 2011.

For our learning centers operated by schools, we are also required to obtain and maintain various licenses and permits and make filings for each learning center with the competent human resources and social security authorities and civil affairs authorities. As of December 31, 2015, 5 of our learning centers are operated by schools outside their approved districts without obtaining relevant licenses and permits, and 5 of our learning centers are operated by schools outside their registered address without being registered with the original approving authorities, which may subject us to fines of RMB10,000 (US\$1,544) to RMB50,000 (US\$7,719), confiscation of the gains derived from the noncompliant operations or the suspension of the noncompliant learning centers. These 5 learning centers in the aggregate accounted for 2.1% of our total student enrollments in 2015. We were unable to obtain the requisite permits or make the required filings in some districts because the local authorities discontinued granting permits or accepting filings for administrative reasons for a period of time. Although we have not been subject to any material fines or other penalties in relation to any non-compliance of licensing requirements in the past with respect to our learning centers operated by schools, if we fail to cure any non-compliance in a timely manner, we may be subject to fines, confiscation of the gains derived from our noncompliant operations or the suspension of our noncompliant learning centers, which may materially and adversely affect our business and results of operation.

We may lose market share and our profitability may be materially and adversely affected, if we fail to compete effectively with our present and future competitors or to adjust effectively to changing market conditions and trends.

The professional education services market in China is fragmented, rapidly evolving and highly competitive. We face competition in our offered courses and in many of the geographic markets in which we operate. As the IT professional education market in China matures, there is increased demand for highly specialized IT labor, and we may face competition from IT professional education providers that offer specialized training programs targeting certain niche job markets in the IT industry. In the future, we may also face competition from new entrants into the Chinese IT professional education market. As we expand beyond IT education into other fields of professional education, we also face competition for student enrollment from existing online and offline providers of professional education services, as well as smaller regional professional education services providers in China. Furthermore, we also face competition from providers of IT and non-IT education programs to kids.

Some of our competitors may be able to devote more resources than we can to the development, promotion and provision of their education services and respond more quickly than we can to changes in student needs, market trends or new technologies. In addition, some of our competitors may be able to respond faster to changes in student preferences in some of our geographic markets and engage in price-cutting strategies. We cannot assure you that we will be able to compete successfully against current or future competitors. If we are unable to maintain our competitive position or otherwise respond to competitive pressure effectively, we may be forced to reduce our tuition fees and lose our market share, which will adversely impact our profitability.

Our business and financial results may be materially and adversely affected if we are unable to maintain our cooperative relationships with financing service providers for student loans.

A significant portion of our students enrolled in 2015 relied on loans provided or arranged by CreditEase Business Consulting (Beijing) Co., Ltd., or CreditEase, Bank of China Consumer Finance Co., Ltd., or BOC CFC, RenRenDai and ShiTuDai, as well as a number of other financing sources, to pay our tuition fees. We have entered into cooperative agreements with BOC CFC pursuant to which they provide loans to our students for the payment of our tuition fees. We have also entered into agreements with CreditEase and RenRenDai, whereby they assisted our students in obtaining loans to pay for our tuition fees. ShiTuDai is a person-to-person lending service provided by an independent third party. In 2015, approximately 49.3% of our students took out loans provided or arranged by CreditEase, BOC CFC, RenRenDai or ShiTuDai to pay for our tuition fees. Approximately 1.1% of our students took out loans provided or arranged by other financing sources to pay for our tuition fees in 2015.

Our cooperative agreement with BOC CFC will expire in March, 2017. We may not be able to renew our cooperative agreements with BOC CFC on commercially reasonable terms or at all. Moreover, CreditEase, BOC CFC, RenRenDai and ShiTuDai have full discretion in deciding whether or not to extend or arrange for loans to a particular student. Furthermore, macroeconomic conditions in China may force the financing service providers to decrease or eliminate the amount of credit available for our students, making it difficult for our prospective students to afford our education. In addition, if the default rates on the loans provided or arranged by these and other financing service providers were to increase, they may raise the interest rates on the student loans, making such financing options less attractive to our students. Although person-to-person lending is generally protected as private loans between individuals under PRC law and has flourished in recent years in China, there are uncertainties as to the licensing requirements and the nature of business provided by those intermediaries, such as CreditEase, RenRenDai and ShiTuDai, in facilitating the person-to-person lending. If one or more new PRC laws and/or regulations are passed in the future prohibiting person-to-person lending facilitated by, or imposing significant licensing requirements on, intermediaries such as CreditEase, RenRenDai and ShiTuDai, we cannot assure you that CreditEase, RenRenDai or ShiTuDai will be able to obtain relevant licenses and continue facilitating person-to-person lending in the future. If CreditEase, RenRenDai or ShiTuDai ceases to facilitate person-to-person lending to our students in the future, if our cooperative relationships with the financing service providers are damaged or lost, or if the financing service providers significantly increase their interest rates, our business and financial results would be adversely affected.

If we fail to protect our intellectual property rights, we may lose our competitive advantage and our brand and operations may suffer.

We consider our copyrights, trademarks, trade names and domain names invaluable to our ability to continue to develop and enhance our brand recognition. Unauthorized use of our copyrights, trademarks, trade names and domain names may damage our reputation and brand. Our major brand names and logos are registered trademarks in China. Our proprietary curricula and course materials, together with our *Tarena Teaching System*, or TTS, are protected by copyrights. However, preventing copyright, trademark and trade name infringement or misuse could be difficult, costly and time-consuming, particularly in China. The measures we take to protect our copyrights, trademarks and other intellectual property rights are currently based upon a combination of trademark and copyright laws in China and 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 uncertainties to us. There had been several incidents in the past where third parties used our “Tarena” (达内) brand without our authorization, and we had to resort to litigation to protect our intellectual property rights. These proceedings were all resolved in our favor and our brand and business were not materially harmed. However, if we are unable to adequately protect our trademarks, copyrights and other intellectual property rights in the future, we may lose our competitive advantage, 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 be subject to intellectual property rights claims or other claims which could result in substantial costs and diversion of our financial and management resources away from our business.

We cannot assure you that our course materials, other educational contents or other intellectual properties developed or used by us do not or will not infringe upon patents, valid copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others. In addition, some of our employees were previously employed at other companies, including our current and potential competitors. To the extent these employees are involved in content development at our company similar to content development in which they have been involved at their former employers, we may become subject to claims that such employees or we may have used or disclosed trade secrets or other proprietary information of the former employers of our employees. In addition, our competitors may file lawsuits against us. Although we are not aware of any pending or threatened claims, if any such claim arises in the future, litigation or other dispute resolution proceedings may be necessary to retain our ability to offer our current and future course materials or other content, which could result in substantial costs and diversion of our financial and management resources. Furthermore, if we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property rights, incur additional costs to license or develop alternative intellectual property rights and be forced to pay fines and damages, any of which may materially and adversely affect our business.

We recruit a significant portion of our students directly from our network of cooperative universities and colleges. If we lose these relationships, or the benefits we derive from these relationships diminish, our growth and our business may be harmed.

We have established various kinds of cooperative relationships with over 620 universities and colleges in China. We enroll a significant percentage of our students directly from these universities and colleges through jointly offered majors, on-campus learning sites and university recruiting promotional events. We recruited approximately 16.2% of our students in 2015 from these universities and colleges. If our relationships with any of these universities and colleges were to be damaged or lost, or the benefits we derive from these relationships were to be diminished, whether by our own actions, actions of one or more governmental entities or actions of our competitors, our growth and our business may be harmed.

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.

All of our offices and learning centers are located on leased premises. At the end of each lease term we must negotiate an extension of the lease. 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 each renewal period. We compete with many other businesses for sites in certain highly desirable 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, we have not been able to receive from our lessors copies of title certificates or proof of authorization to lease the properties to us for leased properties of approximately 3,300 square meters, which consisted of approximately 2.2% of our total leased property as of December 31, 2015. We cannot assure you that title to these properties we currently lease will not be challenged. Furthermore, several of our leased properties are owned by universities or the military or built on allocated land in China. Such properties may not be legally leased to us under PRC law. Our leasehold interest in these properties may be challenged by relevant PRC governmental authorities to be invalid, and we may be forced to move out of such premises.

In addition, we have not registered most of our lease agreements with relevant PRC governmental authorities as required by PRC law, and although failure to do so does not in itself invalidate the leases, we may not be able to defend these leases against bona fide third parties. As of the date of this annual report, we are not aware of any actions, claims or investigations being contemplated by governmental authorities against us or our lessors with respect to the defects in our leased real properties or any challenges by third parties to our use of these properties. However, if any of our leases are terminated as a result of challenges by third parties or governmental authorities for lack of title certificates or proof of authorization to lease, we may not be able to protect our leasehold interest and 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.

Our accounts receivable have been relatively high. Inability to collect our accounts receivable on a timely basis, if at all, could materially and adversely affect our financial condition, liquidity and results of operations.

Understanding the difficulty for recent college graduates to afford the tuition fees of our courses, we offered qualified students the post-graduation tuition payment option beginning in 2006, which led to our relatively high accounts receivable. As of December 31, 2013, 2014 and 2015, our outstanding accounts receivable, net of allowance for doubtful accounts, were US\$15.4 million, US\$24.7 million and US\$23.8 million, respectively. Although we conduct financial evaluations of our students applying to use our post-graduation tuition payment option, we do not require collateral or other security from our students. Adverse changes in the macroeconomic environmental and the earnings capacity of our students could negatively impact our ability to collect our accounts receivable. Furthermore, as time passes, it might be more difficult for us to collect historical accounts receivables. Our bad debt allowance increased significantly between 2013 and 2015, which increase was primarily associated with our post-graduation tuition payment option for qualified students enrolled between 2010 and 2014. Our inability to collect our accounts receivable on a timely basis, if at all, could cause our bad debt allowance to continue to increase or remain relatively high in the future, and materially and adversely affect our financial condition, liquidity and results of operations.

Capacity constraints of our learning centers could cause us to lose students to our competitors.

Our learning centers 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 learning centers. 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, which could adversely affect our results of operations and business prospects.

Geographic concentration of our learning centers may unfavorably impact our operations.

We derive a substantial portion of our net revenues from our learning centers in Hangzhou and Beijing. Revenue derived from the learning centers in Hangzhou accounted for 5.3%, 25.5% and 33.0% of our net revenues in 2013, 2014 and 2015, respectively. Revenue derived from the learning centers in Beijing accounted for 36.1%, 15.5% and 12.3% of our net revenues in 2013, 2014 and 2015, respectively. As a result of this geographic concentration, our results of operations are significantly affected by economic conditions in Hangzhou and Beijing. Furthermore, any natural disaster or health epidemics affecting the Hangzhou and Beijing regions could significantly impact our operations. We expect that we will continue to derive a substantial portion of our net revenues from Hangzhou and Beijing in the near future. Deterioration in economic conditions and the professional services industries in these markets could decrease the demand for our courses, which in turn could negatively impact our operations and business prospects.

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

Although we commenced operations in 2002, our significant business growth and expansion began in 2009. Our business and our prospects must be evaluated in light of the risks and uncertainties encountered by companies at a comparable stage of development. In addition, the professional education services market in China is still at an early stage of development, which makes it difficult to evaluate our business and future prospects. Furthermore, our results of operations may vary from period to period in response to a variety of other factors, including general economic conditions and regulations, government actions pertaining to the professional education services sector in China, changes in spending on professional education services, our ability to control cost of revenues and operating expenses, and non-recurring charges incurred in connection with acquisitions or other extraordinary transactions or under unexpected circumstances. Due to the above factors, some of which are beyond our control, our historical financial and operating results, growth rates and profitability may not be indicative of our future performance and you should not rely on our past results or our historic growth rates as indicators of our future performance.

Our ability to broadcast our lectures live and to offer online learning modules on TTS depends upon the performance and reliability of our systems and the Internet infrastructure and telecommunications networks in China.

We deliver live broadcasts of our lectures via a dedicated network provided by China Telecom to terminals located in selected learning centers with high student enrollment and via public Internet infrastructure to other learning centers. Any unscheduled service interruption of the Internet infrastructure and telecommunications networks in China could cause us to be unable to deliver these live broadcasts, forcing us to resort to using pre-recorded lectures in the event of such service interruptions. Our inability to broadcast live lectures during service interruptions may damage the quality of our education and student experience, which may hurt our reputation and negatively impact our financial condition and results of operations. Furthermore, our gross profit and net income could be adversely affected if the prices that we pay for telecommunications and Internet services rise significantly.

Our ability to offer online learning modules also depends on the performance and reliability of the Internet infrastructure in China. Disruptions to the Internet infrastructure of China may deny our students access to the learning functionalities on our TTS or *TMOOC.cn*, which may hinder students from effectively learning our education contents. Furthermore, increases in the traffic on TTS or *TMOOC.cn* could also strain the capacity of our existing computer systems, which could lead to slower response times or system failures. This would cause a disruption or suspension in our course offerings, which would hurt our brand and reputation and negatively affect our revenue growth. We may need to incur additional costs to improve our systems in order to accommodate increased demand if we anticipate that our systems cannot handle higher traffic volume in the future.

Our new CRM system may not function properly, which may materially and adversely affect our operations

We recently switched to a new customer relationship management, or CRM, system. The new CRM system is developed in-house and is intended to improve functionality and information flow. As with any major new software system, there are inherent risks in the design, construction, implementation and operation of our new CRM system. These risks include the potential failures to properly design the system, to efficiently construct and implement the system and to effectively operate the system. While we believe that our new CRM system will provide the anticipated IT and customer service enhancements we expect, no assurances can be given in this regard. The failure to properly and efficiently operate the new CRM system could disrupt our operations and adversely affect our financial results.

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.

We do not carry liability insurance for most of our students at our learning centers. In the event of accidents, injuries or other harm to students or other people on our premises, including those caused by or otherwise arising from the actions of our employees on our premises, our facilities may be perceived to be unsafe, which may discourage prospective students from attending our classes. We could also face claims alleging that we were negligent or provided inadequate supervision to our employees and therefore should be held jointly liable for harm caused by them or are otherwise liable for injuries suffered by our students or other people on our premises. A liability claim, even of unsuccessful, against us or any of our employees could adversely affect our reputation, enrollment and revenues, causing us to incur substantial expenses and divert the time and attention of our management.

If we fail to maintain an effective system of internal controls, we may be unable to accurately report our results of operations or prevent fraud or fail to meet our reporting obligations, and investor confidence and the market price of our ADSs may be materially and adversely affected.

We are subject to reporting obligations under the U.S. securities laws. Among other things, the Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, adopted rules requiring every public company, including us, to include a management report on the company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, once we cease to be an "emerging growth company," as such term is defined in the Jumpstart Our Business Startups Act of 2012 (as amended by the Fixing America's Surface Transportation Act of 2015), or the JOBS Act, our independent registered public accounting firm may be required to report on the effectiveness of our internal control over financial reporting.

In connection with the audit of our consolidated financial statements as of December 31, 2015, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting as defined in standards established by the Public Company Accounting Oversight Board of the United States, or PCAOB as of December 31, 2015. The material weakness identified related to insufficient review over system extracted data for tuition fees calculation during transitional period of system upgrade. Following the identification of the material weakness, we have reinforced the oversight and review procedure over the data extraction. However, the implementation of these measures may not fully address the material weakness in our internal control over financial reporting, and we cannot conclude that they have been fully remedied. Our failure to correct the material weakness or our failure to discover and address any other material weakness or deficiencies could result in inaccuracies in our financial statements and could also impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. As a result, our business, financial condition, results of operations and prospects, as well as the trading price of our ADSs, may be materially and adversely affected. Moreover, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

Furthermore, it is possible that, had our independent registered public accounting firm conducted an audit of our internal control over financial reporting, such firm might have identified additional material weaknesses and deficiencies. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, as a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation. If we fail to maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions.

We have limited insurance coverage for our operations in China.

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in more developed economies. We have determined that the risks of disruption or liability from our business, the loss or damage to our fixed assets, including our equipment and office furniture, the cost of insuring for these risks, and the difficulties associated with acquiring such insurance on commercially reasonable terms render it commercially impractical for us to have such insurance. As a result, we do not have any business interruption, litigation or property insurance coverage for our operations in China. Any uninsured occurrence of personal injury, loss or damage to fixed assets, or litigation or business disruption may result in the incurrence of substantial costs and the diversion of resources, which could have an adverse effect on our operating results.

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

We have experienced, and expect to continue to experience, seasonal fluctuations in our net revenues and results of operations, primarily due to seasonal changes in student enrollment. Historically, our courses tend to have the largest student enrollment, cash collection and net revenues in the third and fourth quarters. We generally generate less tuition fees in the first quarter of each year due to the Chinese New Year holiday. Our expenses, however, vary significantly and do not necessarily correspond to changes in our student enrollment and net revenues. We make investments in marketing and promotion, instructor recruitment and training and course development throughout the year. We expect quarterly fluctuations in our net revenues and results of operations to continue. These fluctuations could result in volatility and adversely affect the price of our ADSs. As our net revenues grow, these seasonal fluctuations may become more pronounced.

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

Labor costs in China have risen in recent years. We employed 5,066 employees in China as of December 31, 2015. The increases in labor cost may erode our profitability and materially harm our business, financial condition and results of operations. In addition, PRC government have promulgated some new laws and regulations to enhance labor protection in recent years, such as the Labor Contract Law and the Social Insurance Law, which are also expected to cause our labor costs to increase. As the interpretation and implementation of these new laws and regulations are still evolving, our employment practice may not be at all times be deemed in compliance with the new laws and regulations. If we are subject to severe penalties or incur significant liabilities in connection with labor disputes or investigation, our business and profitability may be adversely affected.

Although we have not in the past been materially affected by inflation since our inception, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

We have granted share-based awards and may grant more share-based awards in the future, which may materially reduce our net income.

We adopted a share plan in 2008, or the 2008 Plan, that permits granting of options to purchase our ordinary shares, restricted shares (or share appreciation rights or other similar awards) and rights to purchase restricted shares. Under the 2008 Plan, the maximum aggregate number of ordinary shares that may be issued pursuant to all awards under our share plan is 8,184,990 shares. In February 2014, we adopted a 2014 share incentive plan, or the 2014 Plan. Pursuant to the 2014 Plan, we may issue options, restricted shares and restricted share units to our qualified employees, directors and consultants on a regular basis. The maximum aggregate number of shares which may be issued pursuant to all awards under the 2014 Plan, or the Award Pool, is 1,833,696, provided that the shares reserved in the Award Pool shall be increased on the first day of each calendar year, commencing with January 1, 2015, if the unissued shares reserved in the Award Pool on such day account for less than 2% of the total number of shares issued and outstanding on a fully-diluted basis on December 31 of the immediately preceding calendar year, as a result of which increase the shares unissued and reserved in the Award Pool immediately after each such increase shall equal 2% of the total number of shares issued and outstanding on a fully-diluted basis on December 31 of the immediately preceding calendar year. As a result of grants and potential future grants under the 2008 Plan and the 2014 Plan, we have incurred and will continue to incur share-based compensation expenses. As of December 31, 2015, the unrecognized compensation cost related to unvested options and non-vested shares amounted to US\$9.5 million and US\$40 thousand, respectively, which will be recognized over a weighted average period of approximately 1.89 years and 0.25 year. Expenses associated with share-based compensation awards granted under our share plan may materially reduce our future net income. However, if we limit the size of grants under our share plan to minimize share-based compensation expenses, we may not be able to attract or retain key personnel.

Any natural catastrophes, severe weather conditions, health epidemics and other extraordinary events could severely disrupt our business operations.

The occurrence of natural catastrophes such as earthquakes, floods, typhoons, tsunamis or any acts of terrorism may result in significant property damages as well as loss of revenues due to interruptions in our business operations. Health epidemics such as outbreaks of Ebola, avian influenza, severe acute respiratory syndrome (SARS) or the influenza A (H1N1), and severe weather conditions such as snow storm and hazardous air pollution, as well as the government measures adopted in response to these events, could require the temporary closure of our learning centers.

Furthermore, our ability to broadcast live lectures and provide our education services through TTS or *TMOOC.cn* depends on the continuing operation of our technology system, which is vulnerable to damage or interruption from natural catastrophes and other extraordinary events. Our disaster recovery planning cannot account for every conceivable possibility. Any damage to or failure of our technology system could result in interruptions in our services, and our brand could be damaged if students believe our systems are unreliable. Such disruptions could severely interfere with our business operations and adversely affect our results of operations.

Risks Relating to Our Corporate Structure

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

Prior to 2012, we conducted a substantial portion of our operations through our consolidated VIEs and their subsidiaries and schools. On January 30, 2012, the *PRC Catalogue for the Guidance of Foreign Investment Industries (amended)* became effective, which listed professional education service as an industry for which foreign investments are “encouraged” by the government. On April 10, 2015, the new *PRC Catalogue for the Guidance of Foreign Investment Industries (amended)* became effective, which listed non-accredited professional education service as an industry for which foreign investments are “encouraged” by the government. In light of such change of law, starting from the second half of 2012, we began to transfer the operations, including related assets and liabilities, of our consolidated VIEs to Tarena Tech and its subsidiaries and schools. All of our learning center operations of VIEs had been transferred to Tarena Tech and its subsidiaries and schools. We are in the process of winding down Shanghai Tarena. Pursuant to the Provisions on Administration of Foreign Invested Telecommunications Enterprises promulgated by the State Council on December 11, 2001 and amended on September 10, 2008, the ultimate foreign equity ownership in a value-added telecommunications services provider may not exceed 50%. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas. Foreign investors that meet these requirements must obtain approvals from the MIIT and the Ministry of Commerce, or the MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals. Pursuant to publicly available information, the PRC government has issued telecommunications business operating licenses to only a limited number of foreign invested companies, all of which are Sino-foreign joint ventures engaging in the value-added telecommunication business. Although the Guidance Catalog of Industries for Foreign Investment amended in 2015 and Circular 196 promulgated by MIIT in June 2015 allows a foreign investor to own up to 100% of the total equity interest in an E-Commerce business, we have not engaged in any E-Commerce business. Due to the foreign ownership restriction on Internet content and other value-added telecommunication services, we operate our *TMOOC.cn* website through our VIE, Beijing Tarena. Beijing Tarena is in the process of applying to add our *TMOOC.cn* website under the ICP license held by Beijing Tarena. Beijing Tarena is 70% owned by Mr. Shaoyun Han, our founder, chairman and chief executive officer, and 30% owned by Mr. Jianguang Li, our director. Mr. Han and Mr. Li are both PRC citizens. We entered into a series of contractual arrangements with Beijing Tarena and its shareholders, which enable us to:

- exercise effective financial control over Beijing Tarena;
- receive substantially all of the economic benefits and bear the obligation to absorb substantially all of the losses of Beijing Tarena; and

- have an exclusive option to purchase all or part of the equity interests in Beijing Tarena when and to the extent permitted by PRC law.

Because of these contractual arrangements, we are the primary beneficiary of Beijing Tarena and consolidate its financial results in our consolidated financial statements in accordance with U.S. GAAP. For a detailed discussion of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.”

Han Kun Law Offices, our PRC legal counsel, is of the opinion that (i) the ownership structure of Beijing Tarena and Tarena Tech will not result in any violation of PRC laws or regulations currently in effect; and (ii) the contractual arrangements among Tarena Tech, Beijing Tarena and its shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations concerning foreign investment in the PRC, and their application to and effect on the legality, binding effect and enforceability of the contractual arrangements. In particular, we cannot rule out the possibility that PRC regulatory authorities, courts or arbitral tribunals may in the future adopt a different or contrary interpretation or take a view that is inconsistent with the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to VIEs will be adopted or if adopted, what they would provide. In or around September 2011, various media sources reported that the China Securities Regulatory Commission, or the CSRC, had prepared a report proposing regulating the use of VIE structures, such as ours, in industries subject to foreign investment restrictions in China and overseas listings by China-based companies. However, it is unclear whether the CSRC officially issued or submitted such a report to a higher level government authority or what such report provides, or whether any new PRC laws or regulations relating to the VIE structures will be adopted or if adopted, what they would provide. In January 2015, the MOFCOM 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 existing companies with the “variable interest entity” structure, whether or not these companies are controlled by Chinese parties. It is uncertain when the draft would be signed into law and whether the final version would have any substantial changes from the draft. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Value-Added Telecommunications Services—The Discussion Draft PRC Foreign Investment Law” and “—Risks Relating 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 we or Beijing Tarena is found to be in violation of any existing or future PRC laws or regulations, or such arrangement is determined as illegal and invalid by the PRC court, arbitral tribunal or regulatory authorities, or fail to obtain, maintain or renew any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business and operating licenses of our PRC subsidiaries and Beijing Tarena;
- discontinuing or restricting the conduct of any transactions between our PRC subsidiaries and Beijing Tarena;
- imposing fines, confiscating the income from Beijing Tarena, or imposing other requirements with which we or Beijing Tarena may not be able to comply; or
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with Beijing Tarena and deregistering the equity pledges of Beijing Tarena.

We launched our *TMOOC.cn* online learning platform in March 2015 to cover a broader customer base. *TMOOC.cn* features sample lecture videos and class materials covering our course subjects. Currently, although revenues generated from *TMOOC.cn* were inconsequential, it is important for our marketing efforts. Therefore, the imposition of any of these penalties could result in a material and adverse effect on our ability to provide online education services and conduct our marketing and promotional activities through *TMOOC.cn*. Beijing Tarena is in the process of applying to add our *TMOOC.cn* website under our ICP license. However, we cannot guarantee that Beijing Tarena will be successful in this effort. If we fail to add our *TMOOC.cn* website under our ICP license, our continued operation of *TMOOC.cn* may subject us to penalties, including confiscation of illegal income and fines, and we may be ordered to shut down our *TMOOC.cn* website.

If the relevant PRC authorities determine that we can no longer own and operate certain of our learning centers through our PRC subsidiaries, we may need to restructure the ownership and operation of these learning centers (including possibly transferring these learning centers to our consolidated VIEs), our business may be disrupted and we may be exposed to increased risks associated with the contractual arrangements relating to our consolidated VIEs.

Prior to 2012, we operated a substantial portion of our learning centers through our consolidated VIEs and their subsidiaries and schools. After the *PRC Catalogue for the Guidance of Foreign Investment Industries (amended)* became effective on January 30, 2012 and as amended on April 10, 2015, non-accredited foreign investment in professional education services is now “encouraged” in China and there is no limitation with respect to maximum percentage of foreign ownership in a company conducting business in this area.

In light of such change of law, starting from the second half of 2012, we began to transfer the operations, including related assets and liabilities, of our consolidated VIEs to our wholly-owned subsidiary, Tarena Tech, and its subsidiaries. All of our learning center operations of VIEs had been transferred to Tarena Tech and its subsidiaries and schools. As of December 31, 2015, we operated 36 of our learning centers through private schools owned by subsidiaries of Tarena Tech. These 36 learning centers in the aggregate accounted for 29.7% of our total student enrollments in 2015.

However, there are still uncertainties under current PRC laws as to whether a wholly foreign owned enterprise (such as Tarena Tech) is allowed to indirectly invest in and own private schools through its PRC subsidiaries. On the one hand, the *PRC Catalogue for the Guidance of Foreign Investment Industries (Amended)* encourages and permit 100% foreign ownership of non-accredited professional training business in China and the *Law for Promoting Private Education* does not expressly prohibit a subsidiary of a foreign-invested enterprise from investing in private schools. On the other hand, according to the *Law for Promoting Private Education*, Chinese-foreign cooperation in operating schools is specifically governed by the *Regulations on Operating Chinese-foreign Schools* and its implementing rules, which requires specific approvals from those governmental authorities in charge of either human resources and social security or education and requires any foreign party to such Chinese-foreign cooperation in operating schools to be an educational institution with relevant experience in providing educational services outside of China. In addition, the *Regulations on Operating Chinese-foreign Schools* prohibits foreign institutions or individuals from independently establishing schools which provide educational services mainly for Chinese citizens in China. In practice, different local authorities have different views and administrative policies on whether foreign institutions or individuals are permitted to use their direct or indirect wholly-owned subsidiary incorporated in China to establish a school under the *Law for Promoting Private Education* without violating the *Regulations on Operating Chinese-foreign Schools*. 22 private schools sponsored by our wholly-owned subsidiaries in China have obtained private school operating permits, and based on the results of oral inquiries with the relevant governmental authorities of human resources and social security or education, we believe that the relevant government authorities have not challenged and are unlikely to challenge the ownership structure of our schools. However, if the relevant PRC government authorities determine in the future that we can no longer own and operate our schools and their related learning centers through our PRC subsidiaries, which are considered ineligible to act as sponsors of private schools, we may need to transfer these schools and the related learning centers to our consolidated VIEs, which may severely disrupt our business and expose us to increased risks associated with the contractual arrangements relating to our consolidated VIEs. See “—Risks Relating to Our Corporate Structure.” If we fail to restructure the ownership and operation of these schools or otherwise accommodate requests from the relevant PRC human resources and social security or education regulatory authorities in a timely manner or to their satisfaction, we may be subject to fines, the suspension or ceasing of our operations or other penalties, which may materially and adversely affect our business and results of operations.

Any failure by Beijing Tarena or its shareholders to perform their obligations under our contractual arrangements with them would have an adverse effect on our business.

If Beijing Tarena or its shareholders fail to perform their obligations under their contractual arrangements with us, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective. For example, if the shareholders of Beijing Tarena were to refuse to transfer their equity interest in Beijing Tarena to us or our designee if we exercise the exclusive option agreements pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. 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 the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Under PRC law, if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective financial control over Beijing Tarena, and our ability to conduct our business may be negatively affected.

If we had direct ownership of Beijing Tarena, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of Beijing Tarena, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current contractual arrangements, we rely on the performance by Beijing Tarena and its shareholders of their obligations under the contracts to exercise control over Beijing Tarena. Therefore, our contractual arrangements with Beijing Tarena may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

The shareholders of Beijing Tarena may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

We have designated individuals who are PRC nationals to be the shareholders of Beijing Tarena. The equity interests of Beijing Tarena are held by Mr. Shaoyun Han and Mr. Jianguang Li. The interests of these individuals as the shareholders of Beijing Tarena may differ from the interests of our company as a whole. These shareholders may breach, or cause Beijing Tarena to breach, or refuse to renew, the existing contractual arrangements we have with them and Beijing Tarena, which would have a material and adverse effect on our ability to effectively control Beijing Tarena. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the purchase option agreement with these shareholders to request him to transfer all of his equity ownership in Beijing Tarena to a PRC entity or individual designated by us. We rely on Mr. Shaoyun Han and Mr. Jianguang Li, who are both our directors and who owe a fiduciary duty to our company, to comply with the terms and conditions of the contractual arrangements. Such fiduciary duty requires directors to act in good faith and in the best interests of the company and not to use their positions for personal gains. If we cannot resolve any conflict of interest or dispute between us and the shareholders of Beijing Tarena, 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.

Our contractual arrangements with our consolidated VIEs may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among Tarena Tech and our consolidated VIEs did not represent an arm's-length price and adjust our consolidated VIEs' 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 VIEs, which could in turn increase their tax liabilities without reducing our tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our consolidated VIEs for under-paid taxes. Our consolidated net income may be materially and adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

If Beijing Tarena becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy its assets, which could materially and adversely affect our business.

Due to foreign ownership restrictions in the online value-added telecommunications business, we hold our ICP license through contractual arrangements with Beijing Tarena as well as its shareholders. As part of these arrangements, Beijing Tarena holds assets that are important to the operation of our business, including the domain name for our *TMOOC.cn* website.

We do not have priority pledges and liens against Beijing Tarena's assets. As a contractual and property right matter, this lack of priority pledges and liens has remote risks. If Beijing Tarena 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 Beijing Tarena's assets. If Beijing Tarena 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 Beijing Tarena to Tarena Tech under the applicable service agreements. To ameliorate the risks of an involuntary liquidation proceeding initiated by a third-party creditor, we closely monitor the operations and finances of Beijing Tarena through carefully designed budgetary and internal controls to ensure that Beijing Tarena is well capitalized and is highly unlikely to trigger any third party monetary claims in excess of its assets and cash resources. Furthermore, Tarena Tech has the ability, if necessary, to provide financial support to Beijing Tarena to prevent such an involuntary liquidation.

If the shareholders of Beijing Tarena were to attempt to voluntarily dissolve or liquidate Beijing Tarena without obtaining our prior consent, we could effectively prevent such unauthorized voluntary liquidation by exercising our right to request Beijing Tarena's shareholders to transfer all of their equity ownership interest to a PRC entity or individual designated by us in accordance with the exclusive option agreements with the shareholders of Beijing Tarena. In the event that the shareholders of Beijing Tarena initiates a voluntary liquidation proceeding without our authorization or attempts to distribute the retained earnings or assets of Beijing Tarena without our prior consent, we may need to resort to legal proceedings to enforce the terms of the contractual agreements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding would be uncertain. The uncertainties in legal proceedings to enforce the terms of the contractual agreements are mainly caused by PRC laws that prohibit domestic companies holding ICP licenses from assisting foreign investors in conducting value-added telecommunications business in China. Under the MIIT Circular, a domestic company that holds an ICP license is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China.

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.

In China, legal documents for corporate transactions, including agreements and contracts such as the leases and sales contracts that our business relies on, are typically 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 State Administration for Industry and Commerce, or the SAIC. We generally execute legal documents by affixing chops or seals, rather than having the designated legal representatives sign the documents.

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

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

Risks Relating to Doing Business in China

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our PRC subsidiaries are subject to various PRC laws and regulations generally applicable to companies 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 uniform and enforcement of these laws, regulations and rules involve uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) some of which may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

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

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

China's economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the PRC economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While China's economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing. Some of the government measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. Any stimulus measures designed to boost the Chinese economy may contribute to higher inflation, which could adversely affect our results of operations and financial condition.

We may be subject to significant limitations on our ability to operate private schools, or otherwise be materially and adversely affected by changes in PRC laws governing private education providers.

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

As of December 31, 2015, we had five schools registered as schools requiring reasonable returns, while all other schools are registered as schools not requiring reasonable returns. Unlike typical schools which grant diplomas to students upon graduation, we provide professional education and do not grant any diploma to our students. However, the current PRC laws and regulations governing private education may be amended or replaced by new laws and regulations that (i) impose significant limitations on the ability of our schools to operate their business, charge course fees or make payments to related parties for services, (ii) specify the formula for calculating "reasonable returns," or (iii) change the tax treatment policies applicable to private schools. We cannot predict the timing and effects of any such amendments or new laws and regulations. Changes in PRC laws and regulations governing private education could materially and adversely affect our business prospects and results of operations. For example, if the PRC government imposes additional restrictions on private schools' ability to operate their business or restricts private schools from making payments to related parties for services, our ability to receive service fees from our schools may be limited.

Under the PRC Enterprise Income Tax Law, we may be classified as a PRC "resident enterprise" for PRC enterprise income tax purposes. Such classification would likely result in unfavorable tax consequences to us and our non-PRC shareholders and have a material adverse effect on our results of operations and the value of your investment.

Under the PRC Enterprise Income Tax Law, or the EIT Law, that became effective on January 1, 2008, an enterprise established outside the PRC with "de facto management bodies" within the PRC is considered a PRC "resident enterprise" for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. Under the Implementation Rules to the EIT Law, a "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, a circular, known as Circular 82, issued in April 2009, as amended in January 2014, by the State Administration of Taxation, or the SAT, specifies that certain offshore incorporated enterprises controlled by PRC enterprises or PRC enterprise groups will be classified as PRC resident enterprises if the following are located or resident in the PRC: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders' meetings; and half or more of the senior management or directors having voting rights. Circular 82 also clarified that dividends and other income paid by such "resident enterprises" will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by shareholders that are non-PRC resident enterprises. Further to Circular 82, the SAT issued a bulletin, known as Bulletin 45, which took effect on September 1, 2011, to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such "Chinese-controlled offshore-incorporated resident enterprises." Bulletin 45 provides procedures and administrative details for the determination of PRC resident enterprise status and administration on post-determination matters. Although both Circular 82 and Bulletin 45 only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign individuals like us, the determining criteria set forth in Circular 82 and Bulletin 45 may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident enterprise status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, PRC enterprise groups or by PRC or foreign individuals.

We do not believe that Tarena International, Inc. meets all of the conditions above and thus we do not believe that Tarena International, Inc. is a PRC resident enterprise, despite the fact that all of the members of our management team as well as the management team of our offshore holding company are located in China. However, if the PRC tax authorities determine that Tarena International, Inc. is a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we will be subject to the uniform 25% enterprise income tax on our world-wide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Second, although dividends paid by one PRC tax resident to another PRC tax resident should qualify as “tax-exempt income” under the EIT Law, we cannot assure you that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax on dividends, and the PRC tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are not controlled by any PRC enterprise or enterprise group and treated as resident enterprises for PRC enterprise income tax purposes.

Finally, dividends we pay to our non-PRC enterprise shareholders and gains derived by our non-PRC shareholders from the sale of our shares may be become subject to a 10% PRC withholding tax. In addition, future guidance may extend the withholding tax to dividends we pay to our non-PRC individual shareholders and gains derived by such shareholders from transferring our shares. In addition to the uncertainty in how the new “resident enterprise” classification could apply, it is also possible that the rules may change in the future, possibly with retroactive effect. If PRC income tax were imposed on gains realized through the transfer of our ADSs or ordinary shares or on dividends paid to our non-resident investors, the value of the investment in our ADSs or ordinary shares may be materially and adversely affected. Furthermore, our ADS holders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

We face uncertainty regarding the PRC tax reporting obligations and consequences for certain indirect transfers of our operating company’s equity interests. Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

In connection with the EIT Law, the Ministry of Finance and the SAT jointly issued a Circular 59 in April 2009, and the SAT issued a Circular 698 in December 2009. Both Circular 59 and Circular 698 became effective retroactively on January 1, 2008.

According to Circular 698, where a non-resident enterprise transfers the equity interests of a PRC “resident enterprise” indirectly by disposition of the equity interests of an overseas holding company, or an Indirect Transfer, and the overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not impose tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report to the relevant tax authority of the PRC “resident enterprise” this Indirect Transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC “resident enterprise” to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction. In addition, the PRC “resident enterprise” is supposed to provide necessary assistance to support the enforcement of Circular 698.

On February 3, 2015, the SAT issued a Public Notice [2015] No.7, or Public Notice 7, to supersede the existing tax rules in relation to the Indirect Transfer, while the other provisions of Circular 698 remain in force. Public Notice 7 introduced a new tax regime that is significantly different from that under Circular 698. Public Notice extend its tax jurisdiction to capture not only Indirect Transfer as set forth under Circular 698 but also transactions involving transfer of immovable property in China and assets held under the establishment and place, in China of a foreign company through the offshore transfer of a foreign intermediate holding company. Public Notice 7 also addresses the term transfer of the equity interest in a foreign intermediate holding company widely. In addition, Public Notice 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and introduces safe harbor scenarios applicable to internal group restructurings. However, it also brings challenges to both the foreign transferor and transferee of the Indirect Transfer as they have to make self-assessment on whether the transaction should be subject to PRC tax and to file or withhold the PRC tax accordingly. Since Public Notice 7 was recently promulgated and it is unclear how this set of measures, and any future implementation rules thereof, will be interpreted, amended and implemented by the relevant governmental authorities. Where non-resident investors were involved in our private equity financing, if such transactions were determined by the tax authorities to lack reasonable commercial purpose, we and our non-resident investors may become at risk of being taxed under Circular 698 and Public Notice 7 and may be required to expend valuable resources to comply with Circular 698 and Public Notice 7 or to establish that we should not be taxed under Circular 698 and Public Notice 7, which may have a material adverse effect on our financial condition and results of operations or the non-resident investors' investments in us.

By promulgating and implementing these circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise. The PRC tax authorities have the discretion under Circular 59, Circular 698 and Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment. Although we currently have no confirmed plans to pursue any acquisitions in China or elsewhere in the world, we may pursue acquisitions in the future that may involve complex corporate structures. If we are considered a non-resident enterprise under the EIT Law and if the PRC tax authorities make adjustments under Circular 59 or Circular 698 and Public Notice 7, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

In addition, the State Administration of Taxation promulgated Administrative Measures on the General Anti-Avoidance Rule (Trial), or GAAR Measures, on December 12, 2014, which shows the authority's intention to fight against tax avoidance scheme that is adopted to obtain unwarranted tax benefit without reasonable commercial purpose. A press release, made by the State Administration of Taxation to clarify certain issues relating to the application of the GAAR Measures, stated that the GAAR Measures may be applicable if any general tax-avoidance scheme exists in the offshore indirect transfer of equity interests. Since GAAR Measures was recently promulgated and it is unclear how this set of measures, and any future implementation rules thereof, will be interpreted, amended and implemented by the relevant governmental authorities, we cannot predict how these regulations will affect our business operation, future acquisitions or strategy.

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

In December 2007, the State Administration of Press Publication Radio Film and Television, or SAPPRFT, and 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. 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 SAPPRFT or its local bureaus or completing the relevant registration with SAPPRFT or its local bureaus, 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. In February 2008, SAPPRFT and MIIT jointly held a press conference in response to inquiries related to the Internet Audio-Video Program Measures, during which SAPPRFT and MIIT 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, SAPPRFT promulgated the Test Implementation of the Tentative Categories of Internet Audio-Visual Program Services, 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.

We transmit our audio-video educational programs through our TTS system and *TMOOC.cn* not only to enrolled course participants, but also to the general public. In addition, we provide audio-video program uploading and transmission services. As a result, we might be subject to the Internet Audio-Video Program Measures. If the governmental authorities determine that our provision of lecture videos on TTS and/or *TMOOC.cn* falls within the Internet Audio-Video Program Measures, we may not be able to obtain the License for Disseminating Audio-Video Programs through Information Network. If this occurs, we may become subject to significant penalties, fines, legal sanctions or an order to suspend our use of audio-video content, all of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Pursuant to the Provisions on the Administration of Human Resources Markets issued by SAIC in 2001 and as amended in 2005, a human resources service intermediary refers to any entity which provides intermediary services for employers and any potential employees, and no entity may provide such services without a “License for Human Resources Intermediary Resources.” Any internet information service provider which provides intermediary services for employers and any potential employees via internet shall obtain such license. In January 2015, we launched a self-developed job search website called Job Show (*www.jobshow.cn*), which serves as a dedicated open platform for our students and other job-seeking candidates to connect with corporate employers more effectively. Although we have not entered into any agreement with corporate employers or any job-seeking candidates, we source and list job opportunities from both IT and non-IT employers in China through the website, which may be deemed as a human resources service intermediary. Currently, we have not obtained the “License for Human Resources Intermediary Resources,” and if the relevant PRC government authorities determine that we shall obtain such license for the operation of Job Show and we fail to obtain such license, they may order us to shut down the website and subject us to a fine of RMB10,000 (US\$1,544), and if there is any illegal income, we may be subject a fine of no more than three times of the illegal income, which shall not exceed RMB30,000 (US\$4,631).

PRC regulations establish complex approval 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. The transfers of our learning centers from our consolidated VIEs to our wholly-owned subsidiaries in China may be subject to such approval procedures, in which case we may need to restructure the ownership and operation of the affected learning centers, and as a result we may be exposed to increased risks associated with the contractual arrangements relating to our consolidated VIEs.

Six PRC regulatory agencies promulgated regulations effective in September 2006 that are commonly referred to as the M&A Rules. 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 MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In addition, national security review rules issued by the PRC governmental authorities in 2011 require acquisitions by foreign investors of domestic companies engaged in military-related or certain other industries that are crucial to national security to be subject to prior security review. Moreover, the Anti-Monopoly Law requires that the MOFCOM shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. We may expand our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rules, security review rules and other PRC regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

In addition, in accordance with the M&A Rules, approval of the MOFCOM is required for acquisitions of PRC domestic enterprises by foreign companies that are established or controlled by PRC domestic companies, enterprises or individuals related to the target PRC domestic enterprises, or “Related Party Acquisitions”, and the parties are not allowed to evade such requirements through investment by foreign investment enterprises in China or other ways. Although M&A Rules have become effective since September 2006, we are not aware of any precedent of approval by the MOFCOM of any Related Party Acquisition conducted by PRC domestic individuals. Starting from the second half of 2012, we began to transfer our operations, including related assets and liabilities, of our consolidated VIEs to our wholly-owned subsidiary, Tarena Tech, and its subsidiaries, either through transferring the companies that operate learning centers or that sponsor the schools, or through changing the schools’ sponsors. All of our learning center operations of VIEs had been transferred to Tarena Tech and its subsidiaries and schools. As Mr. Shaoyun Han is a shareholder of both Tarena and our consolidated VIEs, even though the transfers of the companies, which operated 23 of our learning centers themselves or through schools they established as of December 31, 2015, from our consolidated VIEs to our wholly-owned subsidiaries in China are not “acquisitions by foreign investors of PRC domestic enterprises” under the M&A Rules, and Tarena Tech, our wholly foreign invested enterprise in PRC, was converted into a wholly foreign invested enterprise before the effective date of M&A Rules, the requirement for an approval from the MOFCOM may still be required for such transfers because of the above anti-evasion clause. Furthermore, it is unclear whether our transfers of the schools which operated 11 learning centers as of December 31, 2015, which are not enterprises, from subsidiaries of our consolidated VIEs to our wholly-owned subsidiaries, could be regarded as Related Party Transactions under the M&A Rules. If the MOFCOM determines that our previous transfers of learning centers from our consolidated VIEs to our wholly-owned subsidiaries are Related Party Transactions under the M&A Rules and we fail to obtain the MOFCOM’s approvals on such transfers, the effectiveness of such transfers may be challenged and we may be need to transfer these companies and schools, including the related learning centers, back to our consolidated VIEs. Under such circumstances, our business may be disrupted and we may be exposed to increased risks associated with the contractual arrangements relating to our consolidated VIEs. See “—Risks Relating to Our Corporate Structure.”

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us, limit our ability to inject capital into our PRC subsidiaries, or otherwise expose us to liability and penalties under PRC law.

The PRC State Administration of Foreign Exchange, or the SAFE, has promulgated regulations, including the Notice on Relevant Issues Relating to Domestic Residents’ Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or SAFE Circular No. 37, effective on July 4, 2014, and its appendixes, that require PRC residents, including PRC institutions and individuals, to register with local branches of 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 No. 37 as a “special purpose vehicle.” SAFE Circular No. 37 further requires amendment to the registration in the event of 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. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in their ability to contribute additional capital into its PRC subsidiary. Further, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion, including (i) the requirement by SAFE to return the foreign exchange remitted overseas within a period specified by SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas and deemed to have been evasive and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive. Furthermore, the persons-in-charge and other persons at our PRC subsidiaries who are held directly liable for the violations may be subject to criminal sanctions. On February 28, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which became effective on June 1, 2015. In accordance with SAFE Notice 13, entities and individuals are required to apply for foreign exchange registration of foreign direct investment and overseas direct investment, including those required under the SAFE Circular No. 37, with qualified banks, instead of SAFE. The qualified banks, under the supervision of SAFE, directly examine the applications and conduct the registration.

These regulations apply to our direct and indirect shareholders who are PRC residents and may apply to any offshore acquisitions or share transfers that we make in the future if our shares are issued to PRC residents. We have requested PRC residents who we know currently hold direct or indirect interests in our company to make the necessary applications, filings and amendments as required under SAFE Circular No. 37 and other related rules.

To our knowledge, all of our shareholders who are PRC citizens and hold interest in us, have registered with the local SAFE branch and/or qualified banks as required under SAFE Circular No. 37 and SAFE Notice 13. However, in practice, different local SAFE branches and/or qualified banks may have different views and procedures on the application and implementation of SAFE regulations. Therefore, we cannot assure you that they can successfully amend their foreign exchange registrations with the local SAFE branch and/or qualified banks in full compliance with applicable laws. In addition, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we cannot provide any assurances that these PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by SAFE Circular No. 37, SAFE Notice 13 or other related rules. A failure by any of our current or future shareholders or beneficial owners who are PRC residents to comply with the SAFE regulations may subject us to fines or other legal sanctions, restrict our cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

Furthermore, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, either we or the owners of such company, as the case may be, may not be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or the Stock Option Rules. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly-listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Stock Incentive Plans." We and our PRC employees who have been granted share options and restricted share units are subject to these regulations and we have completed the registrations of our stock incentive plans, namely the 2008 Plan and the 2014 Plan, with the local SAFE as required by PRC law. Failure of our PRC share option holders or restricted shareholders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limited our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially and adversely affect our business.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities and governmental control of currency conversion may delay or limit us from using the proceeds of offshore offerings to make additional capital contributions or loans to our PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries are subject to PRC regulations. Under PRC laws and regulations, we are permitted to utilize the proceeds from offshore offerings to fund our existing PRC subsidiaries only through loans or capital contributions or to establish new PRC subsidiaries, subject to applicable government registration and approval requirements. None of our loans to a PRC subsidiary can exceed the difference between its total amount of investment and its registered capital approved under relevant PRC laws, and the loans must be registered with the local branch of SAFE. Our capital contributions to our PRC subsidiaries or establishment of new PRC subsidiaries must be approved by the MOFCOM or its local counterpart. We cannot assure you that we will be able to complete the necessary registration or obtain the necessary approval on a timely basis, or at all. If we fail to complete the necessary registration or obtain the necessary approval, our ability to make loans or equity contributions to our PRC subsidiaries may be negatively affected, which could adversely affect our PRC subsidiaries' liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments.

On March 30, 2015, the SAFE promulgated Circular 19, which expands a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises nationwide. Circular 19 came into force replacing both previous SAFE Circular 142 and SAFE Circular 36 on June 1, 2015. Circular 19 allows all foreign-invested enterprises established in the PRC to use their foreign exchange capitals to make equity investment and removes certain other restrictions provided under Circular 142 for these enterprises. However, Circular 19 continues to prohibit foreign-invested enterprises from, among other things, using the Renminbi fund converted from its foreign exchange capitals for expenditure beyond its business scope, and providing entrusted loans or repaying loans between non-financial enterprises. The business scopes of Tarena Tech include research and development of computer software, hardware, internet technology and products and telecommunications technology, transfer of proprietary technologies, information technology consulting, technical services, computer technology training, sales of self-developed products and franchise business operations. The business scopes of Tarena Software Technology (Hangzhou) Co., Ltd., or Tarena Hangzhou, include technology development, technology consulting, technical services, computer software and hardware, network technology, telecommunication technology, services, non-certification computer technology training for adults (excluding business subject to pre-approvals), wholesale and retail of computer software and hardware and telecommunication equipment (excluding equipment subject to national control and other special controls). Tarena Tech and Tarena Hangzhou may only use Renminbi converted from foreign exchange capital contribution for activities within their respective approved business scope. Therefore, we may not use such Renminbi funds converted to make equity investments in the PRC through our PRC subsidiaries. In addition, the use of such Renminbi capital may not be altered without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of SAFE Circular 19 could result in severe monetary or other penalties.

SAFE also promulgated a SAFE Circular 45 in November 2011, which, among other things, restricts a foreign-invested enterprise from using RMB converted from its registered capital to provide entrusted loans or repay loans between non-financial enterprises. Those circulars may significantly limit our ability to use Renminbi converted from the net proceeds of offshore offerings to fund establishment of new PRC subsidiaries by Tarena Tech and Tarena Hangzhou to invest in or acquire any other PRC companies, or to establish new PRC consolidated affiliated entities.

Our PRC subsidiaries are subject to restrictions on paying dividends or making other payments to us, which may restrict our ability to satisfy our liquidity requirements.

We are a holding company incorporated in the Cayman Islands. We may need dividends and other distributions on equity from our PRC subsidiaries to satisfy our liquidity requirements. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of their respective registered capital. Our PRC subsidiaries may also allocate a portion of its after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends. Furthermore, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitation on the ability of our subsidiaries to distribute dividends to us or may restrict our ability to satisfy our liquidity requirements.

In addition, the EIT Law, and its implementation rules provide that withholding tax rate of up to 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC-resident enterprises are incorporated.

We may not be able to obtain certain treaty benefits on dividends paid to us by our PRC subsidiary through our Hong Kong Subsidiary.

Under the EIT Law, dividends generated from retained earnings after January 1, 2008 from a PRC company and distributed to a foreign parent company are subject to a withholding tax rate of 10% unless the foreign parent's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, or the Hong Kong Tax Treaty, which became effective on December 8, 2006, a company incorporated in Hong Kong, such as Tarena HK, will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiary if it holds a 25% or more interest in that particular PRC subsidiary, or 10% if it holds less than a 25% interest in that subsidiary. However, the SAT promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, and a beneficial ownership analysis will be used based on a "substance-over-the-form" principle to determine whether or not to grant tax treaty benefits. On June 29, 2012, the SAT further issued the Announcement of the SAT regarding Recognition of "Beneficial Owner" under Tax Treaties, or Announcement 30, which provides that a comprehensive analysis should be made when determining the beneficial owner status based on various factors supported by various types of documents including the articles of association, financial statements, records of cash movements, board meeting minutes, board resolutions, staffing and materials, relevant expenditures, functions and risk assumption as well as relevant contracts and other information. As a result, although our PRC subsidiary, Tarena Hangzhou, is currently wholly owned by our Hong Kong subsidiary Tarena HK, we cannot assure you that we would be entitled to the tax treaty benefits and enjoy the favorable 5% rate applicable under the Hong Kong Tax Treaty on dividends. If Tarena HK cannot be recognized as the beneficial owner of the dividends to be paid by Tarena Hangzhou to us, such dividends will be subject to a normal withholding tax of 10% as provided by the EIT Law.

Discontinuation or revocation of any of the preferential tax treatments and government subsidies or imposition of any additional taxes and surcharges could adversely affect our financial condition and results of operations.

Our PRC subsidiaries are incorporated in the PRC and governed by applicable PRC tax laws and regulations. The EIT Law and its Implementing Rules, both became effective on January 1, 2008, have adopted a uniform statutory enterprise income tax rate of 25% to all enterprises in China including foreign-invested enterprises. The EIT Law and its Implementation Rules also permit qualified "high and new technology enterprises," or HNTEs, to enjoy a preferential enterprise income tax rate of 15% upon filing with relevant tax authorities. The qualification as a HNTE generally has a valid term of three years and the renewal of such qualification is subject to review by the relevant authorities in China. Tarena Tech obtained its HNTE certificate in 2009 and renewed its HNTE certificate in 2012 and again in 2015, and is eligible to enjoy a preferential tax rate of 15% until the end of 2017. If Tarena Tech fails to maintain its HNTE qualification or renew its qualification when its current term expires, its applicable enterprise income tax rate may increase to 25%, which could have an adverse effect on our financial condition and results of operations. In addition, Tarena Hangzhou, one of our PRC subsidiaries, was established in 2013 and is qualified as a "newly established software enterprise", which entitles it to two years of full tax exemption followed by three years of 50% tax exemption, commencing from the year in which its taxable income is greater than zero, which was 2014. Tarena Hangzhou has also received financial subsidies from PRC local government authority in 2013 and 2015.

Preferential tax treatments and financial subsidies are subject to review and may be adjusted or revoked at any time in the future. The discontinuation of any preferential tax treatments or financial subsidies or imposition of any additional taxes could adversely affect our financial condition and results of operations.

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

Although our reporting currency is in U.S. dollars, we earn revenues and incur costs and expenses in Renminbi. As a result, fluctuations in the exchange rate between the U.S. dollar and RMB will affect the relative purchasing power in RMB terms of our foreign currency holdings. As the functional currency for our PRC subsidiaries and consolidated VIEs is RMB, fluctuations in the exchange rate may also cause us to incur foreign exchange losses on any foreign currency holdings they may have. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. If we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us.

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. The PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar in 2005, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. However, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals. During the period between July 2008 and June 2010, the exchange rate between the RMB and the U.S. dollar had been stable and traded within a narrow range. However, the Renminbi fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. 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.

Any significant appreciation or depreciation of the Renminbi may materially and adversely affect our net revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, a significant depreciation of the Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

In January 2016, we entered into a forward foreign currency contracts with China Merchants Bank Co., Ltd. The notional amounts of the forward foreign currency contracts were RMB564.1 million (US\$87.1 million) and the settlement date will be on May 19, 2016. We may decide to enter into additional foreign currency contract in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

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

Auditors of companies that are registered with the U.S. Securities and Exchange Commission, or the SEC, and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the U.S. Public Company Accounting Oversight Board (United States), or PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because our auditor is located in the Peoples' Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor is not currently inspected by the PCAOB. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating audits and quality control procedures of any auditors operating in China, including our auditor. As a result, investors may be deprived of the benefits of PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Proceedings instituted by the SEC against certain China-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

On January 22, 2014, Judge Cameron Elliot, an SEC administrative law judge, issued an initial decision suspending the Chinese member firms of the “Big Four” accounting firms, including our independent registered public accounting firm, from, among other things, practicing before the SEC for six months. In February 2014, the initial decision was appealed. While under appeal and in February 2015, the Chinese member firms of the “Big Four” accounting firms reached a settlement with the SEC. As part of the settlement, each of the Chinese member firms of the “Big Four” accounting firms agreed to settlement terms that include a censure; undertakings to make a payment to the SEC; procedures and undertakings as to future requests for documents by the SEC; and possible additional proceedings and remedies should those undertakings not be adhered to.

If the settlement terms are not adhered to, Chinese member firms of the “Big Four” accounting firms may be suspended from practicing before the SEC. If our independent registered public accounting firm were suspended, from practicing 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 our delisting from the NASDAQ Global Select Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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.

The MOFCOM 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. While the Ministry of Commerce solicited comments on this draft earlier this year, 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. Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a “negative list” to be separately issued by the State Council later. The “negative list” will consist of a list of industry categories where foreign investments are strictly prohibited and a list of industry categories where foreign investments are subject to certain restrictions. Foreign investments in business sectors outside of the “negative list” will only be subject to filing procedures, whereas foreign investments in the restricted industries must apply for prior approval from the foreign investment administration authority. In case the underlying business of an FIE falls within the foreign investment restricted industries, upon market entry clearance by the MOFCOM, the FIE may file an application for being treated as a PRC domestic investment if the FIE 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 of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the shareholders’ meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial matters or other key aspects of business operations.

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See “—Risks Relating to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for holding our ICP license do not comply with applicable PRC laws and regulations, we could be subject to severe penalties” and “Item 4. Information on the Company—C. Organizational Structure.” Under the draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is on the “negative list,” the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (including PRC citizens, PRC governmental authorities and their affiliates, and the PRC companies controlled by the foregoing). 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. Shaoyun Han, our founder, chairman and chief executive officer, a PRC citizen, possessed and controlled 53.8% of the voting power of our company as of March 31, 2016. The draft Foreign Investment Law has not taken a position on what actions will be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by Chinese parties. Moreover, it is uncertain whether the Internet content and other value-added telecommunication service industry, in which our VIEs 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 MOFCOM market entry clearance or certain restructuring of our corporate structure and operations, to be completed by companies with existing VIE structure like us, we face substantial uncertainties as to whether these actions can be timely completed, or at all, and our business and financial condition may be materially and adversely affected.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable 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.

Risks Relating to Our ADSs

The trading prices of our ADSs have fluctuated and may be volatile, which could result in substantial losses to investors.

The trading prices of our ADSs have fluctuated since we first listed our ADSs. Since our ADSs became listed on NASDAQ on April 3, 2014, the trading price of our ADSs has ranged from US\$6.54 to US\$15.85 per ADS, and the last reported trading price on April 19, 2016 was US\$10.97 per ADS. The trading prices of our ADSs may continue to fluctuate and be volatile due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. In recent years, the widespread negative publicity of alleged fraudulent accounting practices and poor corporate governance of certain U.S. public companies with operations in China were believed to have negatively affected investors’ perception and sentiment towards companies with connection with China, which significantly and negatively affected the trading prices of some companies’ securities listed in the U.S. Any similar negative publicity or sentiment may affect the performances of our ADSs. A number of PRC companies have recently listed or are in the process of listing their securities on U.S. stock markets. The securities of some of these companies have experienced significant volatility, including price declines in connection with their initial public offerings. The trading performances of these PRC companies’ securities after their offerings may affect the attitudes of investors toward PRC companies listed in the United States in general and consequently may impact the trading performance of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for factors specific to our own operations, including the following:

- the financial projections that we may choose to provide to the public, any changes in those projections or our failure for any reason to meet those projections;
- variations in our net revenues, net income and cash flow;
- announcements of new investments, acquisitions, strategic partnerships, or joint ventures;
- announcements of new services and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- potential litigation, regulatory investigations or other legal proceedings involving us; and
- detrimental negative publicity about us or our industry.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our ADSs, the market price for our ADSs and trading volume could decline.

The trading market for our ADSs is influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade our ADSs or publish unfavorable research about us, the market price for our ADSs would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume for our ADSs to decline.

Our dual class share structure with different voting rights 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 ordinary shares and ADSs may view as beneficial.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share, with Class A and Class B ordinary shares voting together as one class on all matters subject to a shareholders' vote. As of March 31, 2016, our Class B ordinary shares represent 19.0% of our total outstanding ordinary shares on an as-converted basis and entitle their holders to 70.1% of our total voting power.

As a result of the dual class share structure and the concentration of ownership, holders of our Class B ordinary shares have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. They may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may 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 may reduce the price of our ADSs. 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 ordinary shares and ADSs may view as beneficial. For more information regarding our principal shareholders and their affiliated entities, see "Item 7. Major Shareholders and Related Party Transactions."

The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our ability to raise capital through equity offerings in the future. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs. In addition, certain holders of our existing shareholders are entitled to certain registration rights, including demand registration rights, piggyback registration rights, and Form F-3 or Form S-3 registration rights. 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. Sales of these registered shares in the public market, or the perception that such sales could occur, could cause the price of our ADSs to decline.

We may be classified as a passive foreign investment company for United States federal income tax purposes, which could result in adverse United States federal income tax consequences to United States investors in the ADSs or ordinary shares.

We will be classified as a “passive foreign investment company,” or “PFIC” if, in the case of any particular taxable year, either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the average quarterly value of our assets (as determined on the basis of fair market value) during such year produce or are held for the production of passive income. Passive income generally includes dividends, interest, royalties, rents, annuities, net gains from the sale or exchange of passive assets (including property producing passive income) and net foreign currency gains. For this purpose, cash is categorized as a passive asset and the company’s unbooked intangibles associated with active business activity are taken into account as a non-passive asset. We will be treated as owning our proportionate share of the assets and earning our 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 consolidated VIEs as being owned by us for United States federal income tax purposes, not only because we exercise effective financial control over the operation of such entities, but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their operating results in our consolidated financial statements. If it were determined, however, that we are not the owner of our consolidated VIEs for United States federal income tax purposes, we may be treated as a PFIC for our current taxable year and in future taxable years.

Based on our current income and assets and the value of our ADSs and outstanding ordinary shares, we do not believe that we were a PFIC for our taxable year ended December 31, 2015 and we do not expect to be classified as a PFIC for our taxable year ending December 31, 2016 or in the foreseeable future.

While we do not expect to become a PFIC, because the value of our assets for purposes of the asset test will generally be determined by reference to the market price of our ADSs or ordinary shares, fluctuations in the market price of our ADSs or ordinary shares may cause us to become a PFIC for the current or subsequent taxable years. The determination of whether we will be or become a PFIC will also depend, in part, on the composition of our income and assets, which will be affected by how, and how quickly, we use our liquid assets. Under circumstances where we determine not to deploy significant amounts of cash for active purposes or not to treat our consolidated VIEs as owned by us for United States federal income tax purposes, our risk of being classified as a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we are classified as a PFIC in any taxable year, a U.S. Holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Considerations”) may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules and such holders may be subject to burdensome reporting requirements. Further, if we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares. For more information, see “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Considerations.”

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Law of the Cayman Islands (2013 Revision) 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 responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial 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. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

The Cayman Islands courts are also unlikely:

- to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and
- to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

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 public shareholders of a company incorporated in the United States.

Judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands company and all of our assets are located outside of the United States. All of our current operations are conducted in China. In addition, most of our current directors and executive officers are nationals and residents of countries other than the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the United States federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to vote your Class A ordinary shares.

As a holder of our ADSs, you will only be able to exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depository. Upon receipt of your voting instructions, the depository will vote the underlying Class A ordinary shares in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying shares unless you withdraw the shares. Under our amended and restated memorandum and articles of association, as amended, the minimum notice period required for convening a general meeting is ten clear days. When a general meeting is convened, you may not receive sufficient advance notice to withdraw the shares underlying your ADSs to allow you to vote with respect to any specific matter. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote your shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to vote and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

We are an emerging growth company within the meaning of the Securities Act and may take advantage of certain reduced reporting requirements.

We are an “emerging growth company” as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various requirements that are applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 for so long as we are an emerging growth company, which may be for as long as five years following our initial public offering in April 2014. As a result of our current status as an emerging growth company, our investors may not have access to certain information that they may deem important.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. However, we had elected to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. The decision to opt out of the extended transition period under the JOBS Act was irrevocable.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their share ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the NASDAQ Global Select Market. Press releases relating to financial results and material events are also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC are less extensive and less timely as compared to that required to be filed with the SEC by United States domestic issuers. As a Cayman Islands company listed on the NASDAQ Global Select Market, we are subject to the NASDAQ Global Select Market corporate governance listing standards. However, NASDAQ Global Select Market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NASDAQ Global Select Market corporate governance listing standards.

We relied on the exemption available to foreign private issuers for the requirement that it hold an annual general meeting of shareholders no later than December 31, 2015 in 2015. In this respect, we elected to follow home country practice and did not hold an annual general meeting of shareholders no later than December 31, 2015 in 2015. We may also continue to rely on this and other exemptions available to foreign private issuers in the future, and to the extent that we choose to do so in the future, our shareholders may be afforded less protection than they otherwise would under the NASDAQ Global Select Market corporate governance listing standards applicable to U.S. domestic issuers. As a result, you may not be afforded the same protections or information, which would be made available to you, were you investing in a United States domestic issuer.

You may not receive dividends or other distributions on our Class A ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

The depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on Class A ordinary 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 ordinary shares your ADSs represent. However, the depository is not responsible if it decides that it is unlawful 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 depository 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 depository may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary 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, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary 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 not be able to participate in rights offerings and may experience dilution of your holdings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depository will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depository may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

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

Your ADSs are transferable on the books of the depository. However, the depository may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depository may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depository needs to maintain an exact number of ADS holders on its books for a specified period. The depository may also close its books in emergencies, and on weekends and public holidays. The depository may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depository are closed, or at any time if we or the depository thinks it is 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.

We incur increased costs as a result of being a public company, and we cannot predict or estimate the amount of additional future costs we may incur or the timing of such costs

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, including additional costs associated with our public company reporting obligations. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and NASDAQ Global Select Market, impose various requirements on the corporate governance practices of public companies. As a company with less than US\$1.0 billion in revenues for our last fiscal year, we qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 in the assessment of the emerging growth company’s internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we had elected to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. The decision to opt out of the extended transition period under the JOBS Act was irrevocable.

We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. After we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 and the other rules and regulations of the SEC. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with reasonable certainty the amount of additional costs we may incur or the timing of such costs.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company’s securities. In the fourth quarter of 2015, several law firm in the U.S. announced that they were investigating potential securities claims on behalf of our shareholders against us. We cannot predict whether such investigations will result in lawsuits, including class action suits, being filed against us. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We began our operations in Beijing in September 2002 through Beijing Tarena Technology Co., Ltd. In November 2012, we changed the name of Beijing Tarena Technology Co., Ltd. to Tarena Technologies Inc., or Tarena Tech. Tarena International, Inc., an exempted company with limited liability, was incorporated in the Cayman Islands in October 2003 and became our ultimate holding company. We established Tarena Hong Kong Limited, or Tarena HK, as our wholly-owned subsidiary in October 2012. Tarena HK wholly owns Tarena Software Technology (Hangzhou) Co., Ltd., or Tarena Hangzhou, an entity that we established in January 2013.

On April 3, 2014, our ADSs began trading on the NASDAQ Global Select Market under the ticker symbol “TEDU.” We and certain selling shareholders sold a total of 15,300,000 ADSs, representing 15,300,000 Class A ordinary shares, at an initial offering price of \$9.00 per ADS. Concurrently with our initial public offering, we also issued 1,500,000 Class A ordinary shares at a price of US\$9.00 per share to New Oriental Education & Technology Group Inc. Ltd. through a private placement.

Prior to 2012, we conducted a substantial portion of our operations through our consolidated VIEs and their respective subsidiaries and schools. On January 30, 2012, the *PRC Catalogue for the Guidance of Foreign Investment Industries (amended)* became effective, which listed professional education service as an industry for which foreign investments are “encouraged” by the government and On April 10, 2015, the new *PRC Catalogue for the Guidance of Foreign Investment Industries (amended)* became effective, which listed non accredited professional education service as an industry for which foreign investments are “encouraged” by the government. In light of such change of law, starting from the second half of 2012, we began to transfer the operations, including related assets and liabilities, of our consolidated VIEs to Tarena Tech and its subsidiaries and schools. All of our learning center operations of VIEs had been transferred to Tarena Tech and its subsidiaries and schools. We are in the process of winding down Shanghai Tarena. We expect to continue to control and consolidate Beijing Tarena, which holds an Internet Content Provider license, or ICP license. Beijing Tarena is in the process of applying to add our *TMOOC.cn* website under the ICP license held by Beijing Tarena. In 2015, we invested US\$2.9 million in three PRC companies which are engaged in provision of educational products and services through Beijing Tarena. For a description of the risks relating to our corporate structure and the contractual arrangements we have entered into with our VIEs, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure.”

The table below sets forth the respective revenues and assets of Tarena and our wholly-owned subsidiaries and our consolidated VIEs as of the dates and for the periods indicated:

	<u>Net Revenues⁽¹⁾</u>			<u>Total Assets⁽¹⁾</u>
	<u>For the year ended December 31, 2013</u>	<u>For the year ended December 31, 2014</u>	<u>For the year ended December 31, 2015</u>	<u>As of December 31, 2015</u>
Tarena and its wholly-owned subsidiaries	92.0%	99.7%	100.0%	98.8%
Consolidated VIEs	8.0%	0.3%	0.0% ⁽²⁾	1.2%
Total	100%	100%	100%	100%

Notes:

(1) The percentages exclude the inter-company transactions and balances between Tarena and wholly-owned subsidiaries and the consolidated VIEs.

(2) The net revenues from consolidated VIEs is immaterial and accounted for 0.0% due to rounding.

We have dual headquarters in China. Our principal executive offices in Beijing are located at Suite 10017, Building E, Zhongkun Plaza, A18 Bei San Huan West Road, Haidian District, Beijing, People's Republic of China. Our telephone number at this address is +86 10 6213 5687. Our principal executive offices in Hangzhou are located at 1/F, Block A, Training Building, 65 Kejiyuan Road, Baiyang Jie Dao, Economic Development District, Hangzhou 310000, People's Republic of China. Our telephone number at this address is +86 571 5602 9509. Our registered office in the Cayman Islands is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc. located at Suite 4D, 400 Madison Avenue, New York, New York 10017.

B. Business Overview

We provide professional education services in China. Our core strength is in IT professional education services. Since our inception in 2002, we have trained over 273,000 students, cooperated with more than 620 universities and colleges and placed students with approximately 70,000 corporate employers in a variety of industries. We currently offer courses in eleven IT subjects, three non-IT subjects and two kid education programs.

For our adult students, our education platform combines live distance instruction, classroom-based tutoring and online learning modules. We deliver lectures through a group of experienced and passionate instructors based in Beijing to a nationwide network of 134 directly managed learning centers in 41 cities in China as of December 31, 2015. For each class, instructors deliver lectures from one classroom in Beijing to students in the same classroom as well as to students at our learning centers across China via simultaneous webcast. To facilitate a disciplined and focused learning environment, we staff each classroom at our learning centers with one or two on-site teaching assistants to tutor and supervise students. We complement the live instruction and tutoring with our proprietary learning management system TTS. TTS has five core functions, featuring course content, self-assessment exams, student and teaching staff interaction tools, student management tools and an online student community. Through this education platform, we provide job-oriented education with measurable outcomes, as demonstrated by our high job placement rates and students' academic performance. In addition to our TTS platform, we launched *TMOOC.cn* in March 2015, which offers continuing education courses and job placement training courses, in order to cover a broader customer base. For the period from its launch to December 31, 2015, revenues generated from *TMOOC.cn* were inconsequential.

In December 2015, we launched new training programs *Tongcheng* and *Tongmei* featuring IT training courses and non-IT training courses. Both new programs target and contain curriculum that are customized for primary to high school students aged between 8 and 18. Unlike programs designed for adult students, our courses for primary to high school students are taught by teaching assistants face-to-face in offline classrooms. In order to build a more vivid and concentrated learning environment, students will watch a series of interesting courseware videos step by step, under the lead of on-site teaching assistants. These programs are delivered through the facilities of existing learning centers to improve the utilization of the facilities, and managed under the same operational team.

We have a strong commitment to career services. We had 308 career counselors as of December 31, 2015, who advise students through mandatory job skill seminars, one-on-one interview workshops and systematic career assessment and planning. We had 188 employer cooperation representatives as of December 31, 2015, who liaise closely with employers, alumni, human resources websites and other employment recruiters to maximize job opportunities for our students. In January 2015, we launched a self-developed job search website called Job Show (www.jobshow.cn), which serves as a dedicated open platform for our students and other job-seeking candidates to connect with corporate employers more effectively. Through Job Show, we source and list job opportunities from both IT and non-IT employers in China. We have a track record of producing qualified, job-ready candidates for many corporate employers in China, including global *Fortune 500* companies and leading technology companies.

We are a holding company with no material operations of our own. We conduct our operations primarily through our wholly-owned subsidiaries in China. We also control and consolidate a VIE, Beijing Tarena Jinqiao Technology Co., Ltd., or Beijing Tarena. Beijing Tarena is in the process of applying to add our *TMOOC.cn* website under the ICP license held by Beijing Tarena. We are currently not eligible as a foreign-invested enterprise to hold an ICP license.

Our Education Platform

For our adult students, our education platform combines three key components: live distance instruction, classroom-based tutoring and online learning modules.

Live distance instruction

From our headquarters in Beijing, our instructors deliver live courses primarily via live webcast to our learning centers across China. Students attending class watch live audio-video broadcasts of lectures delivered using streaming media and other Internet-based technologies. Our full-time students typically watch live lectures for approximately five hours a day and work on practice exercises assigned by instructors for approximately two hours every day during the classroom sessions, which generally last from 9:00 a.m. to 6:00 p.m. five days a week.

Our live broadcast method of lecture delivery ensures consistency in teaching quality across all our centers. All of our instructors are located in Beijing, where we centralize our training support. Our headquarter-level quality control department monitors the performance of each lecturer on a daily basis. We typically have multiple instructors for each course, with each instructor focusing on separate topic areas. We believe this allows our instructors to focus, and offer more in-depth teaching, on their specific areas of expertise within a subject.

Classroom-based tutoring

Our students are required to physically attend classes at our learning centers. We believe physical attendance is important as it creates a disciplined and focused learning environment for students to effectively master the course content. Requiring students to physically attend classes also facilitates the delivery of personalized and systematic tutoring and job placement services to our students.

Our classrooms are equipped with computers for each student, as well as projectors and other equipment necessary for the live broadcast of our lectures. Our classroom technology infrastructure allows students to interact with instructors and teaching assistants online during lecture hours to receive help on course materials and to use online modules in TTS to take notes and conduct practice exercises.

Our learning centers function both as classrooms for delivering lectures and self-study rooms after class hours. As of December 31, 2015, we directly managed a total of 134 learning centers in 41 major cities across China. Our learning centers vary in terms of size, typically having between 5 and 20 classrooms, with each classroom typically able to host between 20 and 100 students. In addition to the learning centers that we operate directly, we also have one franchised learning center in Xi'an, and the franchise fee from such learning center was immaterial in 2015.

The following table provides an overview of our national network of learning centers that we manage directly and the courses offered in each city as of December 31, 2015 and student enrollments in each city in 2015:

Cities	Number of Learning Centers	Java	C++	Digital art	Software testing	PHP	Embedded	Android	NET	iOS	Linux and network engineering	Online sales and marketing	Accounting	Web front-end development	Big data
Beijing	14	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Shanghai	11	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Shenzhen	10	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Hangzhou	9	•	—	•	—	—	•	•	—	•	•	•	•	•	—
Chengdu	5	•	•	•	•	•	—	•	—	•	—	•	•	•	—
Nanjing	7	•	•	•	•	—	•	•	—	•	—	•	•	•	—
Guangzhou	7	•	•	•	•	•	•	•	—	•	•	•	•	•	—
Wuhan	6	•	•	•	•	•	•	•	—	•	—	•	•	•	—
Chongqing	4	•	—	•	•	•	•	•	—	•	—	•	•	•	—
Zhengzhou	3	•	—	•	—	•	•	•	—	•	—	•	•	•	—
Hefei	5	•	•	•	—	—	—	—	—	•	—	—	•	•	—
Qingdao	3	•	•	•	—	•	—	—	—	—	—	•	•	•	—
Changsha	3	•	—	•	—	—	—	—	—	—	—	•	•	•	—
Jinan	3	•	•	•	—	•	—	•	—	•	—	•	•	•	—
Taiyuan	3	•	—	•	—	•	—	•	—	•	—	•	•	•	—
Harbin	3	•	—	•	—	—	—	—	—	—	—	•	•	•	—
Shenyang	3	•	—	•	—	—	—	—	—	—	—	•	•	•	—
Kunming	2	•	—	•	—	—	—	—	—	—	—	•	•	•	—
Nanchang	2	•	•	•	—	—	—	—	—	•	—	—	•	•	—
Dalian	3	•	—	•	—	—	—	—	—	—	—	•	•	•	—
Changchun	2	•	—	•	—	—	—	•	—	—	—	•	•	•	—
Xi'an	2	—	—	•	•	•	—	•	—	•	—	•	•	•	—
Tianjin	3	•	—	•	—	—	—	—	—	•	—	•	•	•	—
Ningbo	1	•	—	•	—	—	—	—	—	—	—	—	—	—	—
Suzhou	2	•	•	—	—	—	—	—	—	—	—	—	—	—	—
Shijiazhuang	1	•	—	•	—	—	—	—	—	•	—	—	—	—	—
Nanning	1	•	—	•	—	—	—	—	—	—	—	•	—	—	—
Xiamen	2	•	—	•	—	—	—	—	—	—	—	—	—	—	—
Wuxi	2	•	—	—	—	—	—	—	—	—	—	—	—	—	—
Fuzhou	1	•	—	•	—	—	—	—	—	—	—	—	—	—	—
Yan Tai	1	•	—	•	—	—	—	—	—	—	—	—	—	—	—
Zhuhai	1	•	—	•	—	—	—	•	—	—	—	—	—	—	—
Daqing	1	•	—	•	—	—	—	—	—	—	—	—	—	—	—
Dongguan	1	•	—	•	—	—	—	—	—	—	—	—	—	—	—
Weifang	1	•	—	•	—	—	—	—	—	—	—	—	—	—	—
Guiyang	1	•	—	—	—	—	—	—	—	—	—	—	—	—	—
Haikou	1	•	—	—	—	—	—	—	—	—	—	—	—	—	—
Lanzhou	1	•	—	—	—	—	—	—	—	—	—	—	—	—	—
Luoyang*	1	•	—	—	—	—	—	—	—	—	—	—	—	—	—
Yuncheng*	1	•	—	•	—	—	—	—	—	—	—	•	—	—	—
Linyi*	1	•	—	—	—	—	—	—	—	—	—	—	—	—	—

Notes:

- currently offered
- not currently offered
- * established in December 2015

In 2015, we have entered 41 cities in China and recruited 84,041 students, approximately 65.7% of whom are from top 10 cities, namely Beijing, Shanghai, Shenzhen, Hangzhou, Chengdu, Nanjing, Guangzhou, Wuhan, Chongqing and Zhengzhou, accounting for 16.8%, 7.9%, 7.6%, 6.6%, 5.4%, 5.3%, 5.3%, 4.2%, 3.4% and 3.3%, respectively. Other cities accounted for 34.3% of total student enrollments.

Online learning modules

Our live distance instruction and classroom-based tutoring are supplemented by our proprietary online learning modules featured on our TTS platform. TTS has the following five core functions:

- *Course content.* TTS contains lecture slides, key lecture video recordings, case studies, practice exercises and supplemental reading materials. In addition to recordings of past lectures, TTS also features exclusive online videos on key course materials. Students may view lecture videos using the computers at our learning centers. To foster effective learning of our course lecture materials, especially theoretical knowledge points, TTS features software development case studies and practice exercises. TTS contains supplemental reading materials on areas in which we have historically received frequent questions from students. TTS also allows students to download coding materials and study notes that they have prepared for reference in their future jobs.

- *Self-assessment exams.* TTS features daily and weekly interactive mock examinations to measure learning outcomes. Students use the mock exams to assess their learning results and gauge their grasp of course content. After students complete a self-assessment exam, TTS automatically provides students with detailed explanations on each of the exam questions.
- *Student and teaching staff interaction.* TTS allows students to interact with instructors and teaching assistants. In class, students may raise questions for instructors and teaching assistants using the messaging tools on TTS. After class, students can post questions to the teaching assistants through the online question and answer board in TTS. Teaching assistants are able to provide timely and accurate responses typically within 30 minutes after a question is submitted. To ensure the accuracy of responses and to identify questions of common interest, our instructors also actively review questions posted on TTS and regularly provide answers. Students are given the opportunity to provide feedback for each answer or tutorial service provided by teaching assistants using the evaluation functions on TTS.
- *Student management tools.* TTS allows instructors to receive daily ratings and feedback from students. Instructors may then adjust their lecture pace and coverage of course materials each day. TTS enables teaching assistants to evaluate each student's academic performance. The teaching assistant interface of TTS contains each student's monthly performance test scores, as well as each student's ranking within the class and nationally. Teaching assistants are required to follow-up with underperforming students regarding their academic status and to adopt concrete action plans with such students to improve their future performance. TTS also allows teaching assistants to monitor each student's attendance and to log their daily tutoring activities.
- *Online student community.* TTS serves as an online student community that fosters academic collaboration among students. We encourage students to post course-related articles and comments sharing their study experiences on the bulletin board forum.

In addition to our TTS platform, we launched *TMOOC.cn* in March 2015 to cover a broader customer base. *TMOOC.cn* offers two types of online learning products: continuing education courses and job placement training courses. Continuing education courses, composed of a library of video clips that focus on on-the-job practical skills, target working professionals and others with continuing education needs. Job placement training courses are full length programs that target job seekers. These recruitment-oriented courses are carefully chosen from existing courses at our learning centers and redesigned to be more suitable for online learning environment. Students who finish all modules in a placement training course and pass the relevant Tarena certification examination will receive the same job placement services that we offer to other students at learning centers. The number of registered *TMOOC.cn* users has reached more than 140,000 as of December 31, 2015, and our proprietary content library offers nearly 10,000 hours of video content.

Our Course Offerings

Our courses provide students with practical education to prepare them for jobs in industries with significant growth potential and strong hiring demand. We currently offer courses in eleven IT subjects, three non-IT subjects and two kid education programs.

For adult students, we generally offer the following two types of classes in order to accommodate the different scheduling and training needs of our students:

- *Full-time class.* The term for a full-time class is typically four months and includes approximately 1,000 learning hours. Full-time classes meet from Monday to Friday. In 2015, approximately 88.9% of our enrolled students attended our full-time classes.

- *Part-time class.* Part-time classes typically have terms of four to five months. We allow students to attend part-time classes either exclusively during weekends or on a combination of weekday nights and weekends, as these students typically have full-time jobs. In 2015, approximately 11.1% of our enrolled students attended our part-time classes.

We have adopted stringent quality control procedures to ensure that we produce high quality graduates. We use entrance exams to assess the level of our students. Prospective full-time students with low entrance exam scores are recommended to enroll in preparatory training camps. We have a total of four monthly closed-book performance tests to evaluate the learning status of our students. For underperforming students who have failed the first monthly performance test, we offer them the opportunity to re-take the first month classes at no extra cost. We believe physical class attendance is important, and students with low attendance rates are generally not given graduation certificates at the end of our program.

Our full-time classes also include short term, project-based training programs designed for college students to gain practical IT experience, which are not material for our business as a whole.

IT education courses

We offer education courses covering the following eleven IT subjects:

Subject	Year of Launch	Focus of Course Content
Java	2002	Programming for Windows and Linux-based desktop software and web-based software
.NET	2007	Development of software based on the .NET framework that runs primarily on Windows
C++	2009	Programming for Windows and Linux-based desktop software
Software testing	2009	Practical software testing and quality assurance training
Embedded	2009	Development of software to control machines and devices
PHP	2010	Web-based software development for e-commerce industries
Android	2011	Programming for Android-based applications
iOS	2012	Programming for iOS-based applications
Linux and network engineering	2013	Linux operating system and network management technology
Big Data	2015	Hadoop, HBase, Hive, Zookeeper
Web front-end development	2015	HTML5, CSS3, JavaScript, jQuery, AJAX, Bootstrap, AngularJS, Web APP

Graduates of our IT education courses receive *Tarena Certified Software Developer* certificates, or TCSD certificates. Holders of TCSD certificates are qualified to obtain the intermediate-advanced software engineer certificate issued by the Ministry of Industry and Information Technology of China, or the MIIT, for their respective field of study, subject to such graduates passing our internal examination. Graduates of our Java courses are granted *ORACLE Certified Java Programmer certificates* by ORACLE Corporation after passing the relevant exams. Graduates of our Linux and Network engineering courses are awarded the international network engineer certificate issued by CompTIA upon passing the relevant exams, and our Linux and network engineering course graduates may also sign up for Red Hat certification exams at our learning centers. Graduates of our embedded course are awarded the *Embedded Engineer Certificate* issued by ARM upon passing the relevant exams. Pursuant to our strategic partnership agreement with Alibaba Cloud Computing Co., Ltd., or Aliyun, Aliyun will provide two opportunities to take the ACF (Ali Cloud Foundation) certification exams to each Tarena student.

Non-IT education courses

We began offering courses in non-IT subjects in 2013. We launched our digital art course in February 2013, our online sales and marketing course in November 2013 and our accounting course in October 2014. The following table describes the three non-IT courses that we currently offer:

Subject	Year of Launch	Focus of Course Content
Digital art	2013	Latest Adobe user interface design technology for graphic, webpage and mobile sites design
Online sales and marketing	2013	Search engine marketing, search engine optimization, and other Internet based marketing, including microblog marketing
Accounting	2014	Accounting certificate, and chief accountant practice

Since its launch in February 2013, our digital art course has registered strong growth in student enrollments and has become the largest course in terms of net revenue contribution in 2015. Our accounting course helps us target a broader student base. Graduates of our online sales and marketing courses are awarded the *SEM Certificate* issued by Baidu without additional examination.

Kid Education Programs

In December 2015, we launched new training programs *Tongcheng* and *Tongmei* featuring IT training courses and non-IT training courses. Compared with the curriculum for adult students, the IT and non-IT courses offered under the *Tongcheng* and *Tongmei* programs feature materials that are customized for young kids. Both new programs target and contain curriculum that are customized for primary to high school students aged between 8 and 18. Unlike programs designed for adult students, our courses for primary to high school students are taught by teaching assistants face-to-face in offline classrooms. In order to build a more vivid and concentrated learning environment, students will watch a series of interesting courseware videos step by step, under the lead of on-site teaching assistants.

Tongcheng and *Tongmei* programs each has four levels, with each level consisting of 120 learning hours per year. Students begin from level 1 and attend a 3-hour class per week. Depending on the age group, it generally takes approximately one year to complete each level. As of December 31, 2015, each of our *Tongcheng* and *Tongmei* programs is offered in 4 learning centers in Beijing.

Our Teaching Staff

Our instructors

As of December 31, 2015, we employed 193 full-time instructors based in Beijing. Most of our instructors for IT education courses have industry backgrounds in global and domestic technology companies. Instructors for non-IT education courses are typically experts or veterans in their respective specialized fields. Our instructors also provide us with unique access to a large pool of experts on industry trends that is especially valuable in our decision-making and development process for new courses. We believe we attract highly qualified instructors by virtue of our respected brand, our well-established teaching infrastructure and sales team and our competitive compensation.

We believe that developing and maintaining highly capable and motivated instructors is critical to our success. We seek qualified instructor candidates who have extensive industry experience or come from other professional education service providers. These candidates are subject to multiple rounds of interviews conducted by our director of teaching, vice-president for teaching and the chief executive officer. All instructors are required to undergo training in teaching skills and techniques. We require our instructors to regularly update their course materials to remain current with evolving employer needs, industry developments and other key trends necessary to teach effectively. We typically have a backup instructor assigned to each course to meet any emergency needs.

To align incentives, instructors receive bonuses based on students' ratings and the number of class sessions taught, in addition to their base compensation.

Our teaching assistants

We believe that our dedicated teaching assistants are essential to the success of our education model. Our teaching assistants interact with and tutor our students on a daily basis, and are instrumental in facilitating a disciplined and focused learning environment. Each classroom is staffed with one or two teaching assistants, who attend lectures together with students. Teaching assistants are available during class hours to answer student questions in person, and after class hours to address inquiries online via TTS or on-site until 8:30 p.m. Teaching assistants are also responsible for offering focused tutoring services to underperforming students and continuously monitoring their academic results. We have adopted a comprehensive set of key performance indicators, or KPIs, to evaluate the performance of our teaching assistants. Such KPIs include student satisfaction, exam scores of students on monthly performance tests, the improvement of underperforming students and employment results after graduation, among other indicators.

We primarily seek teaching assistant candidates from our graduates who have demonstrated strong command of materials in the relevant subject areas. We provide necessary training to newly hired teaching assistants to tutor effectively. Our teaching assistants are frequently evaluated by students on the quality of their assistance. We had a total of 1,040 teaching assistants as of December 31, 2015.

Course Content Development

In addition to teaching, our instructors also develop the course content in their respective subject areas. We regularly update our existing courses, typically every six months, to stay abreast of the latest technology developments and industry trends. Our instructors are also responsible for producing practice exercises and exam questions for monthly performance tests to evaluate the effectiveness of our student self-assessment tests in TTS.

We regularly engage in new course development in order to capture demands created by evolving job market and industry trends. We have a set of procedures for new course development. Prior to developing a new course, we gather market intelligence by collecting job market demand information to ensure that we are developing relevant and up-to-date courses. We conduct a series of surveys, each with clear parameters, to determine various aspects of the proposed new course. Once we gather enough market intelligence, we recruit, or identify from within Tarena, instructors with the appropriate industry and academic background to form a course-specific development task team. All of our new courses are then pilot tested in selected learning centers in Beijing for student satisfaction, training practicality and employment outcomes. In 2015, we launched two new courses in Web front-end development and Big Data, which began in January and April, respectively.

Our software research and development department is tasked with improving the technical performance and user experience of TTS. Since introducing TTS student version 1.0 in 2006, we have produced seven upgrades to TTS. The current version that our students use is TTS student version 8.0.

Our Students

The majority of our students are college students and graduates. In 2015, approximately 82.6% of our enrolled students were either studying towards, or already held, a post-secondary degree. We have experienced significant growth in student enrollment in recent years. Our student enrollment reached 84,041 in 2015.

Student recruitment

We rely primarily on Internet-based marketing to attract students and increase enrollments. We advertise on the Internet using search engine keywords on leading search engines. We also use banners and other advertising placements on targeted sites, such as education portals, career sites and industry-specific websites. We actively monitor the effectiveness of our advertising and adjust marketing spending accordingly.

Student recruitment generally occurs at the learning center level. Our learning centers host seminars, information sessions and preparatory training camps for prospective students, and distribute print and Internet-based advertising materials. When a prospective student responds to our advertisements and contacts a learning center, an enrollment advisor generates a prospective student profile and advises the candidate, either online or in a face-to-face meeting, on various aspects of our courses and educational experience. As of December 31, 2015, we had a total of 1,506 enrollment advisors nationally.

To promote brand awareness, we place advertisements in industry trade publications and present at industry trade seminars and conventions. We also began to host our annual *Tarena-Discovery Cup Chinese University Students Software Design Competition* in April 2012. In 2015, we changed our logo from “Tarena Technology” (达内科技) to “Tarena Education” (达内教育) to better showcase our professional image in education.

We also encourage our students at school to introduce their friends or classmates who are interested in taking professional education courses. The proportion from student referrals increased significantly in 2015.

In addition to our marketing efforts and student referrals, we recruit a significant portion of our students directly from universities and colleges. As of December 31, 2015, we have cooperated with over 620 universities and colleges in China under one of the three following modes of cooperation:

- *Joint-majors.* We offer joint-majors with 58 universities and colleges in China. These universities offer students the option to include our selected courses in their standard undergraduate curriculum. Students in selected majors at these universities take our courses full-time for one semester and receive academic credits from these universities and colleges after successfully completing our courses.
- *On-campus learning sites.* We have established over 100 on-campus learning sites with over a number of universities and colleges in China to offer our courses, without live broadcast, to students attending these universities and colleges. Students enrolled in our on-campus learning sites typically attend part of our course in the on-campus learning sites and part of the course at our learning centers. We pay universities and colleges for the cost of classroom facilities used in the learning sites but do not share revenue with these universities and colleges.
- *Enrollment cooperation.* We have enrollment cooperation with over 620 universities and colleges in China. These universities and colleges allow us to organize marketing and promotional events on campus in order to attract students.

We had a total of 252 university cooperation representatives as of December 31, 2015. Our university cooperation representatives are responsible for establishing new and maintaining current cooperative relationships between us and universities in China. In 2015, we enrolled approximately 16.2% of our students from universities and colleges with which we cooperated.

Student job placement services

We have an effective job placement program for our adult students. Each learning center retains full-time career counselors who meet with students on the first day of class to discuss their career goals and to build an employment profile for each student. Our career counselors host a series of mandatory career development seminars for students throughout the term. During the final weeks of each course, our career counselors meet with students one-on-one to offer training on interview and résumé preparation. In addition to the scheduled career service activities, our career counselors are generally available to meet with students one-on-one during office hours. Our career counselors also monitor the employment results of our students and actively offer personalized assistance to students facing difficulties in securing job offers. We had a total of 308 career counselors as of December 31, 2015.

Each learning center offering courses for adult students also retains full-time employer cooperation representatives who routinely collaborate with employers, alumni, human resources websites and other employment recruiters to maximize opportunities for job placements. We had a total of 188 employer cooperation representatives as of December 31, 2015. We invite corporate employers to host recruiting events and interviews at our learning centers and offer students with interview opportunities across the country.

In January 2015, we launched a self-developed job search website called Job Show (www.jobshow.cn), which serves as a dedicated open platform for our students and other job-seeking candidates to connect with corporate employers more effectively. Through Job Show, we source and list job opportunities from both IT and non-IT employers in China.

Our Network of Employers

We have a track record of producing job-ready and highly qualified candidates for many corporate employers. Since our inception, our network of potential employers for our students covered approximately 70,000 corporate employers, including *Global Fortune 500* companies, and leading technology, IT services and Internet companies in China.

We offer the following recruiting services to corporate employers:

- *General recruiting services.* We offer corporate employers candidate referral services and other recruitment-related services. Once an employer communicates its hiring needs to us, we direct the relevant learning centers to produce a list of student candidates that meet the hiring criteria of such employer, and refer such candidates to the employer for interviews and assessments. We also offer space at our learning centers for employers to host recruiting events targeting our students and to conduct interviews.
- *Customized courses.* We offer customized courses targeting specific employers with large demands for trained professionals. Prospective students for our customized courses generally undergo interviews conducted by the employers before the start of classes. In addition to our standard curriculum, students enrolled in customized courses must participate in additional training provided by employers at our learning centers. Such additional training is tailored according to the particular skill requirements of the employers. Successful graduates of our customized courses who have passed the relevant qualifying exams are granted job offers by the employers.

While we currently do not generate any material revenue from any of our recruiting services for corporate employers, we believe such services enhance our brand recognition and are instrumental in our ability to help students achieve high job placement rates.

Tuition Fees

For our full-time and part-time classes for adult students, our standard tuition fees generally range from RMB16,800 (US\$2,593) to RMB19,800 (US\$3,057) per course. We increased our tuition fees for most of our full-time classes by RMB1,000 (US\$154) in 2013, further increased such tuition fees by RMB1,000 (US\$154) in 2014 and again increased such tuition fees by RMB1,000 (US\$154) in 2015. We also increased our tuition fees for part-time classes by RMB1,000 (US\$154) to RMB2,000 (US\$309) per course in 2015. For our kid education programs, our standard tuition fees are RMB15,360 (US\$2,371). Each kid education program is composed of four levels, with each level consisting of 120 learning hours in one year.

We primarily offer two payment options for our adult students, including one-time full payment upon enrollment and multiple payments within two months of enrollment. We also offer an option whereby qualified adult students can pay our tuition fees within a period of time after graduation.

To assist our students in paying our tuition fees, we primarily offered the following four credit sources to provide financing services for our students to make one-time, up-front tuition payments in 2015:

- *CreditEase.* CreditEase, a credit management and microfinancing company in China, assists our students in obtaining loans to pay for their tuition. CreditEase utilizes a “person-to-person” lending method to enable qualified students to borrow unsecured loans from unrelated individuals without using a bank as an intermediary. Under this person-to-person lending method, CreditEase identifies third-party individual lenders and matches their lending needs with the loan demands of our students. CreditEase began to offer this service to our students in July 2013. Approximately 47.6% of our students who obtained financing for tuition fees in 2015 obtained funding sourced by CreditEase.
- *Bank of China Consumer Finance Co., Ltd.* We launched the BOC CFC student loan program in April 2014. Approximately 41.4% of our students who obtained financing for tuition fees in 2015 elected BOC CFC as the lender.
- *RenRenDai.* We began to cooperate with RenRenDai, a third-party person-to-person lending service provider, in arranging loans for our students to pay for their tuition fees in January 2015. Approximately 5.2% of our students who obtained financing for tuition fees in 2015 obtained funding sourced by RenRenDai.
- *ShiTuDai.* We have cooperated with ShiTuDai, a person-to-person lending service provided by an independent third party, in arranging loans for our students to pay for their tuition fees since the second quarter of 2015. Approximately 3.5% of our students who obtained financing for tuition fees in 2015 obtained funding sourced by ShiTuDai.

Approximately 49.3% of our students enrolled in 2015 obtained financing from one of the four abovementioned sources. Such financing arrangements are bilateral in nature, and are carried out between our students and the respective financing institution directly. We do not take any credit risk or liability in such arrangements.

Historically, Chuanbang utilized a person-to-person lending method similar to the one used by CreditEase to assist our students in obtaining loans to pay for their tuition. Chuanbang is owned by Mr. Shaoyan Han, our chief executive officer. We have stopped providing guarantees for any new student loan arranged by Chuanbang since April 2013. Chuanbang ceased offering loan services to our students enrolled since January 1, 2014. Chuanbang provides certain consulting-related services to the lenders of ShiTuDai.

Technology

Building a reliable, scalable and secure technology infrastructure is crucial to our ability to support our live lecture broadcasts, online TTS, *TMOOC.cn* and the various services that we provide to our students. We manage our lecture delivery system, TTS and *TMOOC.cn* using a combination of commercially available software and hardware systems. Since 2006, we have established a powerful online platform that enables thousands of students to simultaneously log onto our TTS and participate in activities online.

All of our servers and routers, including backup servers, are currently hosted at our learning centers or by third-party service providers in multiple cities in China. We regularly back up our databases. Our network administration department regularly monitors the performance of our websites and infrastructure to enable us to respond quickly to potential problems. We deliver live broadcast of audio and video of the lectures given in Beijing via the dedicated network of China Telecom to terminals located in selected learning centers with high student enrollment, and via public Internet infrastructure to our other learning centers.

We have recently developed our CRM software in-house to manage our student and corporate employer information, as well as to integrate our key administrative functions. We will rely on our internal IT resources to upgrade the CRM system as needed going forward.

Seasonality

Seasonal fluctuations have affected, and are likely to continue to affect, our business. Historically, we typically generate the highest net revenues in the third and fourth quarters because of the increased student enrollments during summer vacation. We generally generate less tuition fees in the first quarter of each year due to the Chinese New Year holiday. Our quarterly cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses have generally been increasing in absolute amounts since 2012 as we expanded our network of learning centers, increased the number of our personnel, enhanced our marketing efforts and offered more courses.

Intellectual Property

Our trademarks, copyrights, domain names, trade secrets and other intellectual property rights distinguish our courses and services from those of our competitors and contribute to our ability to compete in our target markets. We rely on a combination of copyright and trademark law, trade secret protection and confidentiality agreements with senior executive officers and most other employees, to protect our intellectual property rights. In addition, we require certain of our senior executive officers and other employees to enter into agreements with us under which they acknowledge that all inventions, utility models, designs, know-how, copyrights and other forms of intellectual property made by them within the scope of their employment with us, pursuant to job assignments or using our materials and technology, or during the two years after their employment that relates to their employment with us, are our property and they should assign the same to us if we so require. We also regularly monitor any infringement or misappropriation of our intellectual property rights.

As of December 31, 2015, we had registered 215 domain names relating to our business, including our *www.tedu.cn*, *TMOOC.cn*, *jobshow.cn*, *www.IT61.cn* and *www.art61.cn* websites, with the Internet Corporation for Assigned Names and Numbers and China Internet Network Information Center. Tarena Tech holds 17 registered software copyrights, 35 trademarks and 213 registered domain names including *www.tedu.cn*. Beijing Tarena holds the domain name *TMOOC.cn*.

Competition

The professional education services market in China is fragmented, rapidly evolving and highly competitive. We face competition in our offered courses and in many of the geographic markets in which we operate. For our IT training courses, we face competition from IT professional education providers that offer specialized training programs targeting certain niche job markets in the IT industry. In the future, we may also face competition from new entrants into the Chinese IT professional education market. For our non-IT training courses, we face competition for student enrollment from existing online and offline providers of professional education services, as well as smaller regional professional education services providers in China. As we enter the kid professional education services market, we also face competition from other national and regional providers of kid education services.

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

- scope and quality of course offerings and services;
- student placement and employer satisfaction with our graduates;
- brand recognition;
- ability to effectively market course offerings and services to a broad base of prospective students;
- cost effectiveness of the education; and
- ability to align course offerings and services to specific needs of students and employers.

We believe that we are well-positioned to effectively compete in markets in which we operate on the basis of our innovative education platform, scalable and efficient business model, unparalleled access to corporate employers, training quality, strong content development capabilities and experienced management team. However, some of our current or future competitors may have longer operating histories, greater brand recognition, or greater financial, technical or marketing resources than we do. For a discussion of risks relating to competition, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—We may lose market share and our profitability may be materially and adversely affected, if we fail to compete effectively with our present and future competitors or to adjust effectively to changing market conditions and trends.”

Insurance

We do not maintain any property insurance policies covering students, equipment and facilities for injuries, death or losses due to fire, earthquake, flood or any other disaster. Consistent with customary industry practice in China, we do not maintain business interruption insurance, nor do we maintain key-man life insurance. We maintain accident injury insurance and accident injury medical insurance for our employees based in our headquarters in Beijing, and we maintain liability insurance for our students enrolled through university and college cooperation channel. Uninsured injury or death to our students or staff, or damage to any of our equipment or buildings could have a material adverse effect on our results of operations. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—We have limited insurance coverage for our operations in China.”

Government Regulations

Regulations on Private Education

The principal regulations governing private education in China consist of the *Education Law of the PRC*, the *Law for Promoting Private Education* and the *Implementation Rules for the Law for Promoting Private Education*, or the PE Implementation Rules and the Regulations on Chinese-Foreign Cooperation in Operating Schools.

Education Law of the PRC

On March 18, 1995, the PRC National People's Congress promulgated the *Education Law of the PRC*, or the Education Law. Pursuant to the Education Law, enterprises, social organizations and individuals are generally encouraged to operate schools and other types of educational organizations in accordance with PRC laws and regulations, though private schools are prohibited from providing military, police, political and other kinds of education which are of a special nature. Although no organization or individual may establish or operate a school or any other institution of education for profit-making purposes, private schools may be operated for "reasonable returns", as described in more detail below.

The Law for Promoting Private Education and its Implementation Rules

On December 28, 2002, the Standing Committee of the PRC National People's Congress promulgated the *Law for Promoting Private Education*, or the Private Education Law, which became effective on September 1, 2003 and was amended on June 29, 2013. On March 5, 2004, the PRC State Council promulgated the *Implementation Rules for the Law for Promoting Private Education*, which became effective on April 1, 2004, or the PE Implementation Rules. Under the Private Education Law and the Private Education Law Implementation Rules, "private schools" are defined as schools established by social organizations or individuals using non-government funds. Private schools providing certifications, pre-school education, education for self-study aid and other academic education shall be subject to approval by the education authorities, while private schools engaging in professional qualification training and professional education training shall be subject to approvals from the authorities in charge of labor and social welfare. A duly approved private school engaging in professional qualification training and professional education training shall (i) be granted a Permit for Operating a Private School by the authorities in charge of human resources and social security, (ii) be registered with the Ministry of Civil Affairs or its local counterparts as a privately run non-enterprise institution and (iii) pass the annual inspection with the Ministry of Civil Affairs or its local counterparts. As of December 31, 2015, we operated 22 schools, 18 of which are engaged in professional education training. Each has (i) obtained a Permit for Operating a Private School issued by the authorities in charge of human resources and social security or education, (ii) been registered with the relevant local counterpart of the Ministry of Civil Affairs and (iii) passed the annual inspection, as applicable, with the Ministry of Civil Affairs or its local counterparts.

The types and amounts of fees charged by a private school providing certifications shall be approved by the governmental pricing authority and be publicly disclosed. A private school that does not provide certifications shall file its pricing information with the governmental pricing authority and publicly disclose such information. A private school shall file its advertisement and school enrollment brochure with the relevant governmental authorities of human resources and social security or education. None of our schools provides a diploma or certification to students, and 12 of our schools have filed their pricing information with the governmental pricing authority and publicly disclose such information. 11 of our schools have filed their advertisement and school enrollment brochure with the relevant governmental authorities of human resources and social security or education. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—The operations of certain of our learning centers are, or may be deemed by relevant PRC government authorities to be, beyond their authorized business scope or without proper license or registration. If the relevant PRC government authorities take actions against such learning centers, our business and operations could be materially and adversely affected."

Private education is treated as a public welfare undertaking under relevant regulations, and entities and individuals who establish private schools are commonly referred to as "sponsors" instead of "owners" or "shareholders" under the regulations. Nonetheless, sponsors of a private school may choose to require "reasonable returns" from the annual net balance of the school after deduction of costs, donations received, government subsidies, if any, the reserved development fund and other expenses as required by the regulations. Private schools are divided into three categories: private schools established with donated funds; private schools that require reasonable returns and private schools that do not require reasonable returns.

The election to establish a private school requiring reasonable returns shall be provided in the articles of association of the school. The percentage of the school's annual net balance that can be distributed as a 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 used for educational activities and improving the 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 determines the percentage of the school's annual net balance that can be distributed as reasonable returns. Such information and the decision to distribute reasonable returns shall also be filed with the approval authorities within 15 days from the decision made by the board. However, none of the current PRC laws and regulations provides a formula or guidelines for determining "reasonable returns". In addition, none of the current PRC laws and regulations sets forth sponsors' economic rights in schools that do not distribute reasonable returns, nor do they have different requirements or restrictions on a private school's ability to operate its education business based on such school's status as a school that requires reasonable returns or a school that does not require reasonable returns.

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

Regardless of whether distributing reasonable return or not, the Private Education Law provides that properties that remain upon termination and liquidation of a school after payment of relevant fees and compensations shall be made in accordance with other relevant laws and regulations. However, there have been no other relevant national laws and regulations addressing the distribution of residual properties upon termination and liquidation of a private school.

Except for aforementioned differences, the “sponsorship interest” that a sponsor holds in a private school is, for all other practical purposes, substantially equivalent under PRC law and practice to the “equity interest” a shareholder holds in a company. 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. The capital contributed by the sponsor becomes assets of the school and the school has independent legal person status. In addition, 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.

In August, 2015, The National People’s Congress of the PRC released the Educational Laws Amendments Package (Draft), or Package (Draft), which provides that private schools may choose to register as the non-profitable legal person or profitable legal person at will. Also, profitable private schools may decide their own charging standards, which may be market-adjusted. It is uncertain when such draft would be signed into law and whether the final version would have any substantial changes from such draft.

As of December 31, 2015, we had five schools registered as schools requiring reasonable returns, while all other schools are registered as schools not requiring reasonable returns.

Regulations on Chinese-Foreign Cooperation in Operating Schools

Chinese-foreign cooperation in operating schools or training programs is specifically governed by the Regulations on Operating Chinese-foreign Schools, promulgated by the State Council in 2003 in accordance with the Education Law, the Occupational Education Law and the Private Education Law. The Implementing Rules for the Regulations on Operating Chinese-foreign Schools, or the Implementing Rules, were issued by the MOE in 2004. The Regulations on Chinese-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 Chinese educational organizations to jointly operate various types of schools in the PRC. Cooperation in the areas of higher education and occupational education is especially encouraged. Chinese-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. The Regulations on Operating Chinese-foreign Schools prohibits foreign institutions or individuals from independently establishing schools in China, which provide educational services mainly for Chinese citizens.

The Ministry of Human Resources and Social Security (formerly known as Ministry of Labor and Social Security) also promulgated the Regulations on Operation Chinese-foreign Cooperation School in Professional Education Training to implement the Regulations on Operating Chinese-foreign Schools on July 26, 2006, which took effect on October 1, 2006. The Regulations on Operation Chinese-foreign Cooperation School in Professional Education Training prohibits foreign institutions or individuals from independently establishing professional education training institutions in China, which provide educational services mainly for Chinese citizens.

We have not operated or applied for any Chinese-foreign schools. Prior to 2012, we operated a substantial portion of our learning centers through subsidiaries of our consolidated VIEs and schools to which our consolidated VIEs or their respective subsidiaries are sponsors. Starting from the second half of 2012, we began to transfer our operations to our wholly-owned subsidiary, Tarena Tech, and its subsidiaries. All of our learning center operations of VIEs had been transferred to Tarena Tech and its subsidiaries and schools. As of December 31, 2015, we operated 36 of our learning centers through private schools owned by subsidiaries of Tarena Tech. However, there are still uncertainties under the current PRC laws as to whether a wholly foreign owned enterprise (such as Tarena Tech) is allowed to indirectly invest in and own private schools through its PRC subsidiaries. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—If the relevant PRC authorities determine that we can no longer own and operate certain of our learning centers through our PRC subsidiaries, we may need to restructure the ownership and operation of these learning centers (including possibly transferring these learning centers to our consolidated VIEs), our business may be disrupted and we may be exposed to increased risks associated with the contractual arrangements relating to our consolidated VIEs.”

Regulations on Professional Education

On May 15, 1996, the Standing Committee of the PRC National People’s Congress promulgated the Professional Education Law of the PRC, or the Professional Education Law which became effective on September 1, 1996. Pursuant to the Professional Education Law, professional training includes training pre-employment, training for military personnel transferring to civil positions, training for apprentices, on-the-job training, job-transfer training and other professional training. Professional training may be classified as junior, middle or senior level according to the actual situations. It shall be conducted by either professional training institutions or professional schools, which may develop various professional training to satisfy the needs of the society. The PRC government encourages institutional organizations, social organizations, other social groups and citizens to establish professional schools and professional training institutions, and the financial allocation for professional schools and professional training institutions from the governments at various levels shall be gradually increased. The PRC government also encourages financial institutions to support and develop professional education by means of credit facilities.

On August 3, 2007, the Standing Committee of the PRC National People’s Congress promulgated the Employment Promotion Law of the PRC, or the *Employment Promotion Law* which became effective on January 1, 2008. Pursuant to the Employment Promotion Law, the PRC government at and above the county level shall encourage and support professional schools, professional training institutions and corporations to carry out pre-employment training, employment training, re-employment training and entrepreneurship training, and encourage workers to attend various types of training programs. Corporations in China are requested to set aside financial resources for the training and continued education of their employees.

Foreign Investments in Professional Education Services

The Catalogue for the Guidance of Foreign Investment Industries, or the Catalogue, as promulgated and amended from time to time by the MOFCOM and the National Development and Reform Commission, is the principal guide to foreign investors’ investment activities in the PRC. The most updated version of the Catalogue, which was promulgated in March 2015 and became effective in April 2015, divides the industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalogue are generally open to foreign investment unless specifically restricted by other PRC laws and regulations. A wholly foreign-owned enterprise is generally permitted for encouraged industries and industries not listed in the Catalogue, while there are some limitations to the ownership and/or corporate structure of the foreign-invested companies that operate in restricted industries. Industries in the prohibited category are not open to foreign investors. According to the latest Catalogue, foreign investment is encouraged in non-accredited professional education services and there is no limitation with respect to maximum percentage of foreign ownership in a company conducting business in professional education services.

Regulations on For-profit Private Training Institutions

The Private Education Law provides that the regulations applicable to private training institutions registered with the SAIC and its local counterparts shall be formulated by the State Council separately. On July 29, 2010, the PRC central government promulgated the Outline of China's National Plan for Medium- and Long-Term Education Reform and Development (2010-2020), which announced the policy that the government will implement a reform to divide private schools into two categories: (i) for-profit private schools and (ii) not-for-profit private schools. 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 pilot program is still new and no further 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 and for-profit training institutions.

On June 20, 2013, Shanghai promulgated the Interim Measures for Administration of Operational Private Training Institutions, or Measure No. 5, which requires for-profit private training institutions to register with local counterparts of the SAIC. The local counterparts of the SAIC shall consult with the local human resources and social securities authorities before completion of registration of for-profit private training institutions. Measure No. 5 came into effect on July 20, 2013 and will remain effective for two years.

As of December 31, 2015, 14 of our PRC subsidiaries, consolidated VIEs and subsidiaries of consolidated VIEs had computer technology training or training in its approved business scope.

Regulations on Online and Distance Education

Pursuant to the Administrative Regulations on Educational Websites and Online and Distance Education Schools issued by the Ministry of Education on July 5, 2000, educational websites and online education schools may provide educational services in relation to higher education, elementary education, pre-school education, teaching education, occupational education, adult education, other education and public educational information services. "Educational websites" refer to organizations providing education or education-related information services to website visitors by means of a database or online education platform connected via the Internet or an educational television station through an Internet Service Provider, or ISP. "Online education schools" refer to education websites providing academic education services or training services with the issuance of various certificates.

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

On June 29, 2004, the State Council promulgated the Decision on Setting Down Administrative Licenses for the Administrative Examination and Approval Items Really Necessary to be Retained, pursuant to which the administrative license for "online education schools" was retained, while the administrative license for "educational websites" was not retained. Accordingly, Beijing Tarena, our consolidated VIE engaging in online education-related services, is not required to obtain approval to operate "educational websites" from the Ministry of Education. On January 28, 2014, the State Council promulgated the Decision on Abolishing and Delegating Certain Administrative Examination and Approval Items, pursuant to which the administrative approval for "online education schools" of higher education was abolished. Beijing Tarena is not required to obtain a license to operate "online education schools," as it does not directly offer government accredited degrees or certifications through its online education or training services.

Regulations on Online Publications

On February 4, 2016, the State Administration of Press, Publication, Radio, Film and Television of the PRC (formerly the General Administration of Press and Publication), or the SAPPRFT and the Ministry of Industry and Information Technology, or the MIIT jointly promulgated the Internet Publishing Service Administrative Measures, or the Internet Publishing Measures, which took effect on March 10, 2016 and replaced the Tentative Internet Publishing Administrative Measures jointly promulgated by the General Administration of Press and Publication and MIIT on June 27, 2002. The Internet Publishing Measures require entities that engage in Internet publishing to obtain an Internet Publishing License for engaging in Internet publishing from the SAPPRFT. Pursuant to the Internet Publishing Measures, the definition of “Internet publishing” is broad and refers to the act of online spreading of articles, whereby the Internet information service providers select, edit and process works created by themselves or others and subsequently post such works on the Internet or transmit such works to the users’ end through Internet for the public to browse. These works include contents from books, newspapers, periodicals, audio-video products, electronic publications that have already been formally published or works that have been made public in other media.

Beijing Tarena has offered videos of lectures on its website *TMOOC.cn* and has not obtained an Internet Publishing License from the SAPPRFT. However, governmental authorities could determine that Beijing Tarena’s online content services fall within the scope of “internet publishing,” and therefore require Beijing Tarena to apply for an Internet Publishing License. Beijing Tarena may not be able to obtain such a license, and it may become subject to penalties, fines, legal sanctions or be ordered to suspend the video content on the website.

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

The SAPPRFT 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 the main terminals and through various types of information networks. Pursuant to the Broadcasting Rules, a Permit for Broadcasting Audio-video Programs via Information Network is required to engage in these Internet broadcasting activities. 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 SAPPRFT and MIIT issued the Internet Audio-Video Program Measures, which became effective on January 31, 2008. Among other things, the Internet Audio-Video Program Measures stipulate that no entities or individuals may provide Internet audio-video program services without a Permit for Broadcasting Audio-video Programs via Information Network issued by the SAPPRFT or its local counterparts and only entities wholly owned or controlled by the PRC government may engage in the production, editing, integration or consolidation, and transfer to the public through the Internet, of audio-video programs, and the provision of audio-video program uploading and transmission services. On September 15, 2009, SAPPRFT promulgated the Notice on Several Issues regarding the Permit for Broadcasting Audio-video Programs via Information Network. The Notice restates the necessity of applying for such license and sets forth the legal liabilities for those providing Internet audio-video program services without the license.

On April 1, 2010, SAPPRFT promulgated the Test Implementation of the Tentative Categories of Internet Audio-Visual Program Services, 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.

In the course of offering our lecture videos, we transmit our audio-video educational programs live through the Internet not only to enrolled course participants, but also to the general public. If the governmental authorities determine that our provision of lecture videos falls within the Internet Audio-Video Program Measures, we may not be able to obtain the License for Disseminating Audio-Video Programs through Information Network. 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 Value-Added Telecommunications Services

Licenses for Value-Added Telecommunication Services

On September 25, 2000, the Telecommunications Regulations of the People's Republic of China, or the Telecom Regulations, were issued by the PRC State Council as the primary governing law on telecommunication services. The Telecom Regulations set out the general framework for the provision of telecommunication services by PRC companies. Under the Telecom Regulations, it is a requirement that telecommunications service providers procure operating licenses prior to their commencement of operations. The Telecom Regulations draw a distinction between "basic telecommunications services" and "value-added telecommunications services." A "Catalog of Telecommunications Business" was issued as an attachment to the Telecom Regulations to categorize telecommunications services as basic or value-added. In February 2003, the Catalog was updated and the information services such as content service, entertainment and online games services are classified as value-added telecommunications services.

On March 1, 2009, the MIIT issued the Administrative Measures for Telecommunications Business Operating Permit, or the Telecom Permit Measures, which took effect on April 10, 2009. The Telecom Permit Measures confirm that there are two types of telecom operating licenses for operators in China, namely, licenses for basic telecommunications services and licenses for value-added telecommunications services. The operation scope of the license will detail the permitted activities of the enterprise to which it was granted. An approved telecommunication services operator shall conduct its business in accordance with the specifications recorded on its value-added telecommunications services operating license, or VATS License. In addition, a VATS License's holder is required to obtain approval from the original permit-issuing authority prior to any change to its shareholders.

On September 25, 2000, the State Council promulgated the Administrative Measures on Internet Information Services, or the Internet Measures, which was amended in January 2011. Under the Internet Measures, commercial Internet information services operators shall obtain an ICP license from the relevant government authorities before engaging in any commercial Internet information services operations within the PRC. The ICP license has a term of five years and shall be renewed within 90 days before expiration. Our consolidated VIE, Beijing Tarena, obtained an ICP license for the website *www.it211.com.cn* issued by Beijing Communications Administration on March 1, 2012, which will expire on March 1, 2017. Beijing Tarena is in the process of applying to add our *TMOOC.cn* website under our ICP license.

Foreign Investment in Value-Added Telecommunication Services

Pursuant to the Provisions on Administration of Foreign Invested Telecommunications Enterprises promulgated by the State Council on December 11, 2001 and amended on September 10, 2008, the ultimate foreign equity ownership in a value-added telecommunications services provider (except E-Commerce) may not exceed 50%. The Guidance Catalog of Industries for Foreign Investment amended in 2015 allows a foreign investor to own up to 100% of the total equity interest in an E-Commerce business. Moreover, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas. Foreign investors that meet these requirements must obtain approvals from the MIIT and the MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals. Pursuant to publicly available information, the PRC government has issued telecommunications business operating licenses to only a limited number of foreign invested companies, all of which are Sino-foreign joint ventures engaging in the value-added telecommunication business.

The MIIT Circular issued by the MIIT in July 2006 reiterated the regulations on foreign investment in telecommunications businesses, which require foreign investors to set up foreign-invested enterprises and obtain an ICP license to conduct any value-added telecommunications business in China. Under the MIIT Circular, a domestic company that holds an ICP license is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China. Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business must be owned by the local ICP license holder or its shareholder. The MIIT Circular further requires each ICP license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. Currently, Beijing Tarena, our VIE, owns the domain names *www.it211.com.cn* and *TMOOC.cn* and holds the ICP license necessary to operate our *www.it211.com.cn* website in China, while the trademarks relating to our operations are held by Tarena Tech, our WFOE. If the relevant PRC government authorities determine in the future that the current ownership of our trademarks do not comply with the relevant regulations and the trademarks relating to our operations must be held by our VIE, we may need to transfer the trademarks to our VIE, which may severely disrupt our business. The Internet Electronic Messaging Service Administrative Measures promulgated by the MIIT in November 2000 require ICP operators to obtain specific approvals before providing BBS services. BBS services include electronic bulletin boards, electronic forums, message boards and chat rooms. On July 4, 2010, the approval requirement for operating BBS services was terminated by a decision issued by the PRC State Council. However, in practice, the competent authorities in Beijing still require the relevant operating companies to obtain such approval for the operation of BBS services which we have not obtained.

In light of the aforesaid restrictions, we rely on Beijing Tarena, our consolidated VIE in China, to hold and maintain the licenses necessary to provide online education and other value-added telecommunications services in China. We operate our *TMOOC.cn* website and value-added telecommunications services through Beijing Tarena. Beijing Tarena, our consolidated VIE in China, holds an ICP license that is valid until March 1, 2017 for the operation of *www.it211.com.cn*. Beijing Tarena is in the process of applying to add our *TMOOC.cn* website under our ICP license.

The Discussion Draft PRC Foreign Investment Law

In January 2015, the MOFCOM published a discussion draft of the proposed Foreign Investment Law for public review and comments. The draft Foreign Investment Law purports to change the existing “case-by-case” approval regime to a “filing or approval” procedure for foreign investments in China. The MOFCOM, together with other relevant authorities, will determine a catalogue for special administrative measures, or the “negative list,” which will consist of a list of industry categories where foreign investments are strictly prohibited and a list of industry categories where foreign investments are subject to certain restrictions. Foreign investments in business sectors outside of the “negative list” will only be subject to filing procedures, in contrast to the existing prior approval requirements, whereas foreign investments in the restricted industries must apply for approval from the foreign investment administration authority.

The draft Foreign Investment Law for the first time defines “foreign investor,” “foreign investment,” “Chinese investor” and “actual control.” A foreign investor is not only determined based on the place of its incorporation, but also on the conditions of the “actual control.” The draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign investors, such as via contracts or trust, will be treated as FIEs, whereas foreign investment in China in the foreign investment restricted industries by a foreign investor may nonetheless apply for being, when approving market entry clearance by the foreign investment administration authority, treated as a PRC domestic investment if the foreign investor is determined by the foreign investment administration authority as being “controlled” by PRC entities and/or citizens. In this connection, “actual control” is broadly defined in the draft Foreign Investment Law to cover the following summarized categories: (i) holding 50% or more of the voting rights of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to 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. According to 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 Foreign Investment Law has not taken a position on what actions will be taken with respect to the existing companies with the “variable interest entity” structure, whether or not these companies are controlled by Chinese parties.

The draft Foreign Investment Law emphasizes on the security review requirements, whereby all foreign investments concerning national security must be reviewed and approved in accordance with the security review procedure. In addition, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. In addition to 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.

The draft Foreign Investment Law is now open for public review and comments. It is still uncertain when the draft would be signed into law and whether the final version would have any substantial changes from this draft. When the Foreign Investment Law becomes effective, 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, will be abolished. See “Item 3. Key Information—D. Risk Factors—Risks Relating 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.”

Regulations on Intellectual Property Rights

Copyright and Software Products

The National People’s Congress adopted the Copyright Law in 1990 and amended it in 2001 and 2010, respectively. 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. The amended Copyright Law also requires registration of a copyright pledge.

To address the problem of copyright infringement related to the content posted or transmitted over the Internet, the National Copyright Administration and the MIIT jointly promulgated the Measures for Administrative Protection of Copyright Related to Internet on April 29, 2005. This measure became effective on May 30, 2005.

The Administrative Measures on Software Products, issued by the MIIT in October 2000 and subsequently amended, provide a registration and filing system with respect to software products made in or imported into China. These software products may be registered with the relevant local authorities in charge of software industry administration. Registered software products may enjoy preferential treatment status granted by relevant software industry regulations. Software products can be registered for five years, and the registration is renewable upon expiration.

In order to further implement the Computer Software Protection Regulations promulgated by the State Council on December 20, 2001 and amended on January 30, 2013, the State Copyright Bureau issued the Computer Software Copyright Registration Procedures on February 20, 2002, which apply to software copyright registration, license contract registration and transfer contract registration. In compliance with, and in order to take advantage of the above rules, as of December 31, 2015, we had registered 30 software copyrights in China.

Trademarks

Trademarks are protected by the PRC Trademark Law which was adopted in 1982 and subsequently amended in 1993, 2001 and 2013 as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council in 2002. The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks which may be renewed for consecutive ten-year periods upon request by the trademark owner. Trademark license agreements must be filed with the Trademark Office for record. The PRC Trademark Law has adopted a “first-to-file” principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use. We have registered 35 trademarks in China as of December 31, 2015.

Regulations on Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, or the Foreign Exchange Regulations, as amended on August 5, 2008. Under the Foreign Exchange Regulations, Renminbi is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made. Though there are restrictions on the convertibility of Renminbi for capital account transactions, which principally include investments and loans, we generally follow the regulations and apply to obtain the approval of the SAFE and other relevant PRC governmental authorities.

On March 30, 2015, the SAFE promulgated Circular 19, which expands a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises nationwide. Circular 19 came into force replacing both previous SAFE Circular 142 and SAFE Circular 36 on June 1, 2015. Circular 19 allows all foreign-invested enterprises established in the PRC to use their foreign exchange capitals to make equity investment and removes certain other restrictions provided under Circular 142 for these enterprises. However, Circular 19 continues to prohibit foreign-invested enterprises from, among other things, using the Renminbi fund converted from its foreign exchange capitals for expenditure beyond its business scope, and providing entrusted loans or repaying loans between non-financial enterprises. These circulars may delay or limit us from using the proceeds of offshore offerings to make additional capital contributions or loans to our PRC subsidiaries and violations of these circulars could result in severe monetary or other penalties. See also “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—PRC regulation of direct investment and loans by offshore holding companies to PRC entities and governmental control of currency conversion may delay or limit us from using the proceeds of offshore offering to make additional capital contributions or loans to our PRC subsidiaries.”

Regulations on Dividend Distribution

Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from Tarena Tech, which is a wholly foreign owned enterprise incorporated in the PRC, to fund any cash and financing requirements we may have. The principal regulations governing distribution of dividends of foreign invested enterprises include the Foreign Invested Enterprise Law, as amended on October 31, 2000, and the Implementation Rules of the Foreign Invested Enterprise Law, as amended on April 12, 2001.

Under these laws and regulations, wholly foreign owned enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign owned enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. Wholly foreign owned companies may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

Pursuant to SAFE’s Notice on Relevant Issues Relating to Domestic Residents’ Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or SAFE Circular No. 37, issued and effective on July 4, 2014, and its appendixes, PRC residents, including PRC institutions and individuals, must register with local branches of 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 interest in domestic enterprises or offshore assets or interests, referred to in SAFE Circular No. 37 as a “special purpose vehicle.” SAFE Circular No. 37 further requires amendment to the registration in the event of 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.

On February 28, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which became effective on June 1, 2015. In accordance with SAFE Notice 13, entities and individuals are required to apply for foreign exchange registration of foreign direct investment and overseas direct investment, including those required under the SAFE Circular No. 37, with qualified banks, instead of SAFE. The qualified banks, under the supervision of SAFE, directly examine the applications and conduct the registration.

In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making distributions of profit to the offshore parent and from carrying out subsequent cross-border foreign exchange activities and the special purpose vehicle may be restricted in their ability to contribute additional capital into its PRC subsidiary. Further, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion. These regulations apply to our direct and indirect shareholders who are PRC residents and may apply to any offshore acquisitions and share transfer that we make in the future if our shares are issued to PRC residents. We have requested PRC residents currently holding direct or indirect interests in our company to our knowledge to make the necessary applications, filings and amendments as required under SAFE Circular No. 37 and other related rules. To our knowledge, all of our shareholders who are PRC citizens and hold interest in us, have registered with the local SAFE branch and/or qualified banks as required under SAFE Circular No. 37 and SAFE Notice 13. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us, limit our ability to inject capital into our PRC subsidiaries, or otherwise expose us to liability and penalties under PRC law.”

Regulations on Stock Incentive Plans

In February 2012, SAFE promulgated the Stock Option Rules. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents.

We adopted two share incentive plans, namely the 2008 Plan and the 2014 Plan. Pursuant to the 2008 Plan, we may issue options, restricted shares (or share appreciation rights or other similar awards) and rights to purchase restricted shares to our qualified employees and directors and consultants on a regular basis. Pursuant to the 2014 Plan, we may issue options, restricted shares and restricted share units to our qualified employees, directors and consultants on a regular basis. We have advised our employees and directors participating in the employee stock option plan to handle foreign exchange matters in accordance with the Stock Option Rules, and we have completed the registrations of our stock incentive plans with the local SAFE as required by PRC law.

In addition, the State Administration for Taxation has issued circulars concerning employee share options, under which our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or if we fail to withhold their income taxes as required by relevant laws and regulations, we may face sanctions imposed by the PRC tax authorities or other PRC government authorities.

Regulation on Tax

PRC Enterprise Income Tax Law

On March 16, 2007, the National People’s Congress, the PRC legislature, enacted the EIT Law. Both the EIT Law and its Implementing Rules, which was enacted on December 6, 2007 by the State Council, became effective on January 1, 2008. Under the EIT Law, enterprises are classified as PRC resident enterprises and non-PRC-resident enterprises. PRC resident enterprises typically pay an enterprise income tax at the rate of 25%. An enterprise established outside of the PRC with its “de facto management bodies” located within the PRC is considered a PRC “resident enterprise,” meaning that it shall be treated in a manner similar to a PRC resident enterprise for enterprise income tax purposes. The Implementing Rules to the EIT Law defines “de facto management body” as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of an enterprise.

The SAT issued Circular 82 on April 22, 2009, as amended in January 2014. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled and offshore-incorporated enterprise is located in China, which include all of the following conditions: (a) the location where senior management members responsible for an enterprise’s daily operations discharge their duties; (b) the location where financial and human resource decisions are made or approved by organizations or persons; (c) the location where the major assets and corporate documents are kept; and (d) the location where more than half (inclusive) of all directors with voting rights or senior management have their habitual residence. In addition, the SAT issued a bulletin on July 27, 2011, effective September 1, 2011, or Bulletin 45, providing more guidance on the implementation of Circular 82. Bulletin 45 clarifies matters including PRC resident enterprise status determination, post-determination administration and competent tax authorities etc. Although both Circular 82 and Bulletin 45 only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign individuals like us, the determining criteria set forth in Circular 82 and Bulletin 45 may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the PRC tax resident enterprise status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, PRC enterprise groups or by PRC or foreign individuals.

We do not believe that Tarena International, Inc. meets all of the conditions above, and thus we do not believe that Tarena International, Inc. is a PRC resident enterprise despite the fact that all members of our management team as well as the management team of our offshore holding company are located in China. However, if the PRC tax authorities determine that Tarena International, Inc. is a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Under the PRC Enterprise Income Tax Law, we may be classified as a PRC “resident enterprise” for PRC enterprise income tax purposes. Such classification would likely result in unfavorable tax consequences to us and our non-PRC shareholders and have a material adverse effect on our results of operations and the value of your investment.”

Pursuant to the Arrangement Between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, or the Hong Kong Tax Treaty, and other applicable PRC regulations, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Hong Kong Tax Treaty and other applicable regulations, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties issued on February 20, 2009 by the SAT, or Circular 81, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties, or Circular 601, issued on October 27, 2009 by the SAT, and the Announcement on the Recognition of Beneficial Owners in Tax Treaties issued on June 29, 2012 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Hong Kong Tax Treaty. Tarena HK has not obtained the approval for a withholding tax rate of 5% from the local tax authority. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We may not be able to obtain certain treaty benefits on dividends paid to us by our PRC subsidiary through our Hong Kong Subsidiary.”

In January 2009, the SAT promulgated the Provisional Measures for the Administration of Withholding of Enterprise Income Tax for Non-resident Enterprises, or the Non-resident Enterprises Measures, pursuant to which, the entities which have the direct obligation to make certain payments to a non-resident enterprise shall be the relevant tax withholders for such non-resident enterprise. Further, the Non-resident Enterprises Measures provides that in case of an equity transfer between two non-resident enterprises which occurs outside China, the non-resident enterprise which receives the equity transfer payment shall, by itself or engage an agent to, file tax declaration with the PRC tax authority located at the place of the PRC company whose equity has been transferred, and the PRC company whose equity has been transferred shall assist the tax authorities to collect taxes from the relevant non-resident enterprise. On April 30, 2009, the MOF and the SAT jointly issued the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On December 10, 2009, the SAT issued the Notice on Strengthening the Administration of the Enterprise Income Tax concerning Proceeds from Equity Transfers by Non-resident Enterprises, or Circular 698. Both Circular 59 and Circular 698 became effective retroactively as of January 1, 2008. By promulgating and implementing these two circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise. Under Circular 698, where a non-resident enterprise transfers the equity interests of a PRC “resident enterprise” indirectly by disposition of the equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in certain low tax jurisdictions, the non-resident enterprise, being the transferor, shall report to the competent tax authority of the PRC “resident enterprise” this Indirect Transfer. The PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC tax at a rate of up to 10%. On February 3, 2015, the SAT issued a Public Notice [2015] No.7, or Public Notice 7, to supersede the existing tax rules in relation to the Indirect Transfer as set forth in Circular 698, while the other provisions of Circular 698 remain in force. Public Notice 7 introduces a new tax regime that is significantly different from that under Circular 698. Public Notice extend its tax jurisdiction to capture not only Indirect Transfer as set forth under Circular 698 but also transactions involving transfer of immovable property in China and assets held under the establishment and place, in China of a foreign company through the offshore transfer of a foreign intermediate holding company. Public Notice 7 also addresses the term transfer of the equity interest in a foreign intermediate holding company widely. In addition, Public Notice 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and introduces safe harbor scenarios applicable to internal group restructurings on. However, it also brings challenges to both the foreign transferor and transferee of the Indirect Transfer as they have to make self-assessment on whether the transaction should be subject to PRC tax and to file or withhold the PRC tax accordingly. There is little guidance and practical experience as to the application of Circular 698 and Public Notice 7. Where non-resident investors were involved in our private equity financing, if such transactions were determined by the tax authorities to lack reasonable commercial purpose, we and our non-resident investors may become at risk of being taxed under Circular 698 and Public Notice 7 and may be required to expend valuable resources to comply with Circular 698 and Public Notice 7 or to establish that we should not be taxed under Circular 698 and Public Notice 7. The PRC tax authorities have the discretion under SAT Circular 59, Circular 698 and Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment.

The State Administration of Taxation promulgated Administrative Measures on the General Anti-Avoidance Rule (Trial), or GAAR Measures, on December 12, 2014, which shows the authority’s intention to fight against tax avoidance scheme that is adopted to obtain unwarranted tax benefit without reasonable commercial purpose. A press release, made by the State Administration of Taxation to clarify certain issues relating to the application of the GAAR Measures, stated that the GAAR Measures may be applicable if any general tax-avoidance scheme exists in the offshore indirect transfer of equity interests. Since GAAR Measures was recently promulgated and it is unclear how this set of measures, and any future implementation rules thereof, will be interpreted, amended and implemented by the relevant governmental authorities, we cannot predict how these regulations will affect our business operation, future acquisitions or strategy.

In addition, the EIT Law and its Implementation Rules permit certain “high and new technology enterprises strongly supported by the state” that hold independent ownership of core intellectual property and simultaneously meet a list of other criteria, financial or non-financial, as stipulated in the Implementation Rules and other regulations, to enjoy a reduced 15% enterprise income tax rate. The SAT, the Ministry of Science and Technology and the Ministry of Finance jointly issued the Administrative Measures on the Recognition Criteria and Procedures for Advance and New Technology Enterprise delineating the specific criteria and procedures for the “high and new technology enterprises” certification in April 2008. Enterprises recognized as “high and new technology enterprises,” or HNTEs, will enjoy a reduced 15% enterprise income tax rate after they go through tax reduction application formalities with relevant tax authorities. Tarena Tech, renewed its HNTE certificate in 2012 and again in 2015, and is eligible to enjoy a preferential tax rate of 15% until the end of 2017. Tarena Hangzhou was established in 2013 and is qualified as a “newly established software enterprise”, which entitles it to two years of full tax exemption followed by three years of 50% tax exemption, commencing from the year in which its taxable income is greater than zero, which was 2014.

PRC Value-added Tax (“VAT”) in lieu of Business Tax (the “VAT Pilot Program”)

An enterprise or individual providing taxable service within the territory of China has been historically required to pay BT at the rate of 3% or 5% on the revenues generated from provision of such services in accordance with applicable PRC tax regulations. However, if the services provided are technical transfer or technical development, or technical consulting and technical service related to technology transfer or technical development, BT may be exempted subject to approval by the relevant tax authorities.

In November 2011, the Ministry of Finance and the SAT promulgated the Notice on the Pilot Program in Shanghai Replacing BT with VAT in Transportation and Some Modern Service Sectors. Pursuant to this circular and other relevant notices, VAT shall be imposed in lieu of BT in transportation and some modern service sectors firstly in Shanghai starting from January 1, 2012. On August 1, 2013, the VAT Pilot Program was implemented throughout China in transportation and some modern services sectors. On April 29, 2014, the Ministry of Finance and the SAT issued the Circular on the Inclusion of Telecommunications Industry in the Pilot Collection of Value-added Tax in Lieu of Business Tax. On March 23, 2016, the Ministry of Finance and the SAT issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value added Tax in Lieu of Business Tax. Effective from May 1, 2016, the PRC tax authorities will collect VAT in lieu of Business Tax on a trial basis within the territory of China, and in industries such as construction industries, real estate industries, financial industries, and living service industries. The applicable VAT rates are 6% and 3% for the entities that are general taxpayer and small-scale taxpayer, respectively.

Local Surcharges

The city construction tax and education surcharge are local surcharges imposed as a certain percentage of PRC turnover taxes (i.e., business tax, value-added tax and consumption tax). The city construction tax is charged at rates of 1%, 5% or 7% (the applicable city construction tax rate depends on the location of the taxpayer) of the turnover tax paid while the education surcharge rate is currently at 3% of the turnover tax paid. Though in the past, foreign-invested enterprises, foreign enterprises and foreign individuals were exempted from such surcharges, these entities were required to make such payments from December 1, 2010 according to a notice issued by PRC State Council in October 2010.

In addition to the city construction tax and the education surcharge, the China Ministry of Finance issued Circular Caizong (2010) No. 98, or Circular 98, that requires all entities and individuals (including foreign-invested enterprises, foreign enterprises and foreign individuals) to pay a local education surcharge, or LES, at 2% on turnover tax paid. Local governments are required to report their implementation measures on LES to the Ministry of Finance. LES became applicable to all entities and individuals in Beijing on January 1, 2012.

Employment Laws and Social Insurance

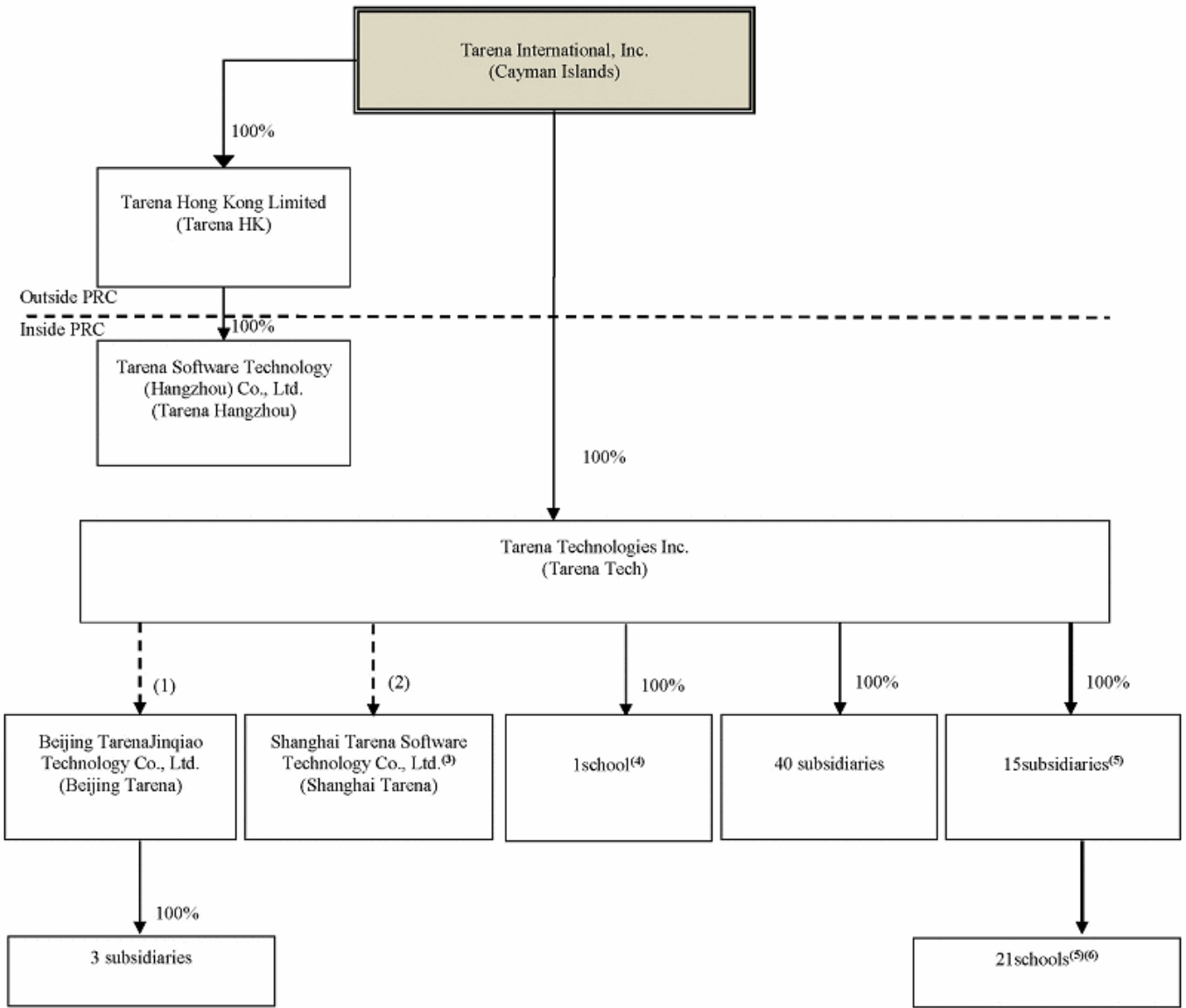
We are subject to laws and regulations governing our relationship with our employees, including wage and hour requirements, working and safety conditions, and social insurance, housing funds and other welfare. The compliance with these laws and regulations may require substantial resources.

China's National Labor Law, which became effective on January 1, 1995, and China's National Labor Contract Law, which became effective on January 1, 2008 and was amended on December 28, 2012, permit workers in both state-owned and private enterprises in China to bargain collectively. The National Labor Law and the National Labor Contract Law provide for collective contracts to be developed through collaboration between the labor union (or worker representatives in the absence of a union) and management that specify such matters as working conditions, wage scales, and hours of work. The laws also permit workers and employers in all types of enterprises to sign individual contracts, which are to be drawn up in accordance with the collective contract. The National Labor Contract Law has enhanced rights for the nation's workers, including permitting open-ended labor contracts and severance payments. The legislation requires employers to provide written contracts to their workers, restricts the use of temporary labor and makes it harder for employers to lay off employees. It also requires that employees with fixed-term contracts be entitled to an indefinite-term contract after a fixed-term contract is renewed twice or the employee has worked for the employer for a consecutive ten-year period.

On October 28, 2010, the National People's Congress of China promulgated the PRC Social Insurance Law, which became effective on July 1, 2011. In accordance with the PRC Social Insurance Law and other relevant laws and regulations, China establishes a social insurance system including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. An employer shall pay the social insurance for its employees in accordance with the rates provided under relevant regulations and shall withhold the social insurance that should be assumed by the employees. The authorities in charge of social insurance may request an employer's compliance and impose sanctions if such employer fails to pay and withhold social insurance in a timely manner. Under the Regulations on the Administration of Housing Fund effective in 1999, as amended in 2002, PRC companies must register with applicable housing fund management centers and establish a special housing fund account in an entrusted bank. Both PRC companies and their employees are required to contribute to the housing funds.

C. Organizational Structure

The following diagram illustrates our corporate structure, including our subsidiaries and consolidated VIEs and their subsidiaries, as of the date of this annual report:



- > Equity control
- - - - -> Contractual arrangements consisted of exclusive business cooperation agreement, powers of attorney, equity interest pledge arrangements, exclusive option agreements, loan agreements and spousal consent letters
- > Sponsorship interest

Notes:

- (1) Mr. Shaoyun Han, our founder, chairman and chief executive officer, owns 70% of the equity interest in Beijing Tarena. Mr. Jianguang Li, our director, owns 30% of the equity interest in Beijing Tarena.
- (2) Mr. Shaoyun Han and Mr. Jianguang Li own 49% and 51% of the equity interest in Shanghai Tarena, respectively.
- (3) Shanghai Tarena is in the process of voluntary winding down.
- (4) Mr. Shaoyun Han is the principal of Weifang Tarena Professional Education School.
- (5) Tarena (Wuhan) Technology Co., Ltd., which is a wholly-owned subsidiary of Tarena Tech, wholly owns Wuhan Tarena Software Co., Ltd., which holds 100% of the sponsorship interest in Wuhan Tarena Professional Education School.
- (6) Mr. Shaoyun Han is the principal of Shenyang Tarena Professional Education School, Jinan Tarena Professional Education School, Wuhan Tarena Professional Education School, Chongqing Jiulongpo Tarena Professional Education School, Kunming Tarena Professional Education School, Nanjing Tarena Professional Education School, Shenzhen Bao'an Tarena Professional Education School, Harbin Tarena Professional Education School, Zhengzhou Tarena Professional Education School, Dalian High-Tech Zone Tarena Professional Education School, Shenyang Tarena Times Professional Education School, Zhuhai Tarena Professional Education School, Chengdu High-Tech Zone Tarena Professional Education School, Chengdu Tarena Professional Education School, Wuhan Technology Tarena Professional Education School, Shenzhen Longhua Xinqu Tarena Professional Skills Education School, and Chongqing Nanan Tarena Professional Education School; De Xun Wang is the principal of Guangzhou Tarena Software Professional Education School; Qian Li is the principal of Qingdao Tarena Professional Education School; Yue Qin Shen is the principal of Nanjing Weishang Tarena Professional Education School; Jing Liu is the principal of Dalian Shahekou Tarena Accounting Professional Education School.

Because of foreign ownership restriction on Internet content and other value-added telecommunication services in China, we operate our *TMOOC.cn* website through our consolidated VIE, Beijing Tarena. Beijing Tarena is in the process of applying to add our *TMOOC.cn* website under the ICP license held by Beijing Tarena. Beijing Tarena is 70% owned by Mr. Shaoyun Han, our founder, chairman and chief executive officer, and 30% owned by Mr. Jianguang Li, our director. Mr. Han and Mr. Li are both PRC citizens. We entered into a series of contractual arrangements with Beijing Tarena and its shareholders, which enable us to:

- exercise effective financial control over Beijing Tarena;
- receive substantially all of the economic benefits and bear the obligation to absorb substantially all of the losses of Beijing Tarena; and
- have an exclusive option to purchase all or part of the equity interests in Beijing Tarena when and to the extent permitted by PRC law.

Because of these contractual arrangements, we are the primary beneficiary of Beijing Tarena and consolidate its financial results in our consolidated financial statements in accordance with U.S. GAAP.

The following is a summary of the currently effective contracts by and among Tarena International, our subsidiary Tarena Tech, our VIE, Beijing Tarena, and the shareholders of Beijing Tarena.

Exclusive Business Cooperation Agreement

Under the exclusive business cooperation agreement between Beijing Tarena and Tarena Tech, as amended and restated, Tarena Tech has the exclusive right to provide, among other things, technical support, business support and related consulting services to Beijing Tarena and Beijing Tarena agrees to accept all the consultation and services provided by Tarena Tech. Without Tarena Tech's prior written consent, Beijing Tarena is prohibited from engaging any third party to provide any of the services under this agreement. In addition, Tarena Tech exclusively owns all intellectual property rights arising out of or created during the performance of this agreement. Beijing Tarena agrees to pay a monthly service fee to Tarena Tech at an amount determined solely by Tarena Tech after taking into account factors including the complexity and difficulty of the services provided, the time consumed, the seniority of the Tarena Tech employees providing services to Beijing Tarena, the value of services provided, the market price of comparable services and the operating conditions of Beijing Tarena. Furthermore, to the extent permitted under the PRC law, Tarena Tech agrees to provide financial support to Beijing Tarena if Beijing Tarena has any operating loss or suffered any critical operation adversity. The term of the agreement will remain effective unless Tarena Tech terminates the agreement in writing or a competent governmental authority rejects the renewal applications by either Beijing Tarena or Tarena Tech to renew its respective business license upon expiration. Without the consent of Tarena Tech, Beijing Tarena is not permitted to terminate this agreement in any event unless required by applicable laws.

Power of Attorney

Pursuant to the power of attorney, as amended and restated, the shareholders of Beijing Tarena each irrevocably appointed Tarena Tech as the attorney-in-fact to act on their behalf on all matters pertaining to Beijing Tarena and to exercise all of their rights as a shareholder of Beijing Tarena, including but not limited to attend shareholders' meetings, vote on their behalf on all matters of Beijing Tarena requiring shareholders' approval under PRC laws and regulations and the articles of association of Beijing Tarena, and designate and appoint directors and senior management members. Tarena Tech may assign its rights under this power of attorney to any other person or entity at its sole discretion without prior notice to the shareholders of Beijing Tarena. Each power of attorney will remain in force until the shareholder ceases to hold any equity interest in Beijing Tarena.

Equity Interest Pledge Agreements

Under the equity interest pledge agreements between Tarena Tech, Beijing Tarena and the shareholders of Beijing Tarena, as amended and restated, the shareholders pledged all of their equity interests in Beijing Tarena to Tarena Tech to guarantee Beijing Tarena's and Beijing Tarena's shareholders' performance of their obligations under the contractual arrangements including, but not limited to the service fees due to Tarena Tech. If Beijing Tarena or any of Beijing Tarena's shareholders breaches its contractual obligations under the contractual arrangements, Tarena Tech, as the pledgee, will be entitled to certain rights and entitlements, including receiving proceeds from the auction or sale of whole or part of the pledged equity interests of Beijing Tarena in accordance with legal procedures. Tarena Tech has the right to receive dividends generated by the pledged equity interests during the term of the pledge. If any event of default as provided in the contractual arrangements occurs, Tarena Tech, as the pledgee, will be entitled to dispose of the pledged equity interests in accordance with PRC laws and regulations. The equity interest pledge agreements became effective on the date when the agreements were duly executed. The pledge was registered with Changping Bureau of Beijing Administration for Industry and Commerce in December 2013, and will remain binding until Beijing Tarena and its shareholders discharge all their obligations under the contractual arrangements. The registration of the equity pledge enables Tarena Tech to enforce the equity pledge against third parties who acquire the equity interests of Beijing Tarena in good faith.

Exclusive Option Agreements

Under the exclusive option agreements between Tarena International, Inc., Tarena Tech, each of the shareholders of Beijing Tarena and Beijing Tarena, as amended and restated, each of the shareholders irrevocably granted Tarena International, Inc. or its designated representative(s) an exclusive option to purchase, to the extent permitted under PRC law, all or part of his equity interests in Beijing Tarena. In addition, Tarena International, Inc. has the option to acquire the equity interests of Beijing Tarena for a specified price equal to the loan provided by Tarena Tech to the individual shareholders. If the lowest price permitted under PRC law is higher than the above price, the lowest price permitted under PRC law shall apply. Tarena International, Inc. or its designated representative(s) has sole discretion as to when to exercise such options, either in part or in full. Without Tarena International, Inc.'s prior written consent, Beijing Tarena's shareholders shall not sell, transfer, mortgage, or otherwise dispose any equity interests in Beijing Tarena. These agreements will remain effective until all equity interests in Beijing Tarena held by its shareholders are transferred or assigned to Tarena International, Inc. or Tarena International, Inc.'s designated representatives.

Loan Agreements

Pursuant to the loan agreements between Tarena Tech and each individual shareholder of Beijing Tarena, as amended and restated, Tarena Tech provided loans with an aggregate amount of RMB2 million (US\$0.3 million) to the individual shareholders of Beijing Tarena for the sole purpose of providing capital for Beijing Tarena. The loans can only be repaid in a manner determined by Tarena Tech at its sole discretion, which repayment may take the form of transferring the individual shareholders' equity interest in Beijing Tarena to Tarena or its designated person pursuant to the exclusive option agreements. The loan shall be interest-free, unless the transfer price exceeds the principal of the loan when each individual shareholder of Beijing Tarena transfers his equity interests in Beijing Tarena to Tarena or its designated person(s). Such excess over the principal of the loan shall be deemed the interest of the loan to the extent permitted under PRC law. The term of each loan agreement is ten years from the date of the agreement expiring in 2023 and can be extended with the written consent of both parties before expiration.

Spousal Consent Letters

Ms. Ying Sun and Ms. Nan Li executed spousal consent letters. Pursuant to the spousal consent letters, each of Ms. Ying Sun and Ms. Nan Li:

- undertook not to make any assertions in connection with the equity interests in Beijing Tarena held by her spouse;
- confirmed that her spouse can perform the amended and restated equity interest pledge agreements, the amended and restated exclusive option agreements, the power of attorney and the amended and restated loan agreements and to further amend or terminate such documents absent authorization or consent from her;
- undertook to execute all necessary documents and take all necessary actions to ensure appropriate performance of the amended and restated equity interest pledge agreements, the amended and restated exclusive option agreements, the power of attorney and the amended and restated loan agreements; and
- agreed and undertook to be bound by the amended and restated equity interest pledge agreements, the amended and restated exclusive option agreements, the power of attorney, the amended and restated loan agreements and the amended and restated exclusive business cooperation agreement and comply with the obligations thereunder as an equity holder of Beijing Tarena if she obtain any equity interests in Beijing Tarena held by her spouse for any reason.

The contractual arrangements by and among Tarena, our subsidiary Tarena Tech, Shanghai Tarena, and the shareholders of Shanghai Tarena are substantially the same as the contractual arrangements discussed above.

In the opinion of our PRC counsel, Han Kun Law Offices, these contractual arrangements are valid, binding and enforceable under current PRC laws. However, these contractual arrangements may not be as effective in providing control as direct ownership. There are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. For a description of the risks relating to our contractual arrangements, please see “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure.”

D. Property, Plants and Equipment

We have dual headquarters in China, located in Beijing and Hangzhou. Our principal executive offices in Beijing comprise of approximately 1,319 square meters and accommodate certain of our management and general and administrative activities, as well as our research and development activities. We also have approximately 15,548 square meters in leased classroom space in Beijing. Our principal executive offices and classrooms in Hangzhou comprise of approximately 7,141 square meters of leased space. Our principal executive offices in Hangzhou accommodate certain of our management and general and administrative activities.

In addition to our principal executive offices in Beijing and Hangzhou, we maintain a number of offices, classrooms and student dormitories with an aggregate of approximately 142,786 square meters in 41 cities in the PRC. We lease all of the facilities that we currently occupy from unrelated third parties. Our lease terms range from one to ten years.

We believe that the facilities that we currently lease are adequate to meet our needs for the foreseeable future, and we believe that we will be able to obtain adequate facilities, principally through leasing of additional properties, to accommodate our future expansion plans.

ITEM 4.A. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report on Form 20-F. This report contains forward-looking statements. See “Forward-Looking Information.” In evaluating our business, you should carefully consider the information provided under the caption “Item 3. Key Information—D. Risk Factors” in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

Net Revenues

We derive substantially all of our net revenues from tuition fees that we charge students. In 2013, 2014 and 2015, we generated net revenues of US\$92.8 million, US\$136.2 million and US\$189.2 million, respectively. We record tuition fees that we collect in advance as deferred revenues. Our net revenues are presented net of business tax and surcharges.

Number of Student Enrollments

Our ability to generate and increase revenues is primarily driven by our ability to increase the number of student enrollments. The number of our student enrollments is primarily driven by the number and popularity of our course offerings. We evaluate the market demands for our course offerings and open new learning centers to cater to such demands. Our total student enrollments increased from 46,458 in 2013 to 59,960 in 2014 and further to 84,041 in 2015. The total number of our learning centers nationwide grew from 92 as of December 31, 2013 to 118 as of December 31, 2014 and to 134 as of December 31, 2015.

Our total student enrollment is affected by the continuing popularity of our existing courses and programs and the number and popularity of new courses and new programs we offer. In 2015, our digital art course was the largest course in terms of revenues and number of student enrollments. Since 2012, we have developed and launched seven new courses, as well as two new education programs targeting kids. Java and iOS courses were our second and third largest course in terms of student enrollment for 2015. Our accounting course, launched in the fourth quarter of 2014, has become our fourth largest course in terms of student enrollment for 2015. Expanding our course offerings and programs and diversifying our sources of revenues help protect us from potential reduced student enrollments due to down-turns in certain industries or professions.

Our total student enrollment is also affected by our ability to maintain our cooperative relationships with financing service providers for student loans. A significant portion of our students enrolled in 2015 relied on loans provided or arranged by CreditEase, BOC CFC, RenRenDai and ShiTuDai to pay for our tuition fees. In 2015, approximately 49.3% of our students took out loans provided or arranged by CreditEase, BOC CFC, RenRenDai or ShiTuDai to pay for our tuition fees. Our cooperative agreement with BOC CFC will expire in March, 2017.

Starting from 2011, Chuanbang, a credit-sourcing company in China owned by Mr. Shaoyun Han, our chief executive officer, began to offer person-to-person lending services to our students to help them pay for our tuition fees. In connection with the person-to-person lending services provided by Chuanbang, we serve as a guarantor of the loans taken out by students. We recognized US\$90,490, US\$18,188 and nil as guarantee fee revenue in 2013, 2014 and 2015, respectively. We have stopped providing guarantees for any new student loan arranged by Chuanbang since April 2013. We have not generated any interest income in connection with the person-to-person lending services provided by Chuanbang.

Tuition fees

Our net revenues are affected by the tuition fees for each of our courses. For our full-time and part-time classes for adult students, our standard tuition fees generally range from RMB16,800 (US\$2,593) to RMB19,800 (US\$3,057) per course. We increased our tuition fees for most of our full-time classes by RMB1,000 (US\$154) in 2013, further increased such tuition fees by RMB1,000 (US\$154) in 2014 and again increased such tuition fees by RMB1,000 (US\$154) in 2015. We also increased our tuition fees for part-time classes by RMB1,000 (US\$154) to RMB2,000 (US\$309) per course in 2015. For our kid education programs, our standard tuition fees are RMB15,360 (US\$2,371). Each kid education program is composed of four levels, with each level consisting of 120 learning hours in one year.

The actual tuition fees of our courses for adult students may vary according to the recruiting channel through which a student is enrolled. We recruit students either through our direct marketing efforts or from our network of cooperative universities and colleges. We generally offer a discount of approximately RMB4,000 (US\$617) per person per full-time course for students enrolled through our network of cooperative universities and colleges. In 2015, we recruited approximately 16.2% of our students from these universities and colleges.

Our tuition fees of our courses for adult students are also affected by the payment option selected by our students. We primarily offer two payment options for our students, including one-time full payment upon enrollment and multiple payments within two months of enrollment. We also allow qualified students to pay our tuition fees within a period of time after graduation. We generally charge RMB1,000 (US\$154) higher in tuition fees to students electing to pay in multiple payments within two months of enrollment and charge RMB3,000 (US\$463) higher in tuition fees to students qualified and electing to pay in installments post graduation, as compared to students who elect to pay in full upfront. Our tuition fees for *Tongcheng* and *Tongmei* education programs are required to be fully paid up-front.

Cost of Revenues

Our cost of revenues primarily consists of payroll and employee benefits for our instructors (as apportioned based on the amount of time that they devote to teaching), teaching assistants, career counselors and employer cooperation representatives, as well as rental payments for our learning centers, and to a lesser extent, depreciation relating to property and equipment used at our learning centers. The following table sets forth a breakdown of our cost of revenues in absolute amounts and as percentages of net revenues for the periods indicated:

	For the Year Ended December 31,					
	2013		2014		2015	
	US\$	% of net revenues	US\$	% of net revenues	US\$	% of net revenues
	(in thousands of US\$, except percentages)					
Personnel cost and welfare	11,109	12.0	14,409	10.6	19,809	10.5
Rental cost	8,668	9.3	11,263	8.3	15,727	8.3
Others	9,291	10.0	13,408	9.8	18,034	9.5
Total cost of revenues	29,068	31.3	39,080	28.7	53,570	28.3

Our cost of revenues is primarily affected by the number of our learning centers. We had a total of 92, 118 and 134 learning centers as of December 31, 2013, 2014 and 2015, respectively. Our cost of revenues as a percentage of net revenues was 31.3%, 28.7% and 28.3% in 2013, 2014 and 2015, respectively. We expect our cost of revenues to continue to increase as we plan to open more learning centers.

Operating Expenses

Our operating expenses consist primarily of selling and marketing expenses, general and administrative expenses and, to a lesser extent, research and development expenses. The following table sets forth our operating expenses in absolute amounts and as percentages of net revenues for the periods indicated:

	For the Year Ended December 31,					
	2013		2014		2015	
	US\$	% of net revenues	US\$	% of net revenues	US\$	% of net revenues
	(in thousands of US\$, except percentages)					
Selling and marketing expenses	30,252	32.6	42,562	31.2	61,824	32.7
General and administrative expenses	16,224	17.6	29,948	22.0	40,359	21.3
Research and development expenses	3,807	4.1	5,446	4.0	8,113	4.3
Total operating expenses	50,283	54.3	77,956	57.2	110,296	58.3

Our selling and marketing expenses primarily consist of compensation expenses relating to our personnel involved in selling and marketing, including our enrollment advisors and our university cooperation representatives based at our learning centers, advertising expenses relating to our marketing activities, and, to a lesser extent, rental expenses relating to our selling and marketing functions. We expect our selling and marketing expenses to increase as we further expand our business.

Our general and administrative expenses primarily consist of compensation expenses relating to our management and administrative personnel and bad debt allowance associated with our post-graduation tuition installment payment option for qualified students. To a lesser extent, our general and administrative expenses include share-based compensation and office expenses relating to administrative functions. We expect our general and administrative expenses to increase in the future on an absolute basis as our business grows and we incur costs related to complying with our reporting obligations as a public company under U.S. securities laws.

Our research and development expenses primarily consist of a portion of the personnel costs of our instructors as determined based on the amount of time that they devote to research and development-related activities, as well as the personnel costs of our software engineers.

Seasonality

Seasonal fluctuations have affected, and are likely to continue to affect, our business. Historically, we typically generate the highest net revenues in the third and fourth quarters because of the increased student enrollments during summer vacation. We generally generate less tuition fees in the first quarter of each year due to the Chinese New Year holiday. Our quarterly cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses have generally been increasing in absolute amounts since 2012 as we expanded our network of learning centers, increased the number of our personnel and enhanced our marketing efforts.

Taxation

Cayman Islands

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

Hong Kong

Our wholly-owned subsidiary in Hong Kong, Tarena Hong Kong 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 the consolidated financial statements as Tarena Hong Kong Limited has no assessable income since its inception on October 22, 2012 to December 31, 2015.

China

Pursuant to the EIT Law and its Implementation Rules, which became effective on January 1, 2008, foreign-invested enterprises and domestic companies are subject to enterprise income tax at a uniform rate of 25%. In addition, “high and new technology enterprises,” or HNTEs, will enjoy a preferential enterprise income tax rate of 15% under the EIT Law. Tarena Tech qualified as a HNTE under the EIT Law and is eligible for a preferential enterprise income tax rate of 15% for the period from 2009 to the end of 2017. Tarena Hangzhou was established in 2013 and qualified as a “newly established software enterprise”, which entitles it to two years of full exemption followed by three years of 50% exemption, commencing from the year in which its taxable income is greater than zero, which was 2014. Certain of our subsidiaries qualified as “Small Profit Enterprises” in 2013, 2014 and 2015, and therefore are subject to the preferential income tax rate of 20%. Subject to the approvals from the tax authorities in certain locations in the PRC, our subsidiaries and consolidated VIEs that are based in these locations are required to use the deemed profit method to determine their income tax. Under the deemed profit method, these subsidiaries are subject to income tax at 25% on its deemed profit which is calculated based on revenues less deemed expenses equal to 85% to 90% of revenues.

Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

In connection with the audit of our consolidated financial statements as of and for the year ended December 31, 2015, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting as of December 31, 2015, as defined in the PCAOB Audit Standard No. 2. The material weakness identified related to the insufficient review over system extracted data for tuition fees calculation during transitional period of system upgrade. Our independent registered public accounting firm did not undertake a comprehensive assessment of our internal controls for purposes of identifying and reporting material weaknesses and other control deficiencies in our internal control over financial reporting, as they will be required to do under the Section 404 of the Sarbanes-Oxley Act of 2002. Had our independent registered public accounting firm performed an audit of our internal control over financial reporting, additional control deficiencies may have been identified.

To remedy our control deficiencies, we have reinforced the oversight and review procedure over the data extraction. We will continue to implement the necessary procedures and policies, including those outlined above, to improve our internal controls over financial reporting and remediate any potential material weaknesses and significant deficiencies as we prepare for our initial Section 404 reporting requirement under the Sarbanes-Oxley Act of 2002, which will take place in the fiscal year ending December 31, 2016 if certain conditions are met.

See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—If we fail to maintain an effective system of internal controls, we may be unable to accurately report our results of operations or prevent fraud or fail to meet our reporting obligations, and investor confidence and the market price of our ADSs may be materially and adversely affected."

Critical Accounting Policies

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

When reading our consolidated financial statements, you should consider our selection of critical accounting policies, the judgment and other uncertainties affecting the application of such policies and the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue recognition

We derive substantially all of our net revenues from tuition fees, a portion of which we allow qualified students to pay on installment for a period of time exceeding one year. When tuition services are sold on repayment terms that exceed one year beyond the point in time that revenue is recognized, the receivable, and therefore the revenue is recorded at the present value of the total payments. The difference between the present value of the receivable and the nominal or principal value of the tuition fees is recognized as interest income over the contractual collection period using the effective interest rate method. The interest rate used to determine the present value of the total amount receivable is the rate at which students can obtain financing of a similar nature from other sources at the date of the transaction. Revenue is presented net of business tax and value added taxes at rates ranging between 3% and 6%, and surcharges.

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our students to make payments according to their respective payment plans stipulated on the arrangement. We determine the allowance by analyzing students' accounts that have known or potential collection issues and applying historical loss rates to the aging of the remaining balances of accounts receivable. In the event that we believe an account receivable will become uncollectible, we record an additional provision to increase the allowance for doubtful accounts.

Long-lived assets

Our long-lived assets include property and equipment. We depreciate our property and equipment using the straight-line method over the estimated useful lives of the assets. We make estimates of the useful lives of property and equipment, including the salvage values, in order to determine the amount of depreciation expense to be recorded during each reporting period. We amortize leasehold improvements of our learning center facilities and offices over the shorter of the lease term or the estimated useful life of the assets. We estimate the useful lives of our other property and equipment at the time the assets are acquired based on historical experience with similar assets, as well as anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may be shortened, which would result in the recognition of increased depreciation expense in future periods. There has been no change to the estimated useful lives or salvage values of our property and equipment in 2013, 2014 and 2015.

We evaluate property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We assess recoverability by comparing the carrying amount of a long-lived asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated undiscounted future cash flows, we recognize an impairment charge based on the amount by which the carrying amount exceeds the estimated fair value of the asset or asset group. We estimate the fair value of the asset or asset group based on the best information available, including prices for similar assets, and in the absence of an observable market price, the results of using a present value technique to estimate the fair value of the asset or asset group.

No impairment on our long-lived assets was recognized in 2013, 2014 and 2015.

Share-based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award and recognize the cost over the period the employee is required to provide service in exchange for the award, which is generally the vesting period. We have elected to recognize the compensation cost for an award with only service conditions that have a graded vesting schedule on a straight-line basis over the requisite service period for the entire award, net of estimated forfeitures, provided that the cumulative amount of compensation cost recognized at any date at least equals the portion of the grant-date value of such award that is vested at that date. Forfeiture rates are estimated based on historical and future expectations of employee turnover rates.

On September 22, 2008, we adopted the 2008 Plan, pursuant to which we can issue share options and other share-based awards to our key employees, directors and consultants to purchase up to 6,002,020 of our ordinary shares (being retroactively adjusted to reflect the effect of the share split). On November 28, 2012, we increased the number of our ordinary shares authorized for issuance under the 2008 Plan to 8,184,990. Share options issued before September 22, 2008 are also administered under the 2008 Plan.

In February 2014, we adopted the 2014 Plan, pursuant to which we were authorized to issue options, restricted shares and restricted share units to our qualified employees, directors and consultants. The maximum aggregate number of shares which may be issued pursuant to all awards under the 2014 Plan, or the Award Pool, is 1,833,696, provided that the shares reserved in the Award Pool shall be increased on the first day of each calendar year, commencing with January 1, 2015, if the unissued shares reserved in the Award Pool on such day account for less than 2% of the total number of shares issued and outstanding on a fully-diluted basis on December 31 of the immediately preceding calendar year, as a result of which increase the shares unissued and reserved in the Award Pool immediately after each such increase shall equal 2% of the total number of shares issued and outstanding on a fully-diluted basis on December 31 of the immediately preceding calendar year.

Share options granted prior to initial public offering

From January 1, 2004 to February 20, 2014, our board of directors has granted the following options to our executive officers and employees:

Grant date	Number of Options	Exercise Price (US\$)	Fair Value of Ordinary Shares (US\$)
Prior to January 1, 2012	7,117,020	0.058-1.00	0.04-0.83
January 1, 2013	2,029,386	1.83	3.75
September 16, 2013	488,424	1.83	5.69
February 20, 2014	1,805,784	1.83-4.36	8.60

Prior to our initial public offering in April 2014, we did not have quoted market prices for our ordinary shares. Accordingly we have considered the guidance prescribed by the *AICPA Audit and Accounting Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, or the Practice Aid, which sets forth the preferred types of valuation that should be used. We have followed the “Level B” recommendation, and established the fair value of our ordinary shares at the dates of grant using a retrospective valuation for valuation dates prior to September 2013 with the assistance of an independent valuation firm. We obtained a retrospective valuation instead of contemporaneous valuation for valuation dates prior to September 2013, because at that time, our financial and managerial resources were limited. The valuation as of September 16, 2013 and February 20, 2014 was prepared on contemporaneous basis. We are ultimately responsible for all the fair value measurements in relation to the options and ordinary shares.

In determining the fair value of our ordinary shares for the purpose of determining the fair value of the share options, we followed a two-step process. In the first step, the equity value of our company was determined by taking into consideration the income approach, or the discounted cash flow on DCF, method. We considered the market approach and searched for public companies located in China with business nature and in a development stage similar to ours. However, no companies were similar to us in all aspects. We therefore did not apply any weight for the market approach to arrive at the equity value of our company and only used the market approach to corroborate the valuation results based on the income approach.

In estimating the total equity value of our ordinary shares, we considered the DCF method, which incorporates the projected cash flow of our management’s best estimation as of each measurement date. The projected cash flow estimation includes, among others, analysis of projected net revenue growth, gross margins and terminal value. The assumptions used in deriving the fair value of ordinary shares are consistent with our business plan.

The key assumptions used in developing the cash flow forecasts include: (i) compounded annualized growth rates of net revenue range from 19% to 52% for the forecasted period; (ii) gross margin forecast to improve with increasing economies of scale; and (iii) a terminal growth rate after the projection period.

The DCF method of the income approach involves applying appropriate weighted average cost of capital, or WACC, to discount the future cash flows forecast to present value. WACC comprises a required rate of return on equity plus the current tax effected rate of return on debt, weighted by the relative percentages of equity and debt in the capital structure of comparable public companies whose business operations are similar to that of ours. The required rates of return on equity were based on an estimation of the market required rate of return for investing in business similar to ours, which were derived by using the capital asset pricing model, or CAPM. Under CAPM, the discount rate was determined with consideration of the risk-free rate, industry-average correlated relative volatility coefficient beta, equity risk premium, size of our company, the scale of our business and our ability in achieving forecasted projections.

The risks associated with achieving the forecasts were assessed in selecting the appropriate WACC, which had been determined to range from 16.5% to 30%. The determined WACC decreased from 30% as of 2004 to 16.5% as of February 20, 2014 due to decrease in uncertainties associated with our financial forecast as we achieved milestones, progressed to later stage of development and developed solid track records.

In estimating the fair value of our ordinary shares by the DCF method, our management does not think there would be disproportionate returns of cash flows to different shareholders. Therefore, neither control premium nor a lack of control discount was considered in our valuations.

We also applied a discount for lack of marketability, or DLOM, ranging from 5% to 35%, to reflect the fact that there is no ready market for shares in a closely-held company like us. When determining the DLOM, the Black-Scholes option pricing model was used. Under this option-pricing method, the cost of the put option, which can hedge the price change before the privately held shares can be sold, was considered as a basis to determine the DLOM. This option pricing method was used because it takes into account certain company-specific factors, including the timing of the expected initial public offering and the volatility of the share price of the guideline companies engaged in the same industry.

The above assumptions used in determining the fair values were consistent with our business plan and major milestones we achieved. We also applied general assumptions, including the following:

- there will be no major changes in the existing political, legal, fiscal and economic conditions in countries in which we will carry on our business;
- there will be no major changes in the current tax laws in countries in which we operate and, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- exchange rates and interest rates will not differ materially from those presently prevailing;
- the availability of financing will not be a constraint on the future growth of our operation;
- we will retain and have competent management, key personnel, and technical staff to support our ongoing operations; and
- industry trends and market conditions for related industries will not deviate significantly from economic forecasts.

In the second step, since our capital structure comprised convertible redeemable preferred shares and ordinary shares at each grant date, we allocated our equity value among each class of equity securities using the option-pricing method. The option-pricing method treats ordinary shares and preferred shares as call options on our company's equity value and liquidation preference, redemption preference and conversion threshold of the preferred shares as exercise price of the call options.

The increase in the fair value of our ordinary shares from US\$3.75 per share as of January 1, 2013 to US\$5.69 per share as of September 16, 2013 was primarily attributable to the following factors:

- We offered more courses at our learning centers in 2013. As a result of these offerings, we experienced rapid revenue and student growth in the nine-month period ended September 30, 2013. Our net revenues in the nine-month period ended September 30, 2013 were US\$64.5 million, an increase of 64.5% from US\$39.2 million in the nine-month period ended September 30, 2012. The number of learning centers increased from 57 as of December 31, 2012 to 86 as of September 30, 2013, and the number of student enrollments increased from 31,340 in 2012 to 33,289 in the nine months ended September 30, 2013, respectively. In view of the above, we adjusted our estimated earning upwards when we prepared financial forecast for valuation as of September 16, 2013, and lowered the discount rate used in valuation from 19.5% as of January 1, 2013 to 17.5% as of September 16, 2013.

- As we progressed towards an initial public offering, or IPO, leading time to an expected liquidity event decreased, resulting in a decrease of DLOM from 20% as of January 1, 2013 to 15% as of September 16, 2013. We also increased our estimated probability of IPO from 50% to 60%. As preferred shares would be automatically converted into ordinary shares upon IPO, the increase in estimated probability of IPO results in allocation of a higher portion of our business enterprise value to ordinary shares.

The increase in the fair value of our ordinary shares from US\$5.69 per share as of September 16, 2013 to US\$8.60 per share as of February 20, 2014 was primarily attributable to the following factors:

- We adjusted our projections upward when preparing our financial forecast to determine the fair value of our ordinary shares as of February 20, 2014 based on the following operational improvements:
 - (i) we expanded our new digital arts course offering nationally in the last quarter of 2013;
 - (ii) we launched a new online sales and marketing course in November 2013; and
 - (iii) in February 2014, we implemented a new pricing strategy resulting in an overall increase in tuition fees.
- We made the first confidential submission of the draft registration statement on Form F-1 in respect of the proposed IPO in November 2013, increasing the probability of a successful IPO. This resulted in a decrease of the DLOM from 15% as of September 16, 2013 to 5% as of February 20, 2014. Furthermore, we increased the estimated probability of a successful IPO from 60% as of September 16, 2013 to 90% as of February 20, 2014. Because our preferred shares will be automatically converted into ordinary shares upon the IPO, the increase in the estimated probability of the IPO resulted in the allocation of a higher portion of our business enterprise value to our ordinary shares.
- The determined weighted average cost of capital decreased from 17.5% as of September 16, 2013 to 16.5% as of February 20, 2014 to reflect the decrease in uncertainties associated with our financial forecast, since we achieved our milestones, progressed to later stage of development and maintained a solid track record.

In determining the fair value of share options granted to executive officers and certain employees, we have used the binomial option pricing model. Under this option pricing model, certain assumptions, including the risk-free interest rate, the expected dividends on the underlying ordinary shares and the expected volatility of the price of the underlying shares for the contract term of the options, are required in order to determine the fair value of the options. Changes in these assumptions could significantly affect the fair value of share options and hence the amount of compensation expense we recognize in our consolidated financial statements.

For the options granted, we used the following assumptions on the date of grant in determining the estimated fair value per option:

	Options Granted In			
	2011	2012	2013	2014
Expected volatility	45-46%	—	52%	52%
Expected dividends yield	0%	—	0%	0%
Exercise multiple	2.2	—	2.2	2.2
Risk-free interest rate per annum	3.89%-3.93%	—	2.27%-3.38%	3.81%
Estimated fair value of underlying ordinary shares (per share)	US\$ 0.63-0.83	—	US\$ 3.75-5.69	US\$ 8.60

For the purpose of determining the estimated fair value of our share options, we believe the expected volatility and the estimated fair value of our ordinary shares are the most critical assumptions since we are a privately-held company when we granted these share options.

Since we did not have a trading history at the time the share options were granted and we did not have sufficient share price history to calculate our own historical volatility, expected volatility of our future ordinary share price was estimated based on the price volatility of the shares of comparable public traded companies engaged in the similar industry.

Share options granted after initial public offering

From March 1, 2015 to December 6, 2015, our board of directors has granted the following options to our executive officers and employees:

Grant date	Number of Options	Exercise Price (US\$)	Fair Value of Ordinary Shares (US\$)
March 1, 2015	452,233	1.00-4.36	11.40
April 1, 2015	10,000	4.36	9.44
May 1, 2015	516	1.00	12.12
July 1, 2015	104,981	1.00-4.36	12.85
August 1, 2015	22,396	1.00	11.82
October 1, 2015	24,785	0.89-1.00	9.28
December 6, 2015	713	1.00	11.37

On June 16, 2015, Mr. Shaoyun Han exercised 2,439,014 share options to purchase 2,439,014 Class A ordinary shares. Mr. Shaoyun Han remitted US\$2,783,957 to us on August 4, 2015.

In determining the fair value of share options granted to executive officers and certain employees, we have used the binomial option pricing model. Under this option pricing model, certain assumptions, including the risk-free interest rate, the expected dividends on the underlying ordinary shares and the expected volatility of the price of the underlying shares for the contract term of the options, are required in order to determine the fair value of the options. Changes in these assumptions could significantly affect the fair value of share options and hence the amount of compensation expense we recognize in our consolidated financial statements.

For the options granted, we used the following assumptions on the date of grant in determining the estimated fair value per option:

	Options Granted In 2015
Expected volatility	62.3%-70.9%
Expected dividends yield	0%
Exercise multiple	2.0
Risk-free interest rate per annum	2.68%-2.99%
The fair value of underlying ordinary shares (per share)	US\$ 9.28-12.85

The fair values of underlying ordinary shares are closing prices of our stock traded in the open market as of each grant date. For the purpose of determining the estimated fair value of our share options, we believe the expected volatility is the most critical assumption.

Since we did not have sufficient share price history, expected volatility of our future ordinary share price was estimated with reference to the price volatility of the shares of comparable public traded companies engaged in the similar industry.

Income taxes

The realization of the future tax benefits of deferred income tax assets is dependent on future taxable income against which such tax benefits can be applied or utilized and any tax planning strategies. In assessing the realizability of deferred income tax assets, we consider whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. All available evidence must be considered in determining the realizability of the deferred income tax assets. Such evidence includes, but is not limited to, the financial performance of subsidiaries and consolidated VIEs, the market environment in which these entities operate, the utilization of past tax credits, and the length of relevant carryforward periods. Sufficient negative evidence, such as a cumulative net loss during a three-year period that includes the current year and the prior two years, may require that a valuation allowance be established with respect to existing and future deferred income tax assets. In view of cumulative losses sustained by our PRC subsidiaries and consolidated VIEs, valuation allowances of US\$0.60 million, US\$2.35 million and US\$3.10 million were provided as of December 31, 2013, 2014 and 2015, respectively. If, in the future, taxable incomes are available for each tax-paying component, the valuation allowances against our deferred income tax assets may be adjusted.

In order to assess uncertain tax positions, we adopt a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is greater than 50% likely to be realized upon settlement. The unrecognized tax benefits were US\$3.1 million, US\$6.0 million and US\$8.2 million as of December 31, 2013, 2014 and 2015, respectively. No interest and penalty expenses were recorded for the years ended December 31, 2013, 2014 and 2015.

Recently Issued Accounting Policies

The Financial Reporting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, in May 2014. ASU 2014-09 requires an entity to 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. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In December 2015, the FASB issued ASU No. 2015-14, Revenue from contracts with customers, which deferred the effective date of ASU 2014-09. The new standard is effective for annual reporting periods beginning after December 15, 2017. We will implement the provisions of ASU 2014-09 as of January 1, 2018. We have not yet determined the impact of the new standard on our current policies for revenue recognition.

In 2015, we elected to early adopt the ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. We adopted this new guidance retrospectively. As a result of adoption of this guidance, we reclassified current deferred income tax assets in the amount of US\$2.1 million to other noncurrent assets as of December 31, 2014. There was no impact on results of operations or cash flows as a result of this guidance.

The FASB issued Accounting Standards Codification (“ASC”) Topic 842, Leases, in February 2016. ASC Topic 842 requires a lessee to recognize all leases, including operating leases, on balance sheet via a right-of-use asset and lease liability, unless the lease is a short-term lease (one with an accounting lease term of 12 months or less). All (or a portion of) fixed payments by the lessee to cover lessor costs related to ownership of the underlying assets, or executory costs, that do not represent payments for a good or service will be considered lease payments and reflected in the measurement of lease assets and lease liabilities by lessees. The new standard does not substantially change lessor accounting from current U.S. GAAP. The new standard also requires lessees and lessors to disclose more qualitative and quantitative information about their leases than current U.S. GAAP does. The standard is applied retrospectively, with elective reliefs. The new standard is effective for annual and interim reporting periods beginning after December 15, 2018 for a public business entity. Early adoption is permitted. We have not yet determined the impact of the new standard on our current policies for leases.

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 Year Ended December 31,					
	2013		2014		2015	
	US\$	% of Net Revenues	US\$	% of Net Revenues	US\$	% of Net Revenues
	(in thousands of US\$, except percentages)					
Net revenues	92,834	100.0	136,204	100.0	189,190	100.0
Cost of revenues ⁽¹⁾	(29,068)	(31.3)	(39,080)	(28.7)	(53,570)	(28.3)
Gross profit	63,766	68.7	97,124	71.3	135,620	71.7
Operating expenses ⁽¹⁾ :						
Selling and marketing	(30,252)	(32.6)	(42,562)	(31.2)	(61,824)	(32.7)
General and administrative	(16,224)	(17.6)	(29,948)	(22.0)	(40,359)	(21.3)
Research and development	(3,807)	(4.1)	(5,446)	(4.0)	(8,113)	(4.3)
Operating income	13,483	14.4	19,168	14.1	25,324	13.4
Interest income	1,541	1.7	4,360	3.2	6,863	3.6
Foreign exchange gain (loss)	—	—	1,197	0.9	(4,738)	(2.5)
Other income	1,294	1.4	2,371	1.7	1,897	1.0
Income before income taxes	16,318	17.5	27,096	19.9	29,346	15.5
Income tax expense	(2,271)	(2.4)	(2,405)	(1.8)	(637)	(0.3)
Net income	14,047	15.1	24,691	18.1	28,709	15.2

Notes:

(1) Share-based compensation expenses were allocated in cost of revenues and operating expenses as follows:

	For the Year Ended December 31		
	2013	2014	2015
	(in thousands US\$)		
Cost of revenues	17	57	107
Selling and marketing expenses	45	169	315
General and administrative expenses	654	3,627	4,541
Research and development expenses	48	210	325

The Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

Net revenues

Our net revenues increased by 38.9% from US\$136.2 million in 2014 to US\$189.2 million in 2015. This increase was primarily due to increased student enrollments and higher average revenue per student. The number of total student enrollments grew by 40.2% from 59,960 in 2014 to 84,041 in 2015. The number of our student enrollments is primarily driven by the number and popularity of our course offerings and programs. We experienced significant increase in student enrollment for our new courses in the past few years, such as digital art, iOS and accounting. The number of our learning centers increased from 118 as of December 31, 2014 to 134 as of December 31, 2015 to cater to the increased demand for our courses. The increase in our average revenue per student was primarily a result of our tuition fees increase in 2015 and the decrease in the percentage of our students recruited through our network of cooperative universities and colleges. In 2015, we raised the standard tuition fees on most of our courses by RMB1000 (US\$161) per course. We generally offer a discount of approximately RMB4,000 (US\$617) per person per full-time course for students enrolled through our network of cooperative universities and colleges. In 2015, the percentage of our students recruited from our network of cooperative universities and colleges was approximately 16%, as compared with 18% in 2014.

Cost of Revenues

Our cost of revenues increased by 37.1% from US\$39.1 million in 2014 to US\$53.6 million in 2015. This increase was mainly due to higher personnel cost and welfare expenses resulting from increased number of teaching and advisory staff at our learning centers, higher rental cost resulting from increased number of learning centers and expansion of existing learning centers, as well as higher depreciation expenses for our learning centers. Our instructors, teaching assistants, career counselors and employer cooperation representatives at our learning centers increased from 1,378 as of December 31, 2014 to 1,729 as of December 31, 2015. The number of our learning centers increased from 118 as of December 31, 2014 to 134 as of December 31, 2015.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 39.6% from US\$97.1 million in 2014 to US\$135.6 million in 2015. Our gross profit margin increased from 71.3% in 2014 to 71.7% in 2015. The improvement in gross margin was mainly due to increased operational scale and efficiency for our learning centers. Our overall center utilization rate in 2015 increased to 73% from 71% in 2014.

Operating Expenses

Our operating expenses increased by 41.5% from US\$78.0 million in 2014 to US\$110.3 million in 2015 as a result of increases in our selling and marketing, general and administrative and research and development expenses.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 45.3% from US\$42.6 million in 2014 to US\$61.8 million in 2015. This increase was partially due to increased personnel cost and welfare expenses related to growth in our selling and marketing headcount from 1,773 as of December 31, 2014 to 2,300 as of December 31, 2015. The amount of personnel cost and welfare expenses for our selling and marketing staff increased from US\$19.1 million in 2014 to US\$29.3 million in 2015. The increase in selling and marketing expenses was also due to expanded marketing efforts, which increased advertising expenses from US\$16.7 million in 2014 to US\$24.3 million in 2015, primarily as a result of increased spending on search engine advertising as we expanded our network of learning centers.

General and Administrative Expenses

Our general and administrative expenses increased by 34.8% from US\$29.9 million in 2014 to US\$40.4 million in 2015 primarily due to higher personnel costs and welfare expenses for our increased headcount of general and administrative personnel, from 742 as of December 31, 2014 to 1,015 as of December 31, 2015 to support our growing operations, higher bad debt allowance associated with our post-graduation tuition installment payment option for qualified students enrolled from 2010 to 2014 and higher share-based compensation expenses, which increased from US\$3.6 million in 2014 to US\$4.5 million in 2015.

Research and Development Expenses

Our research and development expenses increased by 49.0% from US\$5.4 million in 2014 to US\$8.1 million in 2015 primarily due to increased personnel costs and welfare expenses of our instructors allocated to their content development activities for our new courses, as well as increased number of research and development staff as we expanded our course offerings and operations.

Interest Income

Our interest income increased from US\$4.4 million in 2014 to US\$6.9 million in 2015. Our interest income in both periods consisted of interest earned on our cash and time deposits deposited in commercial banks and interest income recognized in relation to our installment payment plan for students. The increase in interest income was primarily due to higher tuition interest income in relation to our installment payment plan for students and higher bank deposits generated ultimately from operating activities.

Income Tax Expense

Our income tax expense decreased by 73.5% from US\$2.4 million in 2014 to US\$0.6 million in 2015. The decrease was mainly due to a decrease in the effective income tax rate to 2.2% in 2015 from 8.9% in 2014, partially offset by higher taxable income. The decrease in the effective income tax rate was primarily due to a tax holiday enjoyed by Tarena Hangzhou as a “newly established software enterprise”, as well as more profit before tax being generated by this tax-exempt subsidiary.

The effective income tax rate of 8.9% in 2014 was lower than the statutory income tax rate of 25% primarily because of (i) the preferential income tax rate of 15% enjoyed by Tarena Tech, (ii) the tax holiday enjoyed by Tarena Hangzhou and (iii) the effect of research and development expenses bonus deduction allowed under PRC tax regulations, partially offset by recognition of valuation allowances for deferred income tax assets of certain subsidiaries, which were at cumulative loss position.

The effective income tax rate of 2.2% in 2015 was lower than the statutory income tax rate of 25% primarily because of (i) the preferential income tax rate of 15% enjoyed by Tarena Tech, (ii) the tax holiday enjoyed by Tarena Hangzhou and (iii) the effect of research and development expenses bonus deduction allowed under PRC tax regulations, partially offset by recognition of valuation allowances for deferred income tax assets of certain subsidiaries, which were at cumulative loss position.

Net Income

As a result of the foregoing, our net income increased by 16.3% from US\$24.7 million in 2014 to US\$28.7 million in 2015.

The Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

Net revenues

Our net revenues increased by 46.7% from US\$92.8 million in 2013 to US\$136.2 million in 2014. This increase was primarily due to increased student enrollments and higher average revenue per student. The number of total student enrollments grew by 29.1% from 46,458 in 2013 to 59,960 in 2014. The number of our student enrollments is primarily driven by the number and popularity of our course offerings. We experienced significant increase in student enrollment for our new courses in the past few years, such as digital art, online sales and marketing, and iOS. The number of our learning centers increased from 92 as of December 31, 2013 to 118 as of December 31, 2014 to cater to the increased demand for our courses. The increase in our average revenue per student was primarily a result of our tuition fees increase in 2014 and the decrease in the percentage of our students recruited through our network of cooperative universities and colleges. In 2014, we raised the standard tuition fees on most of our courses by RMB1,000 (US\$161) per course. We generally offer a discount of approximately RMB4,000 (US\$645) per person per full-time course for students enrolled through our network of cooperative universities and colleges. In 2014, the percentage of our students recruited from our network of cooperative universities and colleges was approximately 18%, as compared with 23% in 2013.

Cost of Revenues

Our cost of revenues increased by 34.4% from US\$29.1 million in 2013 to US\$39.1 million in 2014. This increase was mainly due to higher personnel cost and welfare expenses resulting from increased number of teaching and advisory staff at our learning centers, higher rental cost resulting from increased number of learning centers and expansion of existing learning centers, as well as higher depreciation expenses for our learning centers. Our instructors, teaching assistants, career counselors and employer cooperation representatives at our learning centers increased from 1,179 as of December 31, 2013 to 1,378 as of December 31, 2014. The number of our learning centers increased from 92 as of December 31, 2013 to 118 as of December 31, 2014.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by 52.3% from US\$63.8 million in 2013 to US\$97.1 million in 2014. Our gross profit margin increased from 68.7% in 2013 to 71.3% in 2014. The improvement in gross margin was mainly due to increased operational scale and efficiency for our learning centers. Our overall center utilization rate in 2014 increased to 71% from 66% in 2013.

Operating Expenses

Our operating expenses increased by 55.0% from US\$50.3 million in 2013 to US\$78.0 million in 2014 as a result of increases in our selling and marketing, general and administrative and research and development expenses.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 40.7% from US\$30.3 million in 2013 to US\$42.6 million in 2014. This increase was partially due to increased personnel cost and welfare expenses related to growth in our selling and marketing headcount from 1,321 as of December 31, 2013 to 1,773 as of December 31, 2014. The amount of personnel cost and welfare expenses for our selling and marketing staff increased from US\$12.9 million in 2013 to US\$19.1 million in 2014. The increase in selling and marketing expenses was also due to expanded marketing efforts, which increased advertising expenses from US\$11.6 million in 2013 to US\$16.7 million in 2014, primarily as a result of increased spending on search engine advertising as we expanded our network of learning centers.

General and Administrative Expenses

Our general and administrative expenses increased by 84.6% from US\$16.2 million in 2013 to US\$29.9 million in 2014 primarily due to higher personnel costs and welfare expenses for our increased headcount of general and administrative personnel, from 591 as of December 31, 2013 to 742 as of December 31, 2014 to support our growing operations, higher bad debt allowance associated with our post-graduation tuition installment payment option for qualified students enrolled between 2010 and 2012 and higher share-based compensation expenses, which increased from US\$0.7 million in 2013 to US\$3.6 million in 2014.

Research and Development Expenses

Our research and development expenses increased by 43.0% from US\$3.8 million in 2013 to US\$5.4 million in 2014 primarily due to increased personnel costs and welfare expenses of our instructors allocated to their content development activities for our new courses, as well as increased number of research and development staff as we expanded our course offerings and operations.

Interest Income

Our interest income increased from US\$1.5 million in 2013 to US\$4.4 million in 2014. Our interest income in both periods consisted of interest earned on our cash and time deposits deposited in commercial banks and interest income recognized in relation to our installment payment plan for students. The increase in interest income was primarily due to higher deposits resulting from our initial public offering and concurrent private placement in April 2014.

Income Tax Expense

Our income tax expense increased by 5.9% from US\$2.3 million in 2013 to US\$2.4 million in 2014. The increase was mainly due to higher taxable income, largely offset by a decrease in the effective income tax rate to 8.9% in 2014 from 13.9% in 2013. The decrease in our effective income tax rate is primarily due to the significant profits generated in one of our PRC subsidiaries, Tarena Hangzhou, which is entitled to the full income tax exemption during the year ended December 31, 2014.

The effective income tax rate of 13.9% in 2013 was lower than the statutory income tax rate of 25% primarily because of (i) the preferential income tax rate of 15% enjoyed by Tarena Tech, and (ii) the effect of research and development expenses bonus deduction allowed under PRC tax regulations, partially offset by recognition of valuation allowances for deferred income tax assets of certain subsidiaries, which were at cumulative loss position.

The effective income tax rate of 8.9% in 2014 was lower than the statutory income tax rate of 25% primarily because of (i) the preferential income tax rate of 15% enjoyed by Tarena Tech, (ii) the tax holiday enjoyed by Tarena Hangzhou and (iii) the effect of research and development expenses bonus deduction allowed under PRC tax regulations, partially offset by recognition of valuation allowances for deferred income tax assets of certain subsidiaries, which were at cumulative loss position.

Net Income

As a result of the foregoing, our net income increased by 75.8% from US\$14.0 million in 2013 to US\$24.7 million in 2014.

Inflation

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2013, 2014 and 2015 were increases of 2.5%, 1.5% and 1.6%, respectively.

Impact of Foreign Currency Fluctuation

See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment.” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Foreign Exchange Risk.”

Impact of Governmental Policies

See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China” and “Item 4. Information on the Company—B. Business Overview—Government Regulations.”

B. Liquidity and Capital Resources

Cash Flows and Working Capital

Our principal sources of liquidity have been cash generated from operating activities and proceeds from the issuance and sale of our shares. As of December 31, 2015, we had US\$189.1 million in cash, cash equivalents, restricted time deposits and time deposits and we had no bank borrowings. Our cash consists of cash on hand and cash in bank, which are unrestricted as to withdrawal. Cash of our consolidated VIEs, in the amount of US\$0.2 million as of December 31, 2015, can be used only to settle obligations of our consolidated VIEs. Cash equivalents consist of interest-bearing certificates of deposit with initial term of no more than three months when purchased. Time deposits, which mature within one year as of the balance sheet date, represent interest-bearing certificates of deposit with an initial term of greater than three months when purchased, while the time deposits that mature over one year as of the balance sheet date are included in non-current assets. Restricted time deposits represent deposits not readily available to us. Restricted time deposits as of December 31, 2015 mainly represented cash pledged as security for a bank line of credit, which line of credit was not drawn by us and expired by March 9, 2016. The pledge was also terminated on March 9, 2016.

We believe that our current cash, cash equivalents, time deposits, restricted time deposits and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months.

See *Cash, cash equivalents, time deposits and restricted time deposits* under Note 2(d) to our audited consolidated financial statements included in this annual report for information regarding the currencies in which cash, cash equivalents, time deposits and restricted time deposits were held as of December 31, 2015.

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

	For the Year Ended December 31,		
	2013	2014	2015
	(US\$ in thousands)		
Net cash provided by operating activities	29,706	28,460	55,843
Net cash used in investing activities	(19,537)	(119,459)	(11,615)
Net cash provided by (used in) financing activities	(591)	106,472	(4,132)
Net increase in cash and cash equivalents	9,942	16,521	36,485
Cash and cash equivalents at the beginning of the year	16,197	26,139	42,660
Cash and cash equivalents at end of the year	26,139	42,660	79,145

Operating Activities

Net cash provided by operating activities increased to US\$55.8 million in 2015 from US\$28.5 million in 2014, primarily due to an increase of approximately US\$62.6 million in cash collected from our students in 2015, a decrease of approximately US\$0.2 million in income tax payment and proceeds from tax refund of approximately US\$0.2 million in 2015, which were partially offset by an increase of approximately US\$35.7 million in cash operating expenditures.

Net cash provided by operating activities decreased to US\$28.5 million in 2014 from US\$29.7 million in 2013, primarily due to an increase of approximately US\$26 million in cash operating expenditures in 2014, which were partially offset by an increase of approximately US\$24 million in cash collected from our students and a decrease of approximately US\$1 million in income tax payment in 2014.

Net cash provided by operating activities increased to US\$29.7 million in 2013 from US\$7.4 million in 2012, primarily due to an increase of approximately US\$48 million in cash collected from our students in 2013, which were partially offset by an increase of approximately US\$25 million in cash operating expenditures and an increase of approximately US\$1 million in income tax payment in 2013.

Investing Activities

We lease all of our facilities. Our cash used in investing activities is primarily related to investments in time deposits and short-term financial products, purchase of property and equipment and leasehold improvements.

Net cash used in investing activities was US\$11.6 million in 2015, consisting of purchase of short-term investment of approximately US\$151.8 million, purchase of time deposits of approximately US\$102.6 million, purchase of property and equipment, including computers and servers, of approximately US\$16.1 million in connection with the expansion of our network of learning centers, and payment for long-term investment of approximately US\$4.0 million; and partially offset by the maturity of short-term investment of approximately US\$151.8 million, and maturity of time deposits of approximately US\$110.9 million.

Net cash used in investing activities was US\$119.5 million in 2014, consisting of purchases of property and equipment, including computers and servers, of approximately US\$8 million in connection with the expansion of our network of learning centers; purchase of time deposits of approximately US\$115 million; purchase of short-term investment in the amount of approximately US\$101 million; and partially offset by the maturity of short-term investment of approximately US\$101 million, and maturity of time deposits of approximately US\$4 million.

Net cash used in investing activities was US\$19.5 million in 2013, consisting of purchases of property and equipment, including computers and servers, of approximately US\$9 million in connection with the expansion of our network of learning centers; purchase of time deposits of approximately US\$17 million; purchase of short-term investment in the amount of approximately US\$11 million; and partially offset by the maturity of short-term investment of approximately US\$11 million, maturity of time deposits of approximately US\$6 million, and proceeds from repayment of housing loans from employees in the amount of approximately US\$1 million.

Financing Activities

Net cash used in financing activities in 2015 was US\$4.1 million, which was primarily attributable to the payment for repurchase of treasury stock under a share repurchase plan in the amount of US\$7.7 million, and partially offset by proceeds from Issuance of Class A ordinary shares in connection with exercise of share options of US\$3.6 million.

Net cash provided by financing activities in 2014 was US\$106.5 million, which was primarily attributable to the gross proceeds from our initial public offering of approximately US\$96.2 million, payment of costs related to our initial public offering in the amount of US\$3.5 million and net proceeds from our concurrent private placement of US\$13.5 million in April.

Net cash used in financing activities in 2013 was US\$0.6 million, which was primarily attributable to the payment of costs related to our initial public offering in the amount of US\$0.5 million.

Capital Expenditures

Our capital expenditures are primarily related to leasehold improvements and investments in computers, network equipment and software. Our capital expenditures were US\$9.1 million, US\$8.0 million and US\$16.1 million in 2013, 2014 and 2015, respectively. We intend to continue to lease facilities for our learning centers in order to allocate our capital resources cost-efficiently. We have made and may continue to make acquisitions of businesses and properties that complement our operations. We expect our capital expenditures will continue to be significant for the near future as we continue to expand our network of learning centers. We expect to fund our future capital expenditures with our current cash, cash equivalents, restricted time deposits, time deposits and anticipated cash flow from operations.

Holding Company Structure

We are a holding company with no material operations of our own. We conduct our operations primarily through our wholly-owned subsidiaries in China. As a result, our ability to pay dividends depends upon dividends paid by our wholly-owned subsidiaries. If our wholly-owned subsidiaries or any newly formed subsidiaries incur any debt in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly-owned 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. Under PRC law, each of our subsidiaries 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. Although the statutory surplus reserves can be used 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. As a result of these PRC laws and regulations, as of December 31, 2015, we had US\$10.3 million in statutory surplus reserves that are not distributable as cash dividends. Our PRC subsidiaries have not historically paid any dividends to our offshore entities from their accumulated profits. However, 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 only required to set aside an additional US\$10.5 million to satisfy the maximum requirement of statutory surplus reserves for all of our PRC subsidiaries as of December 31, 2015. In addition, our private schools requiring reasonable returns are required to appropriate no less than 25% of their net income to a statutory development fund, whereas in the case of private schools requiring no reasonable return, this amount shall be no less than 25% of the annual increase of their net assets. As of December 31, 2015, we had US\$1.3 million in statutory development fund that are not distributable as cash dividends.

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

Research and Development

Building a reliable, scalable and secure technology infrastructure is crucial to our ability to support our live lecture broadcasts, online TTS, *TMOOC.cn* and the various services that we provide to our students. We manage our lecture delivery system, TTS and *TMOOC.cn* using a combination of commercially available software, hardware systems and proprietary technology. Since 2006, we have established a powerful online platform that enables thousands of students to simultaneously log onto our TTS and participate in activities online.

We have developed our CRM software in-house to manage our student and corporate employer information, as well as to integrate our key administrative functions. We rely on our internal IT resources to upgrade the CRM system as needed.

Our research and development expenses primarily consist of a portion of the personnel costs of our instructors as determined based on the amount of time that they devote to research and development-related activities, as well as the personnel costs of our software engineers. Our research and development expenses were US\$3.8 million, US\$5.4 million and US\$8.1 million in 2013, 2014 and 2015, respectively.

Intellectual Property

Our trademarks, copyrights, domain names, trade secrets and other intellectual property rights distinguish our courses and services from those of our competitors and contribute to our ability to compete in our target markets. We rely on a combination of copyright and trademark law, trade secret protection and confidentiality agreements with senior executive officers and most other employees, to protect our intellectual property rights. In addition, we require certain of our senior executive officers and other employees to enter into agreements with us under which they acknowledge that all inventions, utility models, designs, know-how, copyrights and other forms of intellectual property made by them within the scope of their employment with us, pursuant to job assignments or using our materials and technology, or during the one year after their employment that relates to their employment with us, are our property and they should assign the same to us if we so require. We also regularly monitor any infringement or misappropriation of our intellectual property rights.

As of December 31, 2015, we had registered 215 domain names relating to our business, including our *www.tedu.cn*, *TMOOC.cn*, *jobshow.cn*, *www.IT61.cn* and *www.art61.cn* websites, with the Internet Corporation for Assigned Names and Numbers and China Internet Network Information Center. Tarena Tech holds 17 registered software copyrights, 35 trademarks and 213 registered domain names including *www.tedu.cn*. Beijing Tarena holds the domain name *TMOOC.cn*.

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 period from January 1, 2015 to December 31, 2015 that are reasonably likely to have a material 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

Starting from 2011, Chuanbang, a credit-sourcing company in China owned by Mr. Shaoyun Han, our chief executive officer, began to offer person-to-person lending services to our students to help them pay for our tuition fees. Under the person-to-person lending service, we serve as the guarantor of the loans taken out by students. Starting from April 2013, we had stopped providing guarantees for any new student loans arranged by Chuanbang. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Transactions with Shareholders and Affiliates—Transactions with Chuanbang.” As of December 31, 2013, 2014 and 2015, our maximum exposure to guarantees of student loans obtained through Chuanbang was US\$4.4 million, US\$0.2 million and nil, respectively.

Other than the above, 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 December 31, 2015:

	Payment due by December 31,						2021 and thereafter
	Total	2016	2017	2018	2019	2020	
	(in thousands of US\$)						
Operating lease commitments ⁽¹⁾	56,061	14,827	13,604	9,071	6,367	4,217	7,975

Note:

(1) Represents our non-cancelable leases for our offices and learning centers.

G. Safe Harbor

This annual report on Form 20-F contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

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

- our goals and growth strategies;
- our expectations regarding demand for and market acceptance of our courses;
- our ability to retain and increase our student enrollments;
- our ability to maintain and increase the utilization rate of our learning centers;
- our ability to offer new courses in existing and new subject areas;
- our ability to replicate the success and growth of our adult education services to the kid education market;
- our ability to maintain and increase the tuition fees of our courses;
- our ability to deepen and expand our corporate employer relationships;
- our ability to maintain our relationships with universities and colleges;
- our future business development, results of operations and financial condition;
- the expected growth of, and trends in, the markets for our services in China;
- relevant government policies and regulations relating to our corporate structure, business and industry; and
- assumptions underlying or related to any of the foregoing.

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

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Executive Officers

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

Directors and Executive Officers	Age	Position/Title
Shaoyun Han	45	Founder, chairman and chief executive officer
Jianguang Li	51	Director
Yongji Sun	51	Independent director
Xiaosong Zhang	52	Independent director
Ya-Qin Zhang	50	Independent director
Yuduo Yang	41	Chief financial officer
Ying Sun	39	Vice president
Yi Li	40	Vice president
Yinan Qi	37	Vice president

Shaoyun Han is our founder and has served as chairman of our board of directors and chief executive officer since our inception. Before founding Tarena in September 2002, Mr. Han was deputy chief engineer and director of the software division of AsiaInfo-Linkage between 1995 and 2002, responsible for software research and development and corporate management. Mr. Han received a bachelor's degree in computer application from Jilin University in China.

Jianguang Li has served as our director since January 2004. Mr. Li has been a partner of IDG Capital Partners since March 2006, responsible for providing venture capital and private equity investment-related advice. Between 1999 and 2006, Mr. Li served as a vice-president of IDG Technology Venture Investment Inc. Prior to joining IDG in 1999, Mr. Li worked in Crosby Assets Management Limited as an investment manager. Mr. Li has been a non-executive director of China Binary Sale Technology Limited, a company listed on the Hong Kong Stock Exchange, since April, 2015. Mr. Li received a bachelor's degree in management from Peking University and a master's of science degree from the University of Guelph.

Yongji Sun has served as our independent director since April 2014. Mr. Sun currently serves as the chairman of Dilato Infotech Inc. Between 2011 and 2014, Mr. Sun served as the chief executive officer of Shangxue Education Technology Inc. Between 2005 and 2011, Mr. Sun served as executive vice president of special projects and strategic relationships at HiSoft Technology International Ltd., or HiSoft. Prior to joining HiSoft in November 2005, Mr. Sun founded Beijing Tianhai Hongye International Software Co., Ltd. (Ensemble) in 2002 and served as its chief executive officer from 2003 to 2005. He founded and served as chief executive officer of Newland Network Co. from 2000 to 2002. He founded Lotus China in 1993 and served as the head of the research and development center until 1998. Mr. Sun received a bachelor's degree from North Eastern Machinery Institute in 1985, a master's degree in Computer Science from Nanjing Aerospace & Aeronautic University in 1988, and received a master of business administration from Babson College in 2000.

Xiaosong Zhang has served as our independent director since April 2014. Mr. Zhang currently serves as the chief financial officer of Momo Inc., a NASDAQ-listed company. Mr. Zhang served as an independent director and chairman of the audit committee of Sungy Mobile Limited, a NASDAQ-listed mobile internet company, between November 2013 and July 2014. Mr. Zhang served as the chief financial officer of iSoftStone Holdings Limited, a NYSE-listed company, between July 2010 and April 2014, and was an independent director of iSoftStone between February 2010 and July 2010. Prior to joining iSoftStone, Mr. Zhang served as chief financial officer of BJB Career Education Company Limited from 2009 to June 2010, as chief financial officer of Emarket Holding Group, Ltd. from 2008 to 2009, as chief financial officer of Chinacars, Inc. from 2007 to 2008 and as chief financial officer of Vimicro International Corporation, a NASDAQ-listed company, from 2004 to 2007. From 2000 to 2004, Mr. Zhang was a manager and then a senior manager at the Beijing office of PricewaterhouseCoopers. From 1995 to 1999, Mr. Zhang was an auditor and then a senior auditor at the Los Angeles office of KPMG LLP. Mr. Zhang received his master degree in accountancy from University of Illinois, his master degree in professional meteorology from Saint Louis University, and his bachelor degree in meteorology from Peking University. Mr. Zhang is a Certified Public Accountant in the State of California.

Ya-Qin Zhang has served as our independent director since April 2014. Mr. Zhang has served as president of Baidu, Inc., a NASDAQ-listed company, since September 2014. Mr. Zhang has served as a director of ChinaCache International Holdings Ltd., a NASDAQ-listed company, since September 2010. Mr. Zhang served as an independent director and member of the audit committee of Autohome Inc., a NYSE-listed company, between December 2013 and January 2015. Mr. Zhang served as the chairman of Microsoft Asia-Pacific R&D Group between 2005 and September 2014 and was in charge of the research and development of Microsoft Corporation in the Asia-Pacific region. Mr. Zhang is one of the founding members of the Microsoft Research Asia lab, where he served as managing director and chief scientist, and he also founded the Advanced Technology Center in 2003. Before joining Microsoft in 1999, Mr. Zhang was a director for the Multimedia Technology Laboratory at Sarnoff Corp. and worked as a senior technical staff member for GTE Laboratories Inc. and Contel Corp. Mr. Zhang received his bachelor's and master's degrees in electrical engineering from the University of Science and Technology of China and a Ph.D. in electrical engineering from George Washington University.

Yuduo Yang has served as our co-chief financial officer since November 2015 and as our chief financial officer since April 2016. Prior to joining us, Mr. Yang was a vice president at Beijing Fengshun Lubao Car Auction Company Limited from March 2015 to November 2015. From December 2013 to October 2014, Mr. Yang was a finance director at Bybon Group Company Limited. From June 2010 to December 2013, Mr. Yang was a finance director at South Beauty Group, a well-known restaurant chain operator in China. Prior to that, Mr. Yang was a finance manager at Google and Lucent Technologies from December 2007 to May 2010, and from April 2005 to November 2007, respectively, and an auditing manager at KPMG Beijing Office from July 1997 to April 2005. Mr. Yang received a bachelor's degree in economics from Renmin University of China, as well as an MBA degree from Fordham University.

Ying Sun is our vice president. Ms. Sun has served as our vice president since December 2009, responsible for our nation-wide operations. Ms. Sun joined us in June 2005 as the general manager of our Beijing learning centers. Between 2007 and 2009, she was the general manager of our northern region. From 1999 to 2005, Ms. Sun worked in Gloria Hotels and Resorts, serving in various sales and human resources-related roles. Ms. Sun received a bachelor's degree in tourism economics management from Dongbei University of Finance and Economics in China.

Yi Li is our vice president. Mr. Li has served as our vice president since January 2012, responsible for our teaching and research efforts. Mr. Li joined us in November 2008, serving as our director of teaching between 2008 and 2012. Prior to joining us, Mr. Li was a senior teacher and later a general supervisor of the Java training course at Oriental Standard between 2005 and 2008. From 2004 to 2005, Mr. Li was a senior development engineer at IBM China R&D center. Mr. Li received a bachelor's degree in Automation from the Institute of Technology of Taiyuan and a master's degree in software engineering from Beihang University.

Yinan Qi is our vice president. Mr. Qi has served as our vice president since September 2013, responsible for student recruitment through retail channels. Mr. Qi served as our general manager of northern region between 2010 and 2015, responsible for our operations in Northern China. Mr. Qi joined us in March 2007, previously serving in roles including the deputy general manager of northern region, deputy general manager of our Beijing learning centers and director of our Hangzhou learning center. Prior to joining us, Mr. Qi served as the general manager of the Beihang campus of GAMFE between 2005 and 2006 and as director of technology at Zhonghe Wangxun (Beijing) Information Technology Co., Ltd. between 2002 and 2005. Mr. Qi received a bachelor's degree in optoelectronic technology from China Jiliang University and a master's degree in multimedia technologies from the University of Science and Technology Beijing.

B. Compensation of Directors and Executive Officers

For the fiscal year ended December 31, 2015, we paid an aggregate of approximately US\$753 thousand in cash to our executive officers, and we paid an aggregate of US\$130 thousand in cash to our non-executive directors. For share incentive grants to our directors and executive officers, see “—Share Incentive Plan.”

Our PRC subsidiaries and consolidated affiliated entities are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits. Other than the above-mentioned statutory contributions mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors.

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our 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 three-month advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time with a three-month advance written notice.

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 or pursuant to applicable law, 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 during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing 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 typically for two years following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, customers or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us 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 a principal, partner, licensor or otherwise, any of our competitors, without our express consent; 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, without our express consent.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

Share Incentive Plan

The 2008 Plan

We have adopted the 2008 Plan in September 2008. The purpose of the 2008 Plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to selected directors, officers, employees and consultants and to promote the success of Tarena's business by offering these individuals an opportunity to acquire a proprietary interest in Tarena.

Under the 2008 Plan, the maximum aggregate number of shares which may be issued is 8,184,990. As of March 31, 2016, options to purchase 2,747,621 Class A ordinary shares are issued and outstanding, and there are 143,349 Class A ordinary shares available for future issuance upon the exercise of future grants under the 2008 Plan.

Options to purchase a total of 3,815,000 Class A ordinary shares were granted prior to our adoption of the 2008 Plan. Such options were ratified by our board and included in the 2008 Plan.

The following paragraphs summarize the terms of the 2008 Plan.

Types of Awards. The 2008 Plan permits the awards of options, restricted shares (or share appreciation rights or other similar awards) and rights to purchase restricted shares.

Plan Administration. Our board of directors or a committee appointed by our board will administer the 2008 Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant, among other things.

Award Agreement. Awards granted under the 2008 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award and the provisions applicable in the event of the grantee's employment or service terminates.

Eligibility. We may grant awards to our employees, directors and consultants of our company, as well as trusts or companies established in connection with any of our employee benefit plan for the benefit of our employees, directors or consultants.

Acceleration. The plan administrator may accelerate the vesting or exercisability of an option or lapsing of a repurchase or redemption right to which restricted shares may be subject.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Exercise of Options. The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is the tenth anniversary after the date of a grant.

Transfer Restrictions. Awards may not be transferred in any manner by the recipient other than by will or applicable laws of descent and distribution or pursuant to a qualified domestic relations order and by trusts or companies established in connection with any of our employee benefit plan for the benefit of an employee, director or consultant, except as otherwise provided by the plan administrator.

Termination of Employment or Service. In the event that a grantee ceases employment with us or ceases to provide services to us, any vested options will generally terminate after a period of time following the termination of employment if the grantee does not exercise the options during this period.

Restrictions on Issue of Shares. Options granted under the 2008 Plan can only be exercised and ordinary shares can only be issued upon the occurrence of (i) the consummation of a qualified initial public offering, (ii) the consummation of a liquidation event or (iii) the expiry of the five year period commencing from the grant date.

Termination of the 2008 Plan. Unless terminated earlier, the 2008 Plan will terminate automatically in 2018. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval if required by applicable law.

The 2014 Plan

We adopted the 2014 Plan in February 2014. The maximum aggregate number of shares which may be issued pursuant to all awards under the 2014 Plan, or the Award Pool, is 1,833,696, provided that the shares reserved in the Award Pool shall be increased on the first day of each calendar year, commencing with January 1, 2015, if the unissued shares reserved in the Award Pool on such day account for less than 2% of the total number of shares issued and outstanding on a fully-diluted basis on December 31 of the immediately preceding calendar year, as a result of which increase the shares unissued and reserved in the Award Pool immediately after each such increase shall equal 2% of the total number of shares issued and outstanding on a fully-diluted basis on December 31 of the immediately preceding calendar year. The number of Class A ordinary shares available for future issuance upon the exercise of future grants under the 2014 Plan was 1,203,402 as of January 1, 2016. As of March 31, 2016, options to purchase 2,001,710 Class A ordinary shares are issued and outstanding under the 2014 Plan and 25,000 restricted share units were granted and outstanding under the 2014 Plan. The following paragraphs summarize the terms of the 2014 Plan.

Types of Awards. The 2014 Plan permits the awards of options, restricted shares and restricted share units.

Plan Administration. Our board or a committee of one or more members of our board duly authorized for the purpose of the 2014 Plan can act as the plan administrator.

Award Agreement. Options, restricted shares or restricted share units granted under the 2014 Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each grant.

Eligibility. We may grant awards to our employees, consultants or directors. However, we may grant options that are intended to qualify as incentive share options only to our employees and employees of our parent companies and subsidiaries.

Acceleration of Awards upon Change in Control. If a change in control, liquidation or dissolution of our company occurs, the plan administrator may, in its sole discretion, provide for (i) all awards outstanding to terminate at a specific time in the future and give each participant the right to exercise the vested portion of such awards during a specific period of time, or (ii) the purchase of any award for an amount of cash equal to the amount that could have been attained upon the exercise of such award, or (iii) the replacement of such award with other rights or property selected by the plan administrator in its sole discretion, or (iv) payment of award in cash based on the value of ordinary shares on the date of the change-in-control transaction plus reasonable interest.

Exercise of Options. The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is the tenth anniversary after the date of a grant.

Exercise Price of Options. The exercise price in respect of any option shall be determined by the plan administrator and set forth in the award agreement which may be a fixed or variable price related to the fair market value of the shares. The exercise price per share subject to an option may be amended or adjusted in the absolute discretion of the plan administrator, the determination of which shall be final, binding and conclusive.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is set forth in the award agreement.

Transfer Restrictions. Awards may not be transferred in any manner by the recipient other than by will or the laws of descent and distribution, except as otherwise provided by the plan administrator.

Termination. Unless terminated earlier, the 2014 Plan will terminate automatically in 2024.

The following table summarizes, as of March 31, 2016, the outstanding options granted to our directors and executive officers under our share plan.

Name	Ordinary Shares Underlying Options Awarded	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Shaoyun Han	*	1.000	August 26, 2011	September 21, 2023
	663,490	1.830	January 1, 2013	September 21, 2023
	*	4.360	February 20, 2014	February 19, 2024
	558,424	1.830	February 20, 2014	February 19, 2024
	*	4.360	March 1, 2015	February 28, 2025
Jianguang Li	*	0.058	January 1, 2004	September 21, 2023
Yongji Sun	—			
Xiaosong Zhang	—			
Ya-Qin Zhang	—			
Yuduo Yang	—			
Ying Sun	*	0.058	September 1, 2005	September 21, 2023
	*	0.058	February 1, 2007	September 21, 2023
	*	1.830	January 1, 2013	September 21, 2023
	*	4.360	February 20, 2014	February 19, 2024
	*	4.360	March 1, 2015	February 28, 2025
	*	1.000	March 1, 2015	February 28, 2025
	*	1.000	January 1, 2016	December 31, 2026
Yi Li	*	0.890	March 1, 2009	September 21, 2023
	*	1.830	January 1, 2013	September 21, 2023
	*	4.360	February 20, 2014	February 19, 2024
	*	4.360	March 1, 2015	February 28, 2025
	*	4.360	July 1, 2015	June 30, 2025
	*	1.000	January 1, 2016	December 31, 2025
Yinan Qi	*	0.890	June 1, 2009	September 21, 2023
	*	1.830	January 1, 2013	September 21, 2023
	*	4.360	February 20, 2014	February 19, 2024
	*	4.360	March 1, 2015	February 28, 2025
	*	1.000	March 1, 2015	February 28, 2025
	*	4.360	July 1, 2015	June 30, 2025
	*	1.000	January 1, 2016	December 31, 2025
Total	2,304,665			

* The aggregate number of ordinary shares underlying the outstanding options held by this individual is less than 1% of our total outstanding shares as of March 31, 2016.

The following table summarizes, as of March 31, 2016, the outstanding restricted share units we granted to our directors and executive officers under the 2014 Plan.

Name	Number of Class A Ordinary Shares Underlying Restricted Share Units	Date of Grant
Shaoyun Han	—	
Jianguang Li	—	
Yongji Sun	*	April 3, 2015
Xiaosong Zhang	*	April 3, 2014
	*	April 3, 2015
Ya-Qin Zhang	*	April 3, 2014
	*	April 3, 2015
Yuduo Yang	—	
Ying Sun	—	
Yi Li	—	
Yinan Qi	—	
Total	*	

* Less than 1% of our total outstanding shares as of March 31, 2016.

As of March 31, 2016, other individuals as a group hold outstanding options to purchase a total of 2,444,666 Class A ordinary shares of our company, with exercise prices ranging from US\$0.058 to US\$4.36 per share.

C. Board Practices

Board of Directors

Our board of directors currently consists of five directors. A director is not required to hold any shares in our company. Subject to the rules of the NASDAQ Global Select Market and disqualification by the chairman of the relevant board meeting, a director may vote with respect to any contract, proposed contract, or arrangement in which he or she is materially interested. The board may exercise all the powers of the company to borrow money, mortgage its business, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. There is no age limit requirement for directors. The service agreements between us and the directors do not provide benefits upon termination of their services.

Committees of the Board of Directors

We have an audit committee, a compensation committee and a nominating and corporate governance committee under the board of directors. 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 Messrs. Xiaosong Zhang, Yongji Sun and Ya-Qin Zhang and is chaired by Mr. Xiaosong Zhang. Each member of our audit committee satisfies the "independence" requirements of Rule 5605(c)(2) of the NASDAQ Stock Market Rules and meets the independence standards under Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. We have determined that Mr. Xiaosong Zhang qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;
- reviewing with the independent registered public accounting firm any audit problems or difficulties and management’s response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- reviewing and reassessing annually the adequacy of our audit committee charter;
- meeting separately and periodically with management and the independent registered public accounting firm;
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance; and
- reporting regularly to the board.

Compensation Committee. Our compensation committee consists of Messrs. Ya-Qin Zhang, Yongji Sun and Xiaosong Zhang, and is chaired by Ya-Qin Zhang. Each member of our compensation committee satisfies the “independence” requirements of Rule5605(c)(2) of the NASDAQ Stock Market Rules. 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 their compensation is deliberated upon. 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;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Messrs. Yongji Sun, Xiaosong Zhang and Ya-Qin Zhang, and is chaired by Mr. Yongji Sun. Each member of our nominating and corporate governance committee satisfies the “independence” requirements of Rule5605(c)(2) of the NASDAQ Stock Market Rules. The nominating and corporate governance committee assists the board 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:

- recommending nominees to the board for election or re-election to the board, or for appointment to fill any vacancy on the board;

- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;
- selecting and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as of the nominating and corporate governance committee itself;
- developing and reviewing the corporate governance principles adopted by the board and advising the board with respect to significant developments in the law and practice of corporate governance and our compliance with such laws and practices; and
- evaluating the performance and effectiveness of the board as a whole.

Duties of Directors

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. A shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

Terms of Directors and Officers

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

D. Employees

We have dual headquarters in Beijing and Hangzhou, where our instructors, software engineers and certain general and administrative staff are based. We have divided our national network of learning centers into three regions, namely northern region, southern region, and central and western region, and we have regional offices that are responsible for managing the daily operations of learning centers located within each territory.

We had a total of 3,104, 3,904 and 5,066 employees as of December 31, 2013, 2014 and 2015, respectively. As of December 31, 2015, we had 474 employees in Beijing, 348 employees in Hangzhou and 4,244 employees in other areas within China. The following table sets forth the number of our employees, categorized by function, as of December 31, 2015:

Functions	Number of Employees
Teaching and content development	1,255
Selling and marketing	2,300
Career development	308
Employer cooperation	188
General and administration	1,015
Total	5,066

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

Our employees are not covered by any collective bargaining agreement. We believe that we maintain a good working relationship with our employees, and we have not experienced any significant labor disputes.

E. Share Ownership

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2016 by:

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

The calculations in the table below are based on 55,718,419 ordinary shares outstanding as of March 31, 2016, comprising of 45,143,523 Class A ordinary shares and 10,574,896 Class B ordinary shares.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. 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 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.

	Ordinary Shares Beneficially Owned				
	Class A ordinary shares	Class B ordinary shares	Total ordinary shares on an as-converted basis	% of total ordinary shares on an as- converted basis	% of aggregate voting power †
Directors and Executive Officers:**					
Shaoyun Han ⁽¹⁾	9,352,302	7,206,059	16,558,361	29.4	53.8
Jianguang Li ⁽²⁾	*	—	*	*	*
Yongji Sun ⁽³⁾	*	—	*	*	*
Xiaosong Zhang ⁽⁴⁾	*	—	*	*	*
Ya-Qin Zhang ⁽⁵⁾	*	—	*	*	*
Yuduo Yang	—	—	—	—	—
Ying Sun	*	—	*	*	*
Yinan Qi	*	—	*	*	*
Yi Li	*	—	*	*	*
All directors and executive officers as a group	10,093,438	7,206,059	17,299,497	30.6	54.1
Principal and Selling Shareholders:					
KKR funds ⁽⁶⁾	16,598,480	7,206,059	23,804,539	42.3	58.5
Goldman Sachs funds ⁽⁷⁾	5,457,426	—	5,457,426	9.8	3.6
IDG funds ⁽⁸⁾	—	3,368,837	3,368,837	6.0	22.3
Leamingon Limited ⁽⁹⁾	500,000	6,060,000	6,560,000	11.8	40.5
Connion Capital Limited ⁽¹⁰⁾	4,413,288	—	4,413,288	7.8	2.9
Techedu Limited ⁽¹¹⁾	2,439,014	1,146,059	3,585,073	6.4	9.2

Notes:

* Less than 1%.

** Except for Mr. Jianguang Li, Mr. Yongji Sun, Mr. Xiaosong Zhang and Mr. Ya-Qin Zhang, the business address of our directors and executive officers is Suite 10017, Building E, Zhongkun Plaza, A18 Bei San Huan West Road, Haidian District, Beijing, 100098, PRC.

† For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A and Class B ordinary shares as a single class. Each holder of Class A ordinary shares is entitled to one vote per share and each holder of our Class B ordinary shares is entitled to ten votes per share on all matters submitted to them for a vote. Our Class A ordinary shares and Class B ordinary 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 ordinary shares are convertible at any time by the holder thereof into Class A ordinary shares on a one-for-one basis.

- (1) Represents (i) 6,060,000 Class B Ordinary Shares held by Leamingon Limited, (ii) 1,146,059 Class B Ordinary Shares held by Techedu Limited, (iii) 2,439,014 Class A Ordinary Shares held by Techedu Limited, (iv) 2,000,000 Class A Ordinary Shares held by Moocon Education Limited, (v) 304,604 Class A Ordinary Shares held by Connion Capital Limited, (vi) 3,594,439 restricted American depositary shares (“ADSs”) representing 3,594,439 Class A Ordinary Shares held by Connion Capital Limited, (vii) 500,000 restricted ADSs representing 500,000 Class A Ordinary Shares held by Leamingon Limited, and (viii) 514,245 Class A Ordinary Shares that Connion Capital Limited may purchase upon exercise of options within 60 days of March 31, 2016. Each of Connion, Leamingon and Techedu is principally an investment holding vehicle. Each of Connion and Leamingon is a company organized and existing under the laws of the British Virgin Islands, and is ultimately wholly owned by HANQQ Trust. TMF (Cayman) Ltd. is the trustee of HANQQ Trust, with Mr. Han as settlor and Mr. Han and his family as beneficiaries. Techedu Limited is a company organized and existing under the laws of the British Virgin Islands and is wholly owned by Mr. Shaoyun Han. Mr. Han is the sole director of each of Connion, Leamingon and Techedu, which do not have any executive officer. The registered office address of each of Connion, Leamingon and Techedu is the offices of Trident Trust Company, (B.V.I.) Ltd., Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, British Virgin Islands.
- (2) Mr. Li is a director of our company jointly appointed by IDG Technology Venture Investments, L.P. and IDG Technology Venture Investment III, L.P. The business address of Mr. Li is 6/F., COFCO Plaza, No.8 Jianguomennei Ave, Jiannai St, Dongcheng District, Beijing, 100020, PRC.
- (3) The business address of Mr. Sun is Grand Palace B12, 5 Hui-zhong Road, Chaoyang District, Beijing, 100101, PRC.
- (4) The business address of Mr. Zhang is 20th Floor, Block B, Tower 2, Wangjing SOHO, No.1 Futongdong Street, Chaoyang District, Beijing, PRC.
- (5) The business address of Mr. Zhang is Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085 PRC.
- (6) Consists of (i) 6,826,263 Class A ordinary shares held by Talent Fortune Investment Limited, a Cayman Islands company, as of July 14, 2015 (as reported in a Schedule 13D amendment filed by KKR & Co. L.P. on July 23, 2015) and (ii) 9,772,217 Class A ordinary shares and 7,206,059 Class B ordinary shares beneficially owned by Mr. Shaoyun Han as of March 31, 2016 as a result of a convertible bond purchase agreement entered into among, *inter alia*, Talent Fortune Investment Limited and Mr. Shaoyun Han on July 14, 2015. Talent Fortune Holdings Limited is the sole shareholder of Talent Fortune Investment Limited. KKR China Growth Fund L.P. is the controlling member of Talent Fortune Holdings Limited. KKR Associates China Growth L.P. is the sole general partner of KKR China Growth Fund L.P.. KKR China Growth Limited is the sole general partner of KKR Associates China Growth L.P. KKR Fund Holdings L.P. is the sole shareholder of KKR Associates China Growth L.P. KKR Fund Holdings GP Limited is a general partner of KKR Fund Holdings L.P. KKR Group Holdings L.P. is the sole shareholder of KKR Fund Holdings GP Limited and a general partner of KKR Fund Holdings L.P. KKR Group Limited is the general partner of KKR Group Holdings L.P. KKR & Co. L.P. is the sole shareholder of KKR Group Limited. KKR Management LLC is the general partner of KKR & Co. L.P. The designated members of KKR Management LLC are Messrs. Henry R. Kravis and George R. Roberts. The business address of Talent Fortune Investment Limited is c/o KKR Asia Limited, Level 56, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong. The percentage of beneficial ownership and voting power was calculated based on the total number of our ordinary shares outstanding as of March 31, 2016.
- (7) The number of ordinary shares beneficially owned is as of December 31, 2015, as reported in a Schedule 13G amendment filed by Goldman Sachs Asset Management, L.P. on February 16, 2016, and consists of (i) 2,728,713 ADSs, representing 2,728,713 Class A ordinary shares, held by Global Long Short Partners Master LP and (ii) 2,728,713 ADSs, representing 2,728,713 Class A ordinary shares, held by Global Private Opportunities Partners Holdings LP. The general partner of Global Long Short Partners Master LP is Goldman Sachs Investment Partners GP, LLC, and the investment manager of Global Long Short Partners Master LP is GS Investment Strategies, LLC. Goldman Sachs Investment Partners GP, LLC and GS Investment Strategies, LLC are wholly owned by The Goldman Sachs Group, Inc. The business address of Global Long Short Partners Master LP is 200 West Street, NY, NY 10282. The general partner of Global Private Opportunities Partners Holdings LP is Goldman Sachs Investment Partners Private Opportunities Advisors, L.L.C., and the investment manager of Global Private Opportunities Partners Holdings LP. is GS Investment Strategies, LLC. Goldman Sachs Investment Partners Private Opportunities Advisors, L.L.C. and GS Investment Strategies, LLC are wholly owned by The Goldman Sachs Group, Inc. The business address of Global Private Opportunities Partners Holdings LP. is 200 West Street, NY, NY 10282. The percentage of beneficial ownership and voting power was calculated based on the total number of our ordinary shares outstanding as of March 31, 2016. The percentage ownership in terms of total ordinary shares on an as-converted basis held by Goldman Sachs funds decreased from 20.8% as of December 31, 2014 to 9.8% as of December 31, 2015.

- (8) The number of ordinary shares beneficially owned is as of December 31, 2015, as reported in a Schedule 13G amendment filed by Ho Chi Sing on February 1, 2016, and consists of (i) 1,679,647 Class B ordinary shares held by IDG Technology Venture Investments, L.P. and (ii) 1,689,190 Class B ordinary shares held by IDG Technology Venture Investment III, L.P. IDG Technology Venture Investments, L.P. is a Delaware limited partnership which is controlled by IDG Technology Venture Investments, LLC, its general partner. IDG Technology Venture Investments, LLC is controlled by its two managing members: Mr. Quan Zhou and Mr. Chi Sing Ho. The business address of IDG Technology Venture Investments, L.P. is c/o IDG Capital Management (HK) Limited, Unit 5505, The Center, 99 Queen's Road Central, Hong Kong. IDG Technology Venture Investment III, L.P. is a Delaware limited partnership which is controlled by IDG Technology Venture Investment III, LLC, its general partner. IDG Technology Venture Investment III, LLC is controlled by its two managing members: Mr. Quan Zhou and Mr. Chi Sing Ho. The business address of IDG Technology Venture Investment III, L.P. is c/o IDG Capital Management (HK) Limited, Unit 5505, The Center, 99 Queen's Road Central, Hong Kong. The percentage of beneficial ownership and voting power was calculated based on the total number of our ordinary shares outstanding as of March 31, 2016. The percentage ownership in terms of total ordinary shares on an as-converted basis held by IDG funds decreased from 12.8% as of December 31, 2014 to 6.0% as of December 31, 2015.
- (9) Represents (i) 6,060,000 Class B ordinary shares and (ii) 500,000 restricted ADSs representing 500,000 Class A ordinary shares. The registered office address of Learington Limited is the offices of Trident Trust Company (B.V.I.) Limited, Trident Chambers, P.O. Box 146, Road Town, Tortola, the British Virgin Islands. Learington Limited is ultimately owned by Mr. Shaoyun Han through a trust.
- (10) The registered office address of Connion Capital Limited is the offices of Trident Trust Company (B.V.I.) Limited, Trident Chambers, P.O. Box 146, Road Town, Tortola, the British Virgin Islands. Connion Capital Limited is ultimately owned by Mr. Shaoyun Han through a trust.
- (11) Represents (i) 2,439,014 Class A ordinary shares and (ii) 1,146,059 Class B ordinary shares.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. We issued Class A ordinary shares represented by our ADSs in our initial public offering in April 2014. Holders of our Class B ordinary shares may choose to convert their Class B ordinary shares into the same number of Class A ordinary shares at any time. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstance.

To our knowledge, we are not owned or controlled, directly or indirectly, by another corporation, by any foreign government or by any other natural or legal persons, severally or jointly. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

To our knowledge, as of March 31, 2016, 32,910,254 of our Class A ordinary shares are held by one record holder in the United States, which is the depository of our ADS program, representing 72.9% of our total issued and outstanding Class A ordinary shares as of such date. 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 ordinary shares in the United States. As of March 31, 2016, 3,368,837 of our Class B ordinary shares are held by one record holder in the United States, representing 31.9% of our total issued and outstanding Class B ordinary shares as of such date.

For options and restricted share unit granted to our officers, directors and employees, see “—B. Compensation of Directors and Executive Officers—Share Incentive Plan.”

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

See “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

B. Related Party Transactions

Contractual Arrangements with our VIEs

See “Item 4. Information on the Company—C. Organizational Structure.”

Transactions with Shareholders and Affiliates

Transactions with Chuanbang. Starting from the second half of 2011, Chuanbang, a company owned by our chief executive officer, Mr. Shaoyun Han, began to offer person-to-person lending to enable qualified students to borrow unsecured loans from unrelated individuals to pay for our tuition fees. Under the person-to-person lending service offered by Chuanbang to students enrolled prior to January 1, 2014, a student enters into a loan agreement with Mr. Han, as the designated representative of Chuanbang, to borrow an amount equal to our tuition fees. Mr. Han then assigns the existing loan agreement to an unrelated individual lender identified by Chuanbang, or the person-to-person lender, with us serving as the guarantor of the loan to the student. Upon the receipt of cash from the person-to-person lenders, Mr. Han remits the cash to us directly on behalf of the student for the payment of such student's tuition fees. Chuanbang services the student loans by collecting repayments on behalf of the person-to-person lenders from students, made to an account opened in the name of Mr. Han. The "interest spread" between (i) the interest rate under the loan agreement between the student and Mr. Han and (ii) the "anticipated annual yield" under the assignment agreement between Mr. Han and the person-to-person lender represents compensation for Chuanbang's estimated costs incurred in originating and servicing the student loans, plus the amount payable to us for guaranteeing the student loans. Chuanbang ceased offering loan services to our students enrolled since January 1, 2014.

As of December 31, 2015, our maximum exposure to guarantees of student loans was nil. All the third-party lenders were repaid and our guarantee was released by March 15, 2015. Starting from April 2013, we had stopped providing guarantees for any new student loans arranged by Chuanbang, thus no guarantee fee revenue was recognized in 2015. The estimated amount of the loss contingency related to the guarantee was immaterial as of December 31, 2015.

Pursuant to our agreement with Chuanbang, Chuanbang provided cash collection service on our accounts receivable to better manage our cash collection since August 2013. The fee is calculated based on 6%-12% of the amount collected. The staff of Chuanbang includes our former employees who joined Chuanbang in July 2013. Chuanbang also provides similar cash collection service to other financial institutions. The cash collection service fees were US\$0.1 million and US\$0.3 million for 2014 and 2015, respectively.

Transactions with an Executive of KKR. An entity owned by an executive of KKR transferred US\$230,000 to us in order for us to fund our share repurchase in September 2015, and we repaid such amount in October 2015.

Registration Rights

Registration Rights Granted in 2011

In connection with our issuance of Series C preferred shares, we and all our then shareholders entered into an amended and restated shareholders agreement on September 6, 2011. Pursuant to our amended and restated shareholders agreement dated September 6, 2011, we have granted certain registration rights to certain of our shareholders. Set forth below is a description of the registration rights granted under the agreement.

Demand Registration Rights. At any time after the completion of our initial public offering in April 2014, upon a written request from the holders of at least 10% of the registrable securities held by our preferred shareholders, we must file a registration statement covering the offer and sale of the registrable securities held by the requesting shareholders and other holders of registrable securities who choose to participate in the offering. Registrable securities include, among others, our ordinary shares issued or to be issued upon conversion of the preferred shares.

However, we are not obligated to proceed with a demand registration if we have, within the six-month period preceding the date of such request, already effected a registration under the Securities Act pursuant to the exercise of the holders' registration rights, unless the registrable securities of the holders were excluded from such registration. We have the right to defer filing of a registration statement for up to 90 days if our board of directors determines in good faith that the filing of a registration statement would be materially detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period.

Form F-3 Registration Rights. When we are eligible for registration on Form F-3, upon a written request from the holders of a majority of the registrable securities held by our preferred shareholders, we must file a registration statement on Form F-3 covering the offer and sale of the registrable securities.

We are not obligated to effect a Form F-3 registration, among other things, if we already effected a registration under the Securities Act pursuant to the exercise of the holders' demand or piggyback registration rights, unless the registrable securities of the holders were excluded from such registration. We have the right to defer filing of a registration statement for up to 60 days if our board of directors determines in good faith that the filing of a registration statement would be materially detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period.

Piggyback Registration Rights. If we propose to file a registration statement for a public offering of our ordinary shares on a form that would be suitable for registrable securities, we must offer holders of registrable securities an opportunity to include in that registration all or any part of their registrable securities. The underwriters of any underwritten offering have the right to limit the number of shares with registration rights to be included in the registration statement, subject to certain limitations.

Expenses of Registration. We will pay all expenses relating to any demand, Form F-3, or piggyback registration, with certain limited exceptions.

Termination of Obligations. We shall have no obligation to effect any demand, Form F-3, or piggyback registration on the earlier of (a) the date that is five years after the completion of our initial public offering, or (b) as to any holder of registrable securities, the time when all registrable securities held by such holder may be sold in any 90-day period without registration pursuant to Rule 144 under the Securities Act.

Registration Rights Granted in 2015

We entered into a registration rights agreement with Talent Fortune Investment Limited, or KKR, an affiliate of KKR & Co. L.P., on July 17, 2015, pursuant to which we granted certain registration rights to KKR. Set forth below is a description of the registration rights granted under the agreement.

Securities Act Registration on Request. Upon a written request from KKR, we must use reasonable best efforts to effect a registration under the Securities Act covering the registrable securities requested by KKR to register.

However, we are not obligated to effect more than a total of three registration requests and at least a period of 180 days shall have elapsed since the previous registration request and the previous registration in which KKR had an opportunity to participate pursuant to its piggyback registration rights. .

Piggyback Registration Rights. If we propose to register our securities under the Securities Act, subject to limited exceptions, we must offer KKR an opportunity to include in that registration all or any part of its registrable securities. The managing underwriter of any underwritten offering have the right to limit the number of shares with registration rights to be included in the registration statement, subject to certain limitations.

Postponements. We have the right to defer filing of a registration statement for up to 90 days if our board of directors determines in good faith that the filing of a registration statement would be materially adversely affect us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period.

Expenses of Registration. We will pay all expenses relating to any requested or piggyback registration, with certain limited exceptions.

Termination of Obligations. Our obligations under this registration rights agreement shall terminate when all registrable shares of KKR could be sold without restriction under Rule 144(e) under the Securities Act within a 90-day period.

Employment Agreements and Indemnification Agreements

See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Employment Agreements and Indemnification Agreements."

Share Option Grants

See “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Incentive Plan.”

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

We are currently not a party to, and are not aware of any threat of, any legal, arbitration or administrative proceedings that, in the opinion of our management, are likely to have a material and adverse effect on our business, financial condition or results of operations. From time to time, we have become, and may in the future become, a party to various legal or administrative proceedings or claims arising in the ordinary course of our business. Regardless of the outcome, legal or administrative proceedings or claims may have an adverse impact on us because of defense and settlement costs, diversion of management attention and other factors.

Dividend Policy

We have not previously paid cash dividends. On March 7, 2016, we declared a cash dividend of US\$0.15 per ordinary share. Holders of our ADS, each representing one ordinary share, are accordingly entitled to the cash dividend of \$0.15 per ADS. The cash dividend will be paid on or about May 30, 2016 to shareholders of record as of the close of trading on April 6, 2016. The aggregate amount of cash dividends to be paid is approximately US\$8.6 million, which will be funded by surplus cash on our balance sheet.

We are a holding company incorporated in the Cayman Islands. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Dividend Distribution.”

Our board of directors has discretion as to whether to distribute dividends, subject to applicable laws. Subject to our ongoing financial performance, cash position, budget and business plan and market conditions, we may, on an annual basis, consider paying a special dividend. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

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.

Our ADSs, each representing one Class A ordinary share, have been listed on the NASDAQ Global Select Market since April 3, 2014 under the symbol “TEDU.” Update until April 19, 2016 (starting from April 3, 2014), the trading price of our ADSs on the NASDAQ Global Select Market ranged from US\$6.54 to US\$15.85 per ADS.

The following table provides the high and low trading prices for our ADSs on the NASDAQ Global Select Market for the periods indicated below.

	Trading Price	
	High	Low
Annual Highs and Lows		
2014 (since April 3, 2014)	15.85	6.54
2015	14.83	6.65
Quarterly Highs and Lows		
Second Quarter 2014 (since April 3, 2014)	14.23	6.54
Third Quarter 2014	15.85	11.12
Fourth Quarter 2014	14.40	10.17
First Quarter 2015	12.50	9.26
Second Quarter 2015	14.83	9.28
Third Quarter 2015	13.31	6.65
Fourth Quarter 2015	11.45	8.89
First Quarter 2016	11.38	8.28
Monthly Highs and Lows		
October 2015	10.41	8.89
November 2015	11.00	9.21
December 2015	11.45	10.33
January 2016	10.27	8.58
February 2016	10.65	8.28
March 2016	11.38	9.92
April 2016 (through April 19, 2016)	11.61	10.56

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing one Class A ordinary share, have been listed on the NASDAQ Global Select Market under the symbol “TEDU” since April 3, 2014.

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

The following are summaries of material provisions of our currently effective fifth amended and restated memorandum and articles of association, as well as the Companies Law (2013 Revision) insofar as they relate to the material terms of our ordinary shares.

Registered Office and Objects

Our registered office in the Cayman Islands is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. As set forth in article 3 of our fifth amended and restated memorandum of association, the objects for which our company is established are unrestricted.

Board of Directors

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

Ordinary Shares

General. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and transfer their ordinary shares.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors, provided that dividends may be declared and paid out of funds legally available therefor, namely out of either profit, our share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law. Holders of Class A ordinary shares and Class B ordinary shares will be entitled to the same amount of dividends, if declared.

Voting Rights. Holders of our ordinary shares are entitled to ten calendar days notice of meetings of our shareholders. In respect of all matters subject to a shareholders’ vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten votes, voting together as one class. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy.

A quorum required for a meeting of shareholders consists of two shareholders who hold at least 50% of all voting power of our share capital in issue at the meeting present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders’ meetings may be held annually. Each general meeting, other than an annual general meeting, shall be an extraordinary general meeting. Extraordinary general meetings may be called by a majority of our board of directors or our chairman or upon a requisition of shareholders holding at the date of deposit of the requisition not less than 1/3 of the aggregate voting power of our company. Advance notice of at least ten calendar days is required for the convening of our annual general meeting and other general meetings.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting, while a special resolution requires the affirmative vote of no less than 2/3 of the votes cast attaching to the outstanding ordinary shares at a meeting. A special resolution will be required for important matters such as a change of name or making changes to our fifth amended and restated memorandum and articles of association.

Conversion. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder to any person or entity which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equivalent number of Class A ordinary shares.

Transfer of Ordinary Shares. Subject to the restrictions set out below and the provisions above in respect of Class B ordinary shares, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary 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;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the NASDAQ Global Market may determine to be payable or such lesser sum as our 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 three 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, after compliance with any notice required of the NASDAQ Global Market, 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 thirty days in any year as our board may determine.

Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of ordinary shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary 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. Any distribution of assets or capital to a holder of a Class A ordinary share and a holder of a Class B ordinary share will be the same in any liquidation event.

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

Repurchase and Redemption of Ordinary Shares. The Companies Law and our fifth amended and restated articles of association permit us to purchase our own shares. In accordance with our fifth amended and restated articles of association and provided the necessary shareholders or board approval have been obtained, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner, including out of capital, as may be determined by our board of directors.

Variations of Rights of Shares. All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied with the written consent of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

Inspection of Books and Records. Holders of our ordinary shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See “Item 10. Additional Information—H. Documents on Display.”

Issuance of Additional Shares. Our fifth amended and restated memorandum of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our fifth amended and restated memorandum of association also authorizes our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preferred shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

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

Exempted Company. We are an exempted company with limited liability under the Companies Law. “Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

Our fifth amended and restated memorandum and articles of association do not provide provisions that are different from those that are applicable to an exempted company as set forth above, except that they do not permit us to issue bearer shares or shares with no par value.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents,” “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Foreign Currency Exchange” and “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Dividend Distribution.”

E. Taxation

The following summary of certain Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change or differing interpretation, possibly with retroactive effect. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under other federal, state, local and other tax laws not addressed herein. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Conyers Dill & Pearman, our Cayman Islands counsel. To the extent that the discussion relates to matters of PRC tax law, it represents the opinion of Han Kun Law Offices, our PRC counsel.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes levied by the Government of the Cayman Islands that are likely to be material to holders of ADSs or ordinary shares. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Council:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and
- (ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on our shares, debentures or other obligations.

The undertaking for us is for a period of twenty years from March 25, 2014.

People's Republic of China Taxation

Under the EIT Law, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income as well as tax reporting obligations. Under the Implementation Rules to the EIT Law, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, Circular 82 issued by the SAT in April 2009, as amended in January 2014, specifies that certain offshore-incorporated enterprises controlled by PRC enterprises or PRC enterprise groups will be classified as PRC resident enterprises if the following are located or resident in the PRC: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, minutes of board meetings and shareholders’ meetings; and half or more of the senior management or directors having voting rights. Further to Circular 82, the SAT issued the Bulletin 45, which took effect in September 2011, to provide more guidance on the implementation of Circular 82. Bulletin 45 provides for procedures and administration details of determination on PRC resident enterprise status and administration on post-determination matters. We do not believe that Tarena International, Inc. is a PRC resident enterprise. If the PRC tax authorities determine that Tarena International, Inc. is a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. One example is that a 10% withholding tax would be 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 and potentially a 20% of withholding tax would be imposed on dividends we pay to our non-PRC individual shareholders and with respect to gains derived by our non-PRC individual shareholders from transferring our shares or ADSs.

Under the EIT Law, dividends generated from retained earnings after January 1, 2008 from a PRC company and distributed to a foreign parent company are subject to a withholding tax rate of 10% unless the foreign parent's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, or the Hong Kong Tax Treaty, which became effective on December 8, 2006, a company incorporated in Hong Kong, such as Tarena HK, will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiary if it holds a 25% or more interest in that particular PRC subsidiary, or 10% if it holds less than a 25% interest in that subsidiary. However, the SAT promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, and a beneficial ownership analysis will be used based on a "substance-over-the-form" principle to determine whether or not to grant tax treaty benefits. On June 29, 2012, the SAT further issued the Announcement of the SAT regarding Recognition of "Beneficial Owner" under Tax Treaties, or Announcement 30, which provides that a comprehensive analysis should be made when determining the beneficial owner status based on various factors supported by various types of documents including the articles of association, financial statements, records of cash movements, board meeting minutes, board resolutions, staffing and materials, relevant expenditures, functions and risk assumption as well as relevant contracts and other information. Tarena HK has not obtained the approval for a withholding tax rate of 5% from the local tax authority.

The State Administration of Tax issued a Public Notice, or Public Notice 16, on March 18, 2015, to further regulate and strengthen the transfer pricing administration on outbound payments by a PRC enterprise to its overseas related parties. In addition to emphasizing that outbound payments by a PRC enterprise to its overseas related parties must comply with arm's-length principles, Public Notice 16 specifies certain circumstances whereby such payments are not deductible for the purpose of the enterprise income tax of the PRC enterprise, including payments to an overseas related party which does not undertake any function, bear any risk or has no substantial operation or activities, payments for services which do not enable the PRC enterprise to obtain direct or indirect economic benefits, or for services that are unrelated to the functions and risks borne by the PRC enterprise, or relate to the protection of the investment interests of the direct or indirect investor of the PRC enterprise, or for services that have already been purchased from a third party or undertaken by the PRC enterprise itself, and royalties paid to an overseas related party which only owns the legal rights of the intangible assets but has no contribution to the creation of such intangible assets. Although we believe all our related party transactions, including all payments by our PRC subsidiaries and consolidated affiliated entities to our non-PRC entities, are made on an arm's-length basis and our estimates are reasonable, the ultimate decisions by the relevant tax authorities may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

It is unclear whether, if we are considered a PRC resident enterprise, holders of our shares or ADSs would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Under the PRC Enterprise Income Tax Law, we may be classified as a PRC "resident enterprise" for PRC enterprise income tax purposes. Such classification would likely result in unfavorable tax consequences to us and our non-PRC shareholders and have a material adverse effect on our results of operations and the value of your investment."

The SAT issued a Circular 59 together with the Ministry of Finance in April 2009 and a Circular 698 in December 2009. Both Circular 59 and Circular 698 became effective retroactively as of January 1, 2008. By promulgating and implementing these two circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise. Under Circular 698, where a non-resident enterprise transfers the equity interests of a PRC “resident enterprise” indirectly by disposition of the equity interests of an overseas holding company, and such overseas holding company is located in certain low tax jurisdictions, the non-resident enterprise, being the transferor, must report to the relevant tax authority of the PRC “resident enterprise” this Indirect Transfer. The PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC tax at a rate of up to 10%. On February 3, 2015, the SAT issued a Public Notice [2015] No.7, or Public Notice 7, to supersede the existing tax rules in relation to the Indirect Transfer as set forth in Circular 698, while the other provisions of Circular 698 remain in force. Public Notice 7 introduces a new tax regime that is significantly different from that under Circular 698. Public Notice extend its tax jurisdiction to capture not only Indirect Transfer as set forth under Circular 698 but also transactions involving transfer of immovable property in China and assets held under the establishment and place, in China of a foreign company through the offshore transfer of a foreign intermediate holding company. Public Notice 7 also addresses the term transfer of the equity interest in a foreign intermediate holding company widely. In addition, Public Notice 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and introduces safe harbor scenarios applicable to internal group restructurings. Where non-resident investors were involved in our private equity financing, if such transactions were determined by the tax authorities to lack reasonable commercial purpose, we and our non-resident investors may become at risk of being taxed under Circular 698 and Public Notice 7 and may be required to expend valuable resources to comply with Circular 698 and Public Notice 7 or to establish that we should not be taxed under Circular 698 and Public Notice 7. The PRC tax authorities have the discretion under SAT Circular 59, Circular 698 and Public Notice 7 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We face uncertainty regarding the PRC tax reporting obligations and consequences for certain indirect transfers of our operating company’s equity interests. Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.”

United States Federal Income Tax Considerations

The following discussion is a summary of United States federal income tax considerations relating to the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder, as defined below, that holds our ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended (the “Code”). This discussion is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion does not address all aspects of United States federal income taxation that may be important to particular investors in light of their individual circumstances, including investors subject to special tax rules (such as, for example, certain financial institutions, insurance companies, regulated investment companies, real estate investment trusts, broker-dealers, traders in securities that elect mark-to-market treatment, partnerships and their partners, tax-exempt organizations (including private foundations), investors who are not U.S. Holders, investors that own (directly, indirectly, or constructively) 10% or more of our voting stock, investors that hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction, or investors that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below). In addition, this discussion does not address any state, local, alternative minimum tax, or non-United States tax considerations. Each potential investor is urged to consult its tax advisor regarding the United States federal, state, local and non-United States income and other tax considerations of an investment in our ADSs or ordinary shares.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or ordinary shares that is, for United States 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 United States federal income tax purposes) created in, or organized under the laws 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 United States 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 United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person under the Code.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of our ADSs or ordinary 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. Partnerships and partners of a partnership holding our ADSs or ordinary shares are urged to consult their tax advisors regarding an investment in our ADSs or ordinary shares.

Based in part on certain representations from the depository bank, a U.S. Holder of ADSs will be treated as the beneficial owner for United States federal income tax purposes of the underlying shares represented by the ADSs.

Passive Foreign Investment Company Considerations

A non-United States corporation, such as our company, will be classified as a “passive foreign investment company,” or PFIC, for United States federal income tax purposes, if, in the case of any particular taxable year, either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of its average quarterly assets (as determined on the basis of fair market value) during such year produce or are held for the production of passive income. For this purpose, cash is categorized as a passive asset and the company’s unbooked intangibles associated with active business activities may generally be classified as active assets. Passive income generally includes, among other things, dividends, interest, royalties, rents, annuities, net gains from the sale or exchange of passive assets (including property producing passive income) and net foreign currency gains. We will be treated as owning our proportionate share of the assets and earning our 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 consolidated VIEs as being owned by us for United States federal income tax purposes, not only because we exercise effective financial control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their operating results in our consolidated financial statements. If it were determined, however, that we are not the owner of our consolidated VIEs for United States federal income tax purposes, we may be treated as a PFIC for our current taxable year and in future taxable years.

Based on our current income and assets and the value of our ADSs and ordinary shares, we do not believe that we were a PFIC for our taxable year ended December 31, 2015 and we do not expect to be classified as a PFIC for our taxable year ending December 31, 2016 or in the foreseeable future.

While we do not expect to become a PFIC in the current or future taxable years, the determination of whether we will be or become a PFIC will depend upon the composition of our income and assets and the value of our assets from time to time, including, in particular the value of our goodwill and other unbooked intangibles (which may depend upon the market value of our ADSs or ordinary shares from time to time, which may be volatile). Among other factors, if market capitalization is less than anticipated or subsequently declines, we may be classified as a PFIC for the current or future taxable years. It is also possible that the IRS, may challenge our classification or valuation of our goodwill and other unbooked intangibles, or determine that such assets should not be included in the determination of whether we are classified as a PFIC, which may result in our company being, or becoming classified as, a PFIC for the current or one or more future taxable years.

The determination of whether we will be or become a PFIC may also depend, in part, on how, and how quickly, we use our liquid assets. Under circumstances where we determine not to deploy significant amounts of cash for active purposes or our consolidated VIEs were not treated as owned by us for United States federal income tax purposes, our risk of being classified as a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year. If we were classified as a PFIC for any year during which a U.S. holder held our ADSs or ordinary 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 ordinary shares.

The discussion below under “Dividends” and “Sale or Other Disposition of ADSs or Ordinary Shares” is written on the basis that we will not be classified as a PFIC for United States federal income tax purposes. The United States 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 “Passive Foreign Investment Company Rules.”

Dividends

Any cash distributions (including the amount of any PRC tax withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under United States 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 ordinary shares, or by the depository bank, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be treated as a “dividend” for United States federal income tax purposes. A non-corporate recipient of dividend income will generally be subject to tax on dividend income from a “qualified foreign corporation” at a lower applicable capital gains rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period and other requirements are met.

A non-United States 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) will generally be considered to be a qualified foreign corporation (a) 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 (b) 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. United States Treasury guidance indicates that common or ordinary shares, or ADSs representing such shares, are considered for the purpose of clause (b) above to be readily tradable on an established securities market in the United States if they are listed on the NASDAQ Global Select Market, as are our ADSs. 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. There can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. In the event we are deemed to be a resident enterprise under the EIT Law, we may be eligible for the benefits of the United States-PRC income tax treaty (which the U.S. Treasury Department has determined is satisfactory for this purpose) and we would be treated as a qualified foreign corporation with respect to dividends paid on our ordinary shares or ADSs. 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 received on our ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations.

For United States foreign tax credit purposes, dividends paid on our ADSs or ordinary shares will generally be treated as income from foreign sources and will generally constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the EIT Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid, if any, on our ADSs or ordinary shares. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on our ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for United States federal income tax purposes in respect of such withholding, 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. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Disposition of ADSs or Ordinary Shares

A U.S. Holder will generally recognize capital gain or loss, if any, upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term gain or loss if the ADSs or ordinary shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes. In the event that we are treated as a PRC resident enterprise under the PRC Enterprise Income Tax Law, and gain from the disposition of the ADSs or ordinary shares is subject to tax in the PRC, such gain may be treated as PRC source gain for foreign tax credit purposes under the United States-PRC income tax treaty. The deductibility of a capital loss may be subject to limitations. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

Passive Foreign Investment Company Rules

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary 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 received during a taxable year by a U.S. Holder that is greater than 125% of the average annual distributions received by such U.S. Holder during the three preceding taxable years or, if shorter, the U.S. Holder’s holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of ADSs or ordinary 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 ordinary 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, or pre-PFIC year, will be taxable as ordinary income; and
- the amount allocated to each prior taxable year, other than the current taxable year or a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to the individuals or corporations, as appropriate, for that year, and
- will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to each such other taxable year.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares and any of our non-United States subsidiaries is also a 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 application of these rules. Each U.S. Holder is advised 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, provided that the ADSs are regularly traded on the NASDAQ Global Market. In addition, we do not expect that holders of ordinary shares that are not represented by ADSs will be eligible to make a mark-to-market election. We believe that our ADSs qualify as being regularly traded, but no assurances can be given in this regard. If a mark-to-market election is made, 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 only 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 an effective mark-to-market election, in each year that we are a PFIC any gain recognized upon the sale or other disposition of the ADSs will be treated as ordinary income and loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of 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.

Because, as a technical matter, a mark-to-market election cannot be made for any lower-tier PFICs that a PFIC may own, a U.S. Holder who makes a mark-to-market election with respect to our ADSs may continue to be subject to the general PFIC rules with respect to such U.S. Holder's indirect interest in any of our non-United States subsidiaries that is classified as a PFIC.

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.

As discussed above under "Dividends", dividends that we pay on our ADSs or ordinary shares will not be eligible for the reduced tax rate that applies to qualified dividend income if we are classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year. In addition, if a U.S. Holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, the holder must file an annual report with the IRS. U.S. Holders are urged to consult their tax advisors concerning the United States federal income tax consequences of purchasing, holding, and disposing ADSs or ordinary shares if we are or become a PFIC, including the possibility of making a mark-to-market election and the unavailability of the qualified electing fund election.

Medicare Tax

An additional 3.8% tax is imposed on a portion or all of the net investment income of certain individuals with a modified adjusted gross income of over \$200,000 (or \$250,000 in the case of joint filers or \$125,000 in the case of married individuals filing separately) and on the undistributed net investment income of certain estates and trusts. For these purposes, "net investment income" generally includes interest, dividends (including dividends paid with respect to our ADSs or ordinary shares), annuities, royalties, rents, net gain attributable to the disposition of property not held in a trade or business (including net gain from the sale, exchange or other taxable disposition of an ADS or ordinary share) and certain other income, reduced by any deductions properly allocable to such income or net gain. U.S. Holders are urged to consult their tax advisor regarding the applicability of this tax to their income and gains in respect of an investment in our ADSs or ordinary shares.

Information Reporting and Backup Withholding

Individual U.S. Holders and certain entities may be required to submit to the IRS certain information with respect to his or her beneficial ownership of the ADSs or ordinary shares, if such ADSs or ordinary shares are not held on his or her behalf by a U.S. financial institution. An individual U.S. Holder may be subject to penalties if such U.S. Holder is required to submit such information to the IRS and fails to do so.

In addition, U.S. Holders may be subject to information reporting to the IRS and United States backup withholding with respect to dividends on and proceeds from the sale or other disposition of our ADSs or ordinary shares. Backup withholding will not apply to you, however, if you furnish a correct taxpayer identification number and make any other required certification or that are otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on IRS Form W-9. U.S. Holders should consult their tax advisors regarding the application of the United States information reporting and backup withholding rules to their particular circumstances.

Backup withholding is not an additional tax. Amounts withheld as backup withholding can be credited against your United States federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

We previously filed with the SEC our registration statement on Form F-1 (Registration No. 333-194191), as amended, including the prospectus contained therein, to register our Class A ordinary shares in relation to our initial public offering. We have also filed with the SEC a related registration statement on F-6 (Registration No. 333-194662) to register the ADSs.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission 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 Commission at 1-800-SEC-0330. The SEC also 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. 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 Citibank, 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.

In accordance with NASDAQ Stock Market Rules 5250(d), we will post this annual report on Form 20-F on our website at <http://ir.tarena.com.cn>.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Substantially all of our net revenues, costs and expenses are denominated in Renminbi. The Renminbi is not freely convertible into foreign currencies for capital account transactions. Our exposure to foreign exchange risk primarily relates to the U.S. dollar proceeds of the offerings of our equity securities. We had a net foreign exchange loss of US\$4.7 million in 2015. In January 2016, we entered into a forward foreign currency contracts with China Merchants Bank Co., Ltd. The notional amounts of the forward foreign currency contracts were RMB564.1 million (US\$87.1 million) and the settlement date will be on May 19, 2016.

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. In 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar, and the Renminbi 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 Renminbi 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.

To the extent that we need to convert the U.S. dollars we received from our equity offerings into Renminbi to fund our operations, acquisitions, or for other uses within the PRC, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. To the extent that we seek to convert Renminbi into U.S. dollars, depreciation of the Renminbi against the U.S. dollar would have an adverse effect on the U.S. dollar amount we receive from the conversion. On the other hand, a decline in the value of the Renminbi against the U.S. dollar could reduce the U.S. dollar equivalent of our financial results, the value of your investment in the company and the dividends that we may pay in the future, if any, all of which may have a material adverse effect on the prices of our ADS.

A hypothetical 10% decrease in the exchange rate of the U.S. dollar against the RMB would have resulted in a decrease of RMB111.6 million (US\$17.2 million) in the value of our U.S. dollar-denominated financial assets at December 31, 2015.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest income generated by excess cash invested in demand deposits with original maturities of three months to 5 years. Interest-earning instruments carry a degree of interest rate risk. We have not used any significant derivative financial instruments to manage our interest rate 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 be different from expectations due to changes in market interest rates.

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

Holders of our ADSs will be required to pay the following service fees to the depositary bank:

<u>Service</u>	<u>Fees</u>
Issuance of ADSs	Up to U.S. 5¢ per ADS issued
Cancellation of ADSs	Up to U.S. 5¢ per ADS canceled
Distribution of cash dividends or other cash distributions	Up to U.S. 5¢ per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercise of rights	Up to U.S. 5¢ per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to U.S. 5¢ per ADS held
Depository Services	Up to U.S. 5¢ per ADS held on the applicable record date(s) established by the depositary bank

Holders of our ADSs will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

- fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares);
- expenses incurred for converting foreign currency into U.S. dollars;
- expenses for cable, telex and fax transmissions and for delivery of securities;
- taxes and duties upon the transfer of securities (i.e., when ordinary shares are deposited or withdrawn from deposit); and
- fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

The fees and charges holders of our ADSs may be required to pay may vary over time and may be changed by us and by the depositary bank.

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADS program upon such terms and conditions as we and the depositary may agree from time to time. In 2015, we did not receive any payment from the depositary 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—B. Memorandum and Articles of Association—Ordinary Shares” 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: 333-19419) in relation to the initial public offering of 15,300,000 ADSs representing 15,300,000 of our Class A ordinary shares, at an initial offering price of US\$9.00 per ADS. We offered and sold 11,500,000 ADSs and the selling shareholders offered and sold 3,800,000 ADSs in our initial public offering. Our initial public offering closed in April 2014. Goldman Sachs (Asia) L.L.C. and Credit Suisse Security (USA) LLC were the representatives of the underwriters for our initial public offering. The aggregate price of the offering amount registered and sold were US\$137.7 million.

We received net proceeds of approximately US\$92.2 million from our initial public offering. Our expenses incurred and paid to others in connection with the issuance and distribution of the ADSs in our initial public offering totaled US\$13.6 million, which included US\$9.6 million for underwriting discounts and commissions and US\$4.0 million for other expenses. Among the US\$13.6 million in expenses, US\$4.8 million were paid to Goldman Sachs (Asia) L.L.C., an affiliate of ours and one of the underwriters for our initial public offering.

For the period from April 2, 2014, the date that the F-1 Registration Statement was declared effective by the SEC, to December 31, 2015, we invested the net proceeds from our initial public offering in term deposits and still intend to use the proceeds from our initial public offering for general corporate purposes, which may include investing in course development, expanding our learning center network, sales and marketing activities, technology infrastructure and capital expenditures, upgrading facilities and other general and administrative matters. We may also use a portion of the net proceeds for investing in, or acquiring, complementary businesses.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this annual report on Form 20-F. Based upon that evaluation, the chief executive officer and chief financial officer concluded that our company’s disclosure controls and procedures were ineffective as of December 31, 2015 and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, because of the material weakness in our internal control over financial reporting described below. Our disclosure controls and procedures were not effective to satisfy the objectives for which they are intended.

Notwithstanding management’s assessment that our internal control over financial reporting was ineffective as of December 31, 2015 due to the material weakness described below, we believe that the consolidated financial statements included in this annual report on Form 20-F correctly presents our financial position, results of operations and cash flows for the fiscal years covered thereby in all material respects.

Management's Annual Report on Internal Control over Financial Reporting and Attestation Report of the Registered Public Accounting Firm

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements. Our management, with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our company's internal control over financial reporting as of December 31, 2015 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on this evaluation, our management concluded that our internal control system over financial reporting was ineffective as of December 31, 2015. This assessment identified one material weakness related to insufficient review over system extracted data for tuition fees calculation during transitional period of system upgrade.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting as we qualify as an "emerging growth company" under section 3(a) of the Securities Exchange Act of 1934, as amended, and are therefore exempt from the attestation requirement.

Changes in Internal Control over Financial Reporting

We have adopted the following measures during the year ended December 31, 2015, which effectively improved our internal controls over financial reporting in areas subject to significant estimates. We have (i) provided on-going training to our accounting and operating personnel across different subsidiaries to improve their accounting knowledge; (ii) developed, and would continue to update as needed, accounting policies and procedures over both routine and non-routine transactions (iii) reinforced the oversight and review procedure over high risk areas subject to significant estimates and judgements.

Notwithstanding the foregoing, during the audit of our consolidated financial statements as of and for the year ended December 31, 2015, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting as of December 31, 2015. The material weakness identified related to insufficient review over system extracted data for tuition fees calculation during transitional period of system upgrade.

To remedy our control deficiencies, we have reinforced the oversight and review procedure over the data extraction. We will continue to implement the necessary procedures and policies, including those outlined above, to improve our internal controls over financial reporting and remediate any potential material weaknesses and significant deficiencies as we prepare for our initial Section 404 reporting requirement under the Sarbanes-Oxley Act of 2002.

See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business—If we fail to maintain an effective system of internal controls, we may be unable to accurately report our results of operations or prevent fraud or fail to meet our reporting obligations, and investor confidence and the market price of our ADSs may be materially and adversely affected."

ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Xiaosong Zhang, an independent director and member of our audit committee, is an audit committee financial expert.

ITEM 16.B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to all of the directors, officers and employees of us and our subsidiaries, whether they work for us on a full-time, part-time, consultative, or temporary basis. Certain provisions of the code apply specifically to our chief executive officer, chief financial officer, senior finance officer, controller, senior vice presidents, vice presidents and any other persons who perform similar functions for us. We have posted a copy of our code of business conduct and ethics on our website at <http://ir.tarena.com.cn/phoenix.zhtml?c=253008&p=irol-govhighlights>.

ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by the categories specified below in connection with certain professional services rendered by KPMG Huazhen LLP, formerly known as KPMG Huazhen (SGP), our independent registered public accounting firm, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	2013	2014	2015
Audit Fees ⁽¹⁾	977,940	975,530	904,275
Audit-Related Fees	—	—	—
Tax Fees ⁽²⁾	53,079	—	24,090
All Other Fees ⁽³⁾	—	130,362	—

(1) “Audit fees” means the aggregate fees in each of the fiscal years listed for professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements or services that are normally provided by the auditors in connection with and regulatory filing or engagements.

(2) “Tax fees” consist of fees billed for the aggregate fees for professional services rendered by our independent registered public accounting firm for tax compliance work and other tax related services.

(3) All Other Fees represent the aggregate fees for services rendered by our independent registered public accounting firm for risk management advisory services.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by KPMG Huazhen LLP, including audit services, audit-related services, tax services and other services as described above, other than those for *de minimis* services which are approved by the Audit Committee prior to the completion of the audit.

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

Not Applicable.

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

On August 20, 2015, our board of directors authorized a share repurchase plan under which we may repurchase up to US\$20 million of our shares over the next 12 months. The share repurchases may be made from time to time on the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. For the period from August 20, 2015 to December 31, 2015, we repurchased 926,113 ADSs for an aggregate consideration of US\$7,738,834 under our share repurchase plan.

The following table sets forth a summary of our repurchase of our ADSs made in the year 2015 under the share repurchase programs described in the paragraph above.

Period	Total Number of ADSs Purchased ⁽²⁾	Average Price Paid Per ADS ⁽²⁾	Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾		Maximum Dollar Value of ADSs that May Yet Be Purchased Under Plans or Programs (US\$)
August (from August 24 to August 31)	285,689	US\$ 8.0549	285,689	US\$	17,698,804
September (from 1 to September 30)	640,424	US\$ 8.4907	640,424	US\$	12,261,156

(1) On August 20, 2015, our board of directors authorized a share repurchase plan under which we may repurchase up to US\$20 million of our shares over the next 12 months.

(2) Each ADS represents one Class A ordinary share.

ITEM 16.F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16.G. CORPORATE GOVERNANCE

As a Cayman Islands company listed on the NASDAQ Global Select Market, we are subject to the NASDAQ corporate governance listing standards. However, NASDAQ rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NASDAQ corporate governance listing standards.

We relied on the exemption available to foreign private issuers for the requirement that it hold an annual general meeting of shareholders no later than December 31, 2015 in 2015. In this respect, we elected to follow home country practice and did not hold an annual general meeting of shareholders no later than December 31, 2015 in 2015. If we continue to rely on this and other exemptions available to foreign private issuers in the future, our shareholders may be afforded less protection than they otherwise would under the NASDAQ corporate governance listing standards applicable to U.S. domestic issuers. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our ADSs—We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.”

ITEM 16.H. 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 Tarena International, Inc. and its subsidiaries are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Fifth Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
2.1	Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3)
2.2	Registrant's Specimen Certificate for Class A ordinary shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
2.3	Deposit Agreement, among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-197226) filed with the SEC on July 3, 2014)
2.4	Second Amended and Restated Shareholders Agreement dated as of September 6, 2011 among the Registrant and certain shareholders of the Registrant. (incorporated herein by reference to Exhibit 4.4 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
2.5	Registration Rights Agreement dated as of April 8, 2014 among the Registrant and New Oriental Education & Technology Group Inc. (incorporated herein by reference to Exhibit 2.5 to the annual report on Form 20-F (File No. 001-36363) filed with the SEC on April 15, 2015)
2.6*	Registration Rights Agreement dated as of July 17, 2015 among the Registrant and Talent Fortune Investment Limited
4.1	2008 Share Incentive Plan, as amended on November 28, 2012 (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.2	2014 Share Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.3	Form of Indemnification Agreement with the Registrant's directors (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.4	Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.5	Amended and Restated Exclusive Business Cooperation Agreement dated November 25, 2013 between Tarena Tech and Beijing Tarena (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)

Exhibit Number	Description of Document
4.6	Power of Attorney dated November 25, 2013 granted to Tarena Tech by Mr. Shaoyun Han and acknowledged by Beijing Tarena (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.7	Power of Attorney dated November 25, 2013 granted to Tarena Tech by Mr. Jianguang Li and acknowledged by Beijing Tarena (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.8	Amended and Restated Exclusive Option Agreement dated November 25, 2013 among Tarena, Tarena Tech, Mr. Shaoyun Han and Beijing Tarena (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.9	Amended and Restated Exclusive Option Agreement dated November 25, 2013 among Tarena, Tarena Tech, Mr. Jianguang Li and Beijing Tarena (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.10	Amended and Restated Loan Agreement dated November 25, 2013 between Tarena Tech and Mr. Shaoyun Han in connection with Beijing Tarena (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.11	Amended and Restated Loan Agreement dated November 25, 2013 between Tarena Tech and Mr. Jianguang Li in connection with Beijing Tarena (incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.12	Amended and Restated Share Pledge Agreement dated November 25, 2013 among Tarena Tech, Mr. Shaoyun Han and Beijing Tarena (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.13	Amended and Restated Share Pledge Agreement dated November 25, 2013 among Tarena Tech, Mr. Jianguang Li and Beijing Tarena (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.14	Spousal consent letter dated November 25, 2013 signed by Ying Sun in connection with Beijing Tarena (incorporated herein by reference to Exhibit 10.15 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.15	Spousal consent letter dated November 25, 2013 signed by Nan Li in connection with Beijing Tarena (incorporated herein by reference to Exhibit 10.16 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.16	Amended and Restated Exclusive Business Cooperation Agreement dated November 25, 2013 between Tarena Tech and Shanghai Tarena (incorporated herein by reference to Exhibit 10.17 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.17	Power of Attorney dated November 25, 2013 granted to Tarena Tech by Mr. Shaoyun Han and acknowledged by Shanghai Tarena (incorporated herein by reference to Exhibit 10.18 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.18	Power of Attorney dated November 25, 2013 granted to Tarena Tech by Mr. Jianguang Li and acknowledged by Shanghai Tarena (incorporated herein by reference to Exhibit 10.19 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)

Exhibit Number	Description of Document
4.19	Amended and Restated Exclusive Option Agreement dated November 25, 2013 among Tarena, Tarena Tech, Mr. Shaoyun Han and Shanghai Tarena (incorporated herein by reference to Exhibit 10.20 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.20	Amended and Restated Exclusive Option Agreement dated November 25, 2013 among Tarena, Tarena Tech, Mr. Jianguang Li and Shanghai Tarena (incorporated herein by reference to Exhibit 10.21 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.21	Amended and Restated Loan Agreement dated November 25, 2013 between Tarena Tech and Mr. Shaoyun Han in connection with Shanghai Tarena (incorporated herein by reference to Exhibit 10.22 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.22	Amended and Restated Loan Agreement dated November 25, 2013 between Tarena Tech and Mr. Jianguang Li in connection with Shanghai Tarena (incorporated herein by reference to Exhibit 10.23 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.23	Amended and Restated Share Pledge Agreement dated November 25, 2013 among Tarena Tech, Mr. Shaoyun Han and Shanghai Tarena (incorporated herein by reference to Exhibit 10.24 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.24	Amended and Restated Share Pledge Agreement dated November 25, 2013 among Tarena Tech, Mr. Jianguang Li and Shanghai Tarena (incorporated herein by reference to Exhibit 10.25 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.25	Spousal consent letter dated November 25, 2013 signed by Ying Sun in connection with Shanghai Tarena (incorporated herein by reference to Exhibit 10.26 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
4.26	Spousal consent letter dated November 25, 2013 signed by Nan Li in connection with Shanghai Tarena (incorporated herein by reference to Exhibit 10.27 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
8.1*	List of Subsidiaries of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-194191), as amended, initially filed with the SEC on February 27, 2014)
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1**	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2**	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1*	Consent of Conyers Dill & Pearman
15.2*	Consent of Han Kun Law Offices
15.3*	Consent of KPMG Huazhen LLP
101.INS*	XBRL Instance Document

Exhibit Number	Description of 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.

Tarena International, Inc.

By: /s/ Shaoyun Han

Name: Shaoyun Han

Title: Chairman and Chief Executive Officer

Date: April 20, 2016

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Consolidated Financial Statements	
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2014 and 2015	F-3
Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2014 and 2015	F-4
Consolidated Statements of Changes in Equity (Deficit) for the years ended December 31, 2013, 2014 and 2015	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2014 and 2015	F-6
Notes to the Consolidated Financial Statements	F-7

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders Tarena International, Inc.:

We have audited the accompanying consolidated balance sheets of Tarena International, Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2015, and the related consolidated statements of comprehensive income, changes in equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company'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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tarena International, Inc. and subsidiaries as of December 31, 2014 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG Huazhen LLP

Beijing, China
April 20, 2016

TARENA INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Note	December 31,	
		2014	2015
		US\$	US\$
ASSETS			
Current assets:			
Cash and cash equivalents (including cash of VIEs of US\$243,292 and US\$160,614 as of December 31, 2014 and 2015, respectively)		42,659,791	79,145,296
Time deposits		106,834,876	69,280,200
Restricted time deposits	2	—	23,099,668
Accounts receivable, net of allowance for doubtful accounts	3	23,184,239	22,637,451
Prepaid expenses and other current assets (including prepaid expenses and other current assets of VIEs of US\$25,166 and US\$153 as of December 31, 2014 and 2015, respectively)	4	8,730,124	10,179,811
Total current assets		181,409,030	204,342,426
Time deposits		17,313,054	17,590,693
Accounts receivable, net of allowance for doubtful accounts	3	1,488,251	1,196,747
Property and equipment, net (including property and equipment, net of VIEs of US\$19,582 and US\$2,709 as of December 31, 2014 and 2015, respectively)	5	13,373,950	19,690,779
Cost method investments (including cost method investments of VIEs of nil and US\$2,771,960 as of December 31, 2014 and 2015, respectively)	6	—	3,695,946
Other non-current assets (including non-current assets of VIEs of nil and US\$40,917 as of December 31, 2014 and 2015, respectively)		4,369,889	8,178,969
Total assets		217,954,174	254,695,560
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		319,138	679,549
Amounts due to a related party	10	—	135,393
Income taxes payable (including income taxes payable of VIEs of US\$616,515 and US\$575,480 as of December 31, 2014 and 2015, respectively)	9	5,394,036	8,669,015
Deferred revenue		19,276,602	25,336,265
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of VIEs of US\$103,231 and US\$137,408 as of December 31, 2014 and 2015, respectively)	7	8,439,410	12,294,473
Total current liabilities		33,429,186	47,114,695
Other non-current liabilities (including other non-current liabilities of VIEs of US\$43,664 and US\$41,145 as of December 31, 2014 and 2015, respectively)		1,637,756	1,437,238
Total liabilities		35,066,942	48,551,933
Commitments and contingencies	15	—	—
Shareholders' equity:			
Class A ordinary shares (US\$0.001 par value, 860,000,000 shares authorized, 23,712,758 and 44,914,538 shares issued, 23,712,758 and 43,988,425 shares outstanding as of December 31, 2014 and 2015, respectively)	11	23,712	44,914
Class B ordinary shares (US\$0.001 par value, 40,000,000 shares authorized, 28,733,024 shares and 10,574,896 shares issued and outstanding as of December 31, 2014 and 2015, respectively)	11	28,733	10,575
Treasury shares (nil and 926,113 Class A ordinary shares as of December 31, 2014 and 2015, respectively, at cost)	11	—	(7,738,834)
Additional paid-in capital		135,886,427	144,776,619
Accumulated other comprehensive income (loss)		1,701,598	(4,905,419)
Retained earnings		45,246,762	73,955,772
Total shareholders' equity		182,887,232	206,143,627
Total liabilities and shareholders' equity		217,954,174	254,695,560

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

TARENA INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year Ended December 31,		
		2013	2014	2015
		US\$	US\$	US\$
Net revenues	8	92,833,660	136,204,017	189,189,530
Cost of revenues ^(a)		(29,068,058)	(39,079,756)	(53,569,964)
Gross profit		63,765,602	97,124,261	135,619,566
Selling and marketing expenses ^(a)		(30,251,656)	(42,562,280)	(61,824,142)
General and administrative expenses ^(a)		(16,223,871)	(29,947,822)	(40,358,751)
Research and development expenses ^(a)		(3,807,155)	(5,445,668)	(8,112,739)
Operating income		13,482,920	19,168,491	25,323,934
Interest income		1,541,175	4,360,315	6,862,762
Foreign currency exchange gains (losses)		—	1,196,530	(4,737,644)
Other income		1,294,262	2,370,736	1,897,019
Income before income taxes		16,318,357	27,096,072	29,346,071
Income tax expense	9	(2,271,326)	(2,404,824)	(637,061)
Net income		14,047,031	24,691,248	28,709,010
Accretion of convertible redeemable preferred shares	12	(44,360,060)	(576,431)	—
Net income (loss) attributable to Class A and Class B ordinary shareholders		(30,313,029)	24,114,817	28,709,010
Basic earnings (loss) per Class A and Class B ordinary share	14	(2.77)	0.51	0.53
Diluted earnings (loss) per Class A and Class B ordinary share	14	(2.77)	0.44	0.49
Net income		14,047,031	24,691,248	28,709,010
Other comprehensive income (loss)				
Foreign currency translation adjustment, net of nil income taxes		1,150,824	66,678	(6,607,017)
Comprehensive income		15,197,855	24,757,926	22,101,993
(a) Includes share-based compensation expense as follows (note 13):				
Cost of revenues		(17,179)	(56,743)	(106,707)
Selling and marketing expenses		(45,233)	(168,601)	(314,575)
General and administrative expenses		(654,323)	(3,627,078)	(4,540,855)
Research and development expenses		(48,011)	(209,737)	(324,754)

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

TARENA INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

	Ordinary Shares				Treasury Shares US\$	Additional Paid-in Capital US\$	Accumulated Other Comprehensive Income (loss) US\$	Retained Earnings (Accumulated Deficit) US\$	Total Shareholders' Equity (Deficit) US\$
	Number of Class A Ordinary Shares	Amount US\$	Number of Class B Ordinary Shares	Amount US\$					
Balance as of January 1, 2013	—	—	10,851,287	10,851	—	—	484,096	(35,461,796)	(34,966,849)
Net income	—	—	—	—	—	—	14,047,031	—	14,047,031
Conversion of Series A convertible redeemable preferred shares to Class B ordinary shares (note 11 (a))	—	—	1,375,271	1,375	—	78,849	—	—	80,224
Foreign currency translation adjustment, net of nil income taxes	—	—	—	—	—	—	1,150,824	—	1,150,824
Share-based compensation	—	—	—	—	—	764,746	—	—	764,746
Accretion of convertible redeemable preferred shares	—	—	—	—	—	(843,595)	—	(43,516,465)	(44,360,060)
Balance as of December 31, 2013	—	—	12,226,558	12,226	—	—	1,634,920	(64,931,230)	(63,284,084)
Net income	—	—	—	—	—	—	—	24,691,248	24,691,248
Foreign currency translation adjustment, net of nil income taxes	—	—	—	—	—	—	66,678	—	66,678
Share-based compensation	—	—	—	—	—	4,062,159	—	—	4,062,159
Accretion of convertible redeemable preferred shares	—	—	—	—	—	(495,159)	—	(81,272)	(576,431)
Issuance of Class A ordinary shares, upon initial public offering ("IPO"), net of issuance cost of US\$4,031,356	11,500,000	11,500	—	—	—	92,212,139	—	—	92,223,639
Issuance of Class A ordinary shares in private placement concurrent with the IPO	1,500,000	1,500	—	—	—	13,498,500	—	—	13,500,000
Conversion of Series A convertible redeemable preferred shares to Class B ordinary shares	—	—	7,196,159	7,196	—	412,580	—	—	419,776
Conversion of Series B convertible redeemable preferred shares to Class B ordinary shares	—	—	7,319,820	7,320	—	16,316,980	—	—	16,324,300
Conversion of Series C convertible redeemable preferred shares to Class B ordinary shares	—	—	10,914,852	10,915	—	95,200,220	—	—	95,211,135
Issuance of Class A ordinary shares upon exercise of share options and vesting of non-vested shares	1,788,393	1,788	—	—	—	247,024	—	—	248,812
Conversion of Class B ordinary shares to Class A ordinary shares	8,924,365	8,924	(8,924,365)	(8,924)	—	—	—	—	—
Reclassification of APIC and retained earnings (note 11(d))	—	—	—	—	—	(85,568,016)	—	85,568,016	—
Balance as of December 31, 2014	23,712,758	23,712	28,733,024	28,733	—	135,886,427	1,701,598	45,246,762	182,887,232
Net income	—	—	—	—	—	—	—	28,709,010	28,709,010
Conversion of Class B ordinary shares to Class A ordinary shares	18,158,128	18,158	(18,158,128)	(18,158)	—	—	—	—	—
Issuance of Class A ordinary shares upon exercise of share options and vesting of non-vested shares	3,043,652	3,044	—	—	—	3,603,301	—	—	3,606,345
Foreign currency translation adjustment, net of nil income taxes	—	—	—	—	—	—	(6,607,017)	—	(6,607,017)
Share-based compensation	—	—	—	—	—	5,286,891	—	—	5,286,891
Purchase of Class A ordinary shares	—	—	—	—	(7,738,834)	—	—	—	(7,738,834)
Balance as of December 31, 2015	44,914,538	44,914	10,574,896	10,575	(7,738,834)	144,776,619	(4,905,419)	73,955,772	206,143,627

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

TARENA INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Operating activities:			
Net income	14,047,031	24,691,248	28,709,010
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation	4,653,914	7,078,108	8,829,985
Bad debt expense	941,065	7,487,174	10,134,357
Loss on disposal of property and equipment	66,470	179,479	80,247
Deferred income tax benefit	(1,052,265)	(683,078)	(3,471,315)
Share based compensation expense	764,746	4,062,159	5,286,891
Foreign currency exchange losses (gains), net	197,040	(1,075,257)	4,737,644
<i>Changes in operating assets and liabilities</i>			
Accounts receivable	1,117,160	(16,762,469)	(10,744,445)
Prepaid expenses and other current assets	(534,531)	(2,495,692)	(2,931,799)
Accrued interest income on time deposits	(330,579)	(2,863,061)	(105,184)
Other non-current assets	(472,702)	(651,774)	(603,397)
Accounts payable	(7,038)	(45,050)	85,537
Amounts due to a related party	—	—	140,034
Income taxes payable	1,422,375	2,383,557	3,739,923
Deferred revenue	5,444,456	3,830,271	7,479,209
Accrued expenses and other current liabilities	3,393,767	1,929,718	4,645,423
Other non-current liabilities	54,642	1,394,535	(169,440)
Net cash provided by operating activities	29,705,551	28,459,868	55,842,680
Investing activities:			
Purchase of property and equipment	(9,108,968)	(7,878,945)	(16,053,871)
Proceeds from disposal of property and equipment	50,060	156,216	169,233
Purchase of short term investments	(11,298,158)	(101,390,291)	(151,768,220)
Proceeds from maturity of short term investments	11,298,158	101,390,291	151,768,220
Purchase of cost method investments	—	—	(4,015,032)
Purchase of time deposits	(17,286,182)	(115,280,749)	(102,627,336)
Proceeds from maturity of time deposits	6,456,091	3,634,521	110,855,012
Issuance of housing loans to employees	(339,623)	(496,172)	(196,977)
Proceeds from repayment of housing loans from employees	691,492	406,589	254,103
Net cash used in investing activities	(19,537,130)	(119,458,540)	(11,614,868)
Financing activities:			
Amounts received on behalf of a related party	141,329	—	—
Repayment of amounts received on behalf of a related party	(232,879)	—	—
Advances from a related party	153,386	—	230,000
Repayment of advances from a related party	(153,386)	—	(230,000)
Issuance of Class A ordinary shares upon the IPO	—	96,254,995	—
Issuance of Class A ordinary shares in private placement concurrent with the IPO	—	13,500,000	—
Issuance of Class A ordinary shares in connection with exercise of share options	—	248,812	3,606,345
Purchase of treasury shares	—	—	(7,738,834)
Payment of IPO costs	(499,331)	(3,532,025)	—
Net cash provided by (used in) financing activities	(590,881)	106,471,782	(4,132,489)
Effect of foreign currency exchange rate changes on cash and cash equivalents	364,495	1,047,426	(3,609,818)
Net increase in cash and cash equivalents	9,942,035	16,520,536	36,485,505
Cash and cash equivalents at beginning of year	16,197,220	26,139,255	42,659,791
Cash and cash equivalents at end of year	26,139,255	42,659,791	79,145,296
Supplemental disclosure of cash flow information:			
Income taxes paid	1,846,576	567,401	360,686
Non-cash investing and financing activities:			
Accrual for purchase of equipment	—	286,144	591,812
Conversion of Series A convertible redeemable preferred shares to Class B ordinary shares	80,224	419,776	—
Conversion of Series B convertible redeemable preferred shares to Class B ordinary shares	—	16,324,300	—
Conversion of Series C convertible redeemable preferred shares to Class B ordinary shares	—	95,211,135	—
Accrual of IPO costs	107,866	—	—

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

TARENA INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 DESCRIPTION OF BUSINESS, ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT CONCENTRATIONS AND RISKS

(a) Description of business

Tarena International, Inc. (“Tarena International”), through its wholly-owned subsidiaries and consolidated variable interest entities or VIEs (collectively referred to hereinafter as the “Company”), is principally engaged in providing professional education services including professional information technology (“IT”) training courses and non-IT training courses across the People’s Republic of China (“PRC”). To a lesser extent, the Company is also engaged in providing IT and non-IT training courses for children. All of the Company’s operations are located in the PRC with nearly all of its customers located in the PRC.

(b) Organization

Tarena International is a holding company that was incorporated in the Cayman Islands on October 8, 2003 by Mr. Han Shaoyun (“Mr. Han”), the founder and chief executive officer of the Company, and five other individuals. Tarena International is the parent company of a number of wholly-owned subsidiaries that are engaged in professional education services. The Company’s education services in certain locations of the PRC were previously conducted through Beijing Tarena Jinqiao Technology Co., Ltd. (“Beijing Tarena”) and Shanghai Tarena Software Technology Co., Ltd. (“Shanghai Tarena”) (collectively, the “Tarena Entities”), and their subsidiaries, in order to comply with the PRC laws and regulations which restricted foreign investments in companies that were engaged in education services. Tarena Entities and their subsidiaries were principally engaged in providing professional education services including professional IT training courses in those locations and operated 23 learning centers as of December 31, 2011. Pursuant to the VIE Agreements as described below, Tarena International has effective financial control over Tarena Entities and their initial capital funding was provided by Tarena Technologies Inc., (a wholly-owned subsidiary of Tarena International or the “WOFE”, formerly known as Beijing Tarena Technology Co., Ltd.). The recognized and unrecognized revenue-producing assets that were held by Tarena Entities and their subsidiaries primarily consisted of property and equipment, operating leases for the learning premises, ICP license, www.tmooc.cn website and assembled workforce in those learning centers. Because of change in PRC laws and regulations in 2012 which encourages foreign investments in education services, the Company began to transfer most of the operations, including related assets and liabilities of Tarena Entities and their subsidiaries to the wholly-owned subsidiaries of Tarena International. As of December 31, 2013, all of the learning center operations of Tarena Entities and their subsidiaries have been transferred to other subsidiaries of Tarena International. In 2015, Beijing Tarena invested US\$2.9 million in three PRC companies, which are engaged in provision of educational products and services.

The registered capital of Beijing Tarena and Shanghai Tarena is RMB2 million and RMB1 million, respectively. All of the equity interests of Tarena Entities are legally held by Mr. Han and Mr. Li Jianguang (“Mr. Li”), a director of Tarena International. Both individuals are nominee equity holders of Tarena Entities and holding their equity interests on behalf of Tarena International. Through a series of contractual agreements and arrangements (the “VIE Agreements”), among Tarena International, WOFE, Tarena Entities and their nominee equity holders, the nominee equity holders of Tarena Entities have granted all their legal rights including voting rights and disposition rights of their equity interests in Tarena Entities to Tarena International. The nominee equity holders of Tarena Entities do not participate significantly in income and loss and do not have the power to direct the activities of the Tarena Entities that most significantly impact their economic performance. Accordingly, the Tarena Entities are considered variable interest entities.

1 DESCRIPTION OF BUSINESS, ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT CONCENTRATIONS AND RISKS (CONTINUED)

(b) Organization (continued)

In accordance with Accounting Standards Codification (“ASC”) 810-10-25-38A, Tarena International has a controlling financial interest in Tarena Entities because Tarena International has (i) the power to direct activities of Tarena Entities that most significantly impact the economic performance of Tarena Entities; and (ii) the obligation to absorb the expected losses and the right to receive expected residual return of Tarena Entities that could potentially be significant to Tarena Entities. Thus, Tarena International is the primary beneficiary of the Tarena Entities.

Under the terms of the VIE Agreements, Tarena International has (i) the right to receive economic benefits that could potentially be significant to Tarena Entities in the form of service fees under the exclusive business cooperation agreements; (ii) the right to receive all dividends declared by Tarena Entities and the right to all undistributed earnings of Tarena Entities; (iii) the right to receive the residual benefits of Tarena Entities through its exclusive option to acquire 100% of the equity interests in Tarena Entities, to the extent permitted under PRC law. Accordingly, the financial statements of Tarena Entities are consolidated in Tarena International’s consolidated financial statements.

Under the terms of the VIE Agreements, Tarena Entities’ nominee equity holders have no rights to the net assets nor have the obligations to fund the deficit, and such rights and obligations have been vested to Tarena International. All of the equity (net assets) and net income of Tarena Entities are attributed to Tarena International.

The key terms of the VIE Agreements are as follows:

Loan Agreements: The WOFE provided RMB3 million loans in aggregate to Tarena Entities’ nominee equity holders for the sole purpose of their contribution of Tarena Entities’ registered capital. The nominee equity holders of Tarena Entities can only repay the loans by transferring all of their legal equity interest in Tarena Entities to the WOFE or its designated representatives pursuant to the exclusive option agreements. The loans shall be interest-free, unless the transfer price exceeds the principal of the loans when each nominee equity holder of Tarena Entities transfers his equity interests in Tarena Entities to Tarena International or its designated representatives. Such excess over the principal of the loan shall be deemed as the interest of the loans to the extent permitted under the PRC law. The initial terms of the loans expire in 2023, which can be extended with the written notice of both the WOFE and Tarena Entities before expiration.

Exclusive Option Agreements: Each of the nominee equity holders irrevocably granted Tarena International, Inc. or its designated representatives an exclusive option to purchase, to the extent permitted under PRC law, all or part of his equity interests in Tarena Entities. In addition, Tarena International has the option to acquire the equity interests of Tarena Entities for a specified price equal to the loan provided by the WOFE to the nominee equity holders. If the lowest price permitted under PRC law is higher than the above price, the lowest price permitted under PRC law shall apply. Without Tarena International’s prior written consent, the nominee equity holders shall not sell, transfer, mortgage, or otherwise dispose any equity interests in Tarena Entities. These agreements will remain effective until all equity interests held in Tarena Entities by the nominee equity holders are transferred or assigned to Tarena International or its designated representatives.

1 DESCRIPTION OF BUSINESS, ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT CONCENTRATIONS AND RISKS (CONTINUED)

(b) Organization (continued)

Exclusive Business Cooperation Agreements: The WOFE has the exclusive right to provide, among other things, technical support, business support and related consulting services to Tarena Entities and Tarena Entities agree to accept all the consultation and services provided by the WOFE. Without the WOFE's prior written consent, Tarena Entities are prohibited from engaging any third party to provide any of the services under this agreement. In addition, the WOFE exclusively owns all intellectual property rights arising out of or created during the performance of this agreement. Tarena Entities agree to pay a monthly service fee to the WOFE at an amount determined solely by the WOFE after taking into account factors including the complexity and difficulty of the services provided, the time consumed, the seniority of the WOFE employees providing services to Tarena Entities, the value of services provided, the market price of comparable services and the operating conditions of Tarena Entities. Furthermore, to the extent permitted under the PRC law, the WOFE agrees to provide financial support to Tarena Entities. The term of the agreement will remain effective unless the WOFE terminates the agreement in writing or a competent governmental authority rejects the renewal applications by either Tarena Entities or the WOFE to renew its respective business license upon expiration. Tarena Entities are not permitted to terminate this agreement in any event unless required by applicable laws.

Power of Attorney: Each nominee equity holder of Tarena Entities appointed the WOFE as the attorney-in-fact to act on all matters pertaining to Tarena Entities and to exercise all of their rights as an equity holder of Tarena Entities, including but not limited to attend shareholders' meetings, vote on their behalf on all matters of Tarena Entities requiring shareholders' approval under PRC laws and regulations and the articles of association of Tarena Entities, designate and appoint directors and senior management members. The WOFE may authorize or assign its rights under this appointment to any other person or entity at its sole discretion without prior notice to the nominee equity holders of Tarena Entities. Each power of attorney will remain effective until the nominee equity holder ceases to hold any equity interest in Tarena Entities.

Spousal Consent Letters: The spouses of the nominee equity holders of Tarena Entities executed spousal consent letters to acknowledge that the equity interests in Tarena Entities held by their spouses will be disposed of pursuant to the equity disposal agreement and equity interest pledge agreement and they will not make any assertions in connection with the equity interests in Tarena Entities held by their spouses. They shall be bound by the related VIE agreements and comply with the obligations thereunder as an equity holder of Tarena Entities if they obtain any equity interests in Tarena Entities which are held by their spouses for any reasons.

Equity Interest Pledge Agreements: Pursuant to the equity interest pledge agreement, Tarena Entities' nominee equity holders pledged all of their equity interests in Tarena Entities to the WOFE to guarantee their performance of the obligations under the contractual arrangements including but not limited to, the service fees due to the WOFE. If Tarena Entities or any of Tarena Entities' nominee equity holders breaches its contractual obligations under the contractual arrangements, the WOFE, as the pledgee, will be entitled to certain rights and entitlements, including receiving proceeds from the auction or sale of whole or part of the pledged equity interests of Tarena Entities in accordance with legal procedures. The WOFE has the right to receive dividends generated by the pledged equity interests during the term of the pledge. If any event of default as provided in the contractual arrangements occurs, the WOFE, as the pledgee, will be entitled to dispose of the pledged equity interests in accordance with PRC laws and regulations. The equity interest pledge agreements became effective on the date when the agreements were duly executed. The pledge was registered with the relevant local administration for industry and commerce in 2013 and will remain binding until Tarena Entities and their nominee equity holders discharge all their obligations under the contractual arrangements. The registration of the equity pledge enables the WOFE to enforce the equity pledge against third parties who acquire the equity interests of Tarena Entities in good faith.

1 DESCRIPTION OF BUSINESS, ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT CONCENTRATIONS AND RISKS (CONTINUED)

(b) Organization (continued)

Tarena International relies on the VIE Agreements to operate and control the Tarena Entities. However, these contractual arrangements may not be as effective as direct equity ownership in providing Tarena International with control over Tarena Entities. Any failure by Tarena Entities or the nominee equity holders to perform their obligations under the VIE Agreements would have a material adverse effect on the consolidated financial position and consolidated financial performance of the Company. All the VIE Agreements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit Tarena International's ability to enforce these contractual arrangements. In addition, if the legal structure and the VIE Agreements were found to be in violation of any existing or future PRC laws and regulations, Tarena International may be subject to fines or other legal or administrative sanctions.

In the opinion of management, based on the legal opinion obtained from the Company's PRC legal counsel, the above contractual arrangements are legally binding and enforceable and do not violate current PRC laws and regulations. However, there are uncertainties regarding the interpretation and application of existing and future PRC laws and regulations. Accordingly, Tarena International cannot be assured that PRC regulatory authorities will not ultimately take a contrary view to its opinion. If the current ownership structure of the Company and the VIE Arrangements are found to be in violation of any existing or future PRC laws and regulations, the PRC government could:

- revoke the business and operating licenses of the WOFE, its subsidiaries and Tarena Entities;
- discontinue or restrict the conduct of any transactions between the WOFE, its subsidiaries and Tarena Entities;
- impose fines, confiscate the income from Tarena Entities, or impose other requirements with which the Company may not be able to comply;
- require Tarena International to restructure its ownership structure or operations, including terminating the contractual arrangements with Tarena Entities and deregistering the equity pledges of Tarena Entities; and
- restrict or prohibit the use of the proceeds of future offering to finance the Company's business and operations in the PRC.

If the imposition of any of these government actions causes Tarena International to lose its right to direct the activities of Tarena Entities or its right to receive substantially all the economic benefits and residual returns from Tarena Entities and Tarena International is not able to restructure its ownership structure and operations in a satisfactory manner, Tarena International would no longer be able to consolidate the financial results of Tarena Entities and their subsidiaries. In the opinion of management, the likelihood of deconsolidation of the Tarena Entities and their subsidiaries is remote based on current facts and circumstances.

1 DESCRIPTION OF BUSINESS, ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT CONCENTRATIONS AND RISKS (CONTINUED)

(b) Organization (continued)

The equity interests of Tarena Entities are legally held by Mr. Han and Mr. Li as nominee equity holders on behalf of the Company. Mr. Han and Mr. Li are also directors of Tarena International. Mr. Li was jointly appointed by IDG Technology Venture Investments, L.P. and IDG Technology Venture Investment III, L.P. (collectively, the "IDG funds") and is a partner of IDG Capital Partners. Mr. Han and the IDG funds each held approximately 53.6% and 21.9% of the total voting rights of Tarena International as of December 31, 2015, respectively, assuming the exercise of all outstanding options beneficially held by Mr. Han (and his spouse) and Mr. Li as of such date. The Company cannot assure that when conflicts of interest arise, either of the nominee equity holders will act in the best interests of the Company or such conflicts will be resolved in the Company's favor. Currently, the Company does not have any arrangements to address potential conflicts of interest between the nominee equity holders and the Company, except that Tarena International could exercise the purchase option under the exclusive option agreement with the nominee equity holders to request them to transfer all of their equity ownership in Tarena Entities to a PRC entity or individual designated by Tarena International. The Company relies on the nominee equity holders, who are both Tarena International's directors and who owe a fiduciary duty to Tarena International, to comply with the terms and conditions of the contractual arrangements. Such fiduciary duty requires directors to act in good faith and in the best interests of Tarena International and not to use their positions for personal gains. If the Company cannot resolve any conflict of interest or dispute between the Company and the nominee equity holders of Tarena Entities, the Company would have to rely on legal proceedings, which could result in disruption of the Company's business and subject the Company to substantial uncertainty as to the outcome of any such legal proceedings.

The Company's involvement with Tarena Entities under the VIE Agreements affected the Company's consolidated financial position, results of operations and cash flows as indicated below.

The assets and liabilities of Tarena Entities and their subsidiaries that were included in the accompanying consolidated financial statements as of December 31, 2014 and 2015 are as follows:

	December 31,	
	2014	2015
	US\$	US\$
Cash	243,292	160,614
Prepaid expenses and other current assets	25,166	153
Amounts due from related parties	4,394,839	3,866,683
Total current assets	4,663,297	4,027,450
Property and equipment, net	19,582	2,709
Cost method investments	—	2,771,960
Other non-current assets	—	40,917
Total assets	4,682,879	6,843,036
Income taxes payable	616,515	575,480
Accrued expenses and other current liabilities	103,231	137,408
Amounts due to related parties, including amounts due to WOFE for accrued service fees	3,486,740	6,053,190
Total current liabilities	4,206,486	6,766,078
Other non-current liabilities	43,664	41,145
Total liabilities	4,250,150	6,807,223

Amounts due from/to related parties represents the amounts due from/to Tarena International and its wholly-owned subsidiaries, which are eliminated upon consolidation.

1 DESCRIPTION OF BUSINESS, ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT CONCENTRATIONS AND RISKS (CONTINUED)

(b) Organization (continued)

The financial performance and cash flows of Tarena Entities and their subsidiaries that were included in the accompanying consolidated financial statements for the years ended December 31, 2013, 2014 and 2015 are as follows:

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Net revenues	8,191,886	472,512	28,376
Net loss	(1,917,256)	(2,285,932)	(387,902)
Net cash used in operating activities	(1,538,619)	(610,826)	(353,434)
Net cash provided by (used in) investing activities	(470,805)	66,824	(2,890,823)
Net cash provided by financing activities	1,436,631	671,417	3,172,672
Effect of foreign currency exchange rate changes on cash	25,208	(70,821)	(11,093)

All of the assets of Tarena Entities and their subsidiaries can be used only to settle obligations of Tarena Entities and their subsidiaries. None of the assets of Tarena Entities and their subsidiaries have been pledged or collateralized. The creditors of Tarena Entities and their subsidiaries do not have recourse to the general credit of Tarena International and its wholly-owned subsidiaries. Assets of Tarena Entities and their subsidiaries that can be used only to settle obligations of Tarena Entities and their subsidiaries and liabilities of Tarena Entities and their subsidiaries for which creditors (or beneficial interest holders) do not have recourse to the general credit of Tarena International and its wholly owned subsidiaries have been presented parenthetically alongside each balance sheet caption on the face of the consolidated balance sheets.

During the periods presented, Tarena International and its wholly-owned subsidiaries provided financial support to Tarena Entities that they were not previously contractually required to provide in the form of advances. To the extent Tarena Entities require financial support, pursuant to the exclusive business cooperation agreements, the WOFE may, at its option and to the extent permitted under the PRC law, provide such support to Tarena Entities through loans to Tarena Entities' nominee equity holders or entrustment loans to Tarena Entities.

1 DESCRIPTION OF BUSINESS, ORGANIZATION, BASIS OF PRESENTATION AND SIGNIFICANT CONCENTRATIONS AND RISKS (CONTINUED)

(c) *Basis of presentation*

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

(d) *Significant concentrations and risks*

Revenue concentration

A substantial portion of the Company’s total net revenues are generated from Digital Arts and Java courses. The percentages of the Company’s total net revenues from Digital Arts and Java training courses are as follows:

	Year Ended December 31,		
	2013	2014	2015
Digital Arts	6.7%	29.1%	32.2%
Java	59.3%	36.7%	28.8%
Total	66.0%	65.8%	61.0%

The Company expects net revenues from these two training courses to continue to represent a substantial portion of its total net revenues in the future. Negative factors that adversely affect net revenues generated by these two training courses will have a material adverse effect on the Company’s business, financial condition and results of operations. There were no other courses that represented revenues greater than 10% of total revenues.

A substantial portion of the Company’s students financed their tuition fees through the loans offered to them by CreditEase Business Consulting (Beijing) Co., Ltd., Bank of China Consumer Finance Co., Ltd. and Bank of Beijing Consumer Finance Company during the three-year period ended December 31, 2015. The Company expects students financed by these companies to continue to represent a substantial portion of its total students in the future. The Company believes other companies could provide similar loans to its students on comparable terms. However, negative factors that adversely affect these companies will have a material adverse effect on the Company’s business, financial condition and results of operations.

Geographic concentration

A substantial portion of the Company’s total net revenues are derived from its business operations in Beijing and Hangzhou. The percentages of the Company’s total net revenues generated from its business operations in Beijing and Hangzhou are as follows:

	Year Ended December 31,		
	2013	2014	2015
Hangzhou	5.3%	25.5%	33.0%
Beijing	36.1%	15.5%	12.3%
Total	41.4%	41.0%	45.3%

The Company expects revenues derived from its business operations in Beijing and Hangzhou to continue to represent a significant portion of its total net revenues. Negative factors that adversely affect professional education services in Beijing or Hangzhou will have a material adverse effect on the Company’s business, financial condition and results of operations. There were no other cities that represented revenues greater than 10% of total revenues.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the financial statements of Tarena International, its wholly-owned subsidiaries, VIEs in which Tarena International is the primary beneficiary and their wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

(b) Use of estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the collectability of accounts receivable, the fair values of share-based compensation awards, the realizability of deferred income tax assets, the accruals for tax uncertainties and other contingencies, the recoverability of the carrying amounts of property and equipment and the useful lives of property and equipment. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(c) Foreign currency

The accompanying consolidated financial statements have been expressed in U.S. dollar (“USD”), the Company’s reporting currency. The functional currency of Tarena International and Tarena Hong Kong Limited (“Tarena HK”) is the USD. The functional currency of Tarena International’s PRC subsidiaries, consolidated VIEs, and the subsidiaries of the VIEs is the Renminbi (“RMB”). Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the applicable exchange rate at the balance sheet date. The resulting exchange differences are recorded in foreign currency exchange gains (losses) in the consolidated statements of comprehensive income.

Assets and liabilities of entities with functional currencies other than USD are translated into USD using the exchange rate on the balance sheet date. Revenues and expenses are translated into USD at average rates prevailing during the reporting period. The resulting foreign currency translation adjustment are recorded in accumulated other comprehensive income (loss) within shareholders’ equity.

Since the RMB is not a fully convertible currency, all foreign exchange transactions involving RMB must take place either through the People’s Bank of China (the “PBOC”) or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) *Cash, cash equivalents, time deposits and restricted time deposits*

Cash consist of cash on hand and cash in bank, which are unrestricted as to withdrawal. Cash equivalents consist of interest-bearing certificates of deposit with initial term of no more than three months when purchased.

Time deposits, which mature within one year as of the balance sheet date, represent interest-bearing certificates of deposit with an initial term of greater than three months when purchased. Time deposits which mature over one year as of the balance sheet date are included in non-current assets.

Time deposits that are pledged as collateral for line of credit with a financial institution in the U.S. with an initial term of greater than three months when purchased are reported as restricted time deposits.

Cash, cash equivalents, time deposits and restricted time deposits maintained at banks consist of the following:

	December 31,	
	2014	2015
	US\$	US\$
RMB denominated bank deposits with financial institutions in the PRC	58,639,210	96,579,459
US dollar denominated bank deposits with a financial institutions in the PRC	36,216,381	8,112,557
US dollar denominated bank deposits with financial institutions in Hong Kong Special Administrative Region ("HK SAR")	771,786	99,358
HK dollar denominated bank deposits with a financial institution in HK SAR	7	15,181
RMB denominated bank deposits with a financial institution in HK SAR	412	389
RMB denominated bank deposits with financial institutions in the U.S.	-	84,296,524
RMB denominated bank deposits with financial institutions in Singapore	71,178,287	-
US dollar denominated bank deposits with financial institutions in the U.S.	-	8,501

To limit exposure to credit risk relating to bank deposits, the Company primarily places bank deposits only with large financial institutions in the PRC, HK SAR, Singapore and the U.S. with acceptable credit rating.

(e) *Short-term investment*

During the years ended December 31, 2013, 2014 and 2015, the Company invested US\$11,298,158, US\$101,390,291 and US\$151,768,220, respectively, in financial products managed by two banks in the PRC. The terms of the financial products range between 5 days and 91 days. The financial products matured before December 31, 2013, 2014 and 2015, respectively. The Company earned investment income of US\$39,930, US\$757,300 and US\$957,373, respectively on the financial products, which was included in other income in the consolidated statements of comprehensive income for the years ended December 31, 2013, 2014 and 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Accounts receivable

Accounts receivable primarily represent tuition fees due from students. Accounts receivable which are due over one year as of the balance sheet date are presented as non-current assets. The unearned interest on accounts receivable which are due over one year is reported in the consolidated balance sheets as a direct deduction from the principal amount of accounts receivable. See note 2 (i). The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Accounts receivable is considered past due based on its contractual terms. In establishing the allowance, management considers historical losses, the students' financial condition, the amount of accounts receivables in dispute, the accounts receivables aging and the students' payment patterns. Accounts receivable which are deemed to be uncollectible are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. There is a time lag between when the Company estimates a portion of or the entire account balances to be uncollectible and when a write off of the account balances is taken. The Company takes a write off of the account balances when the Company can demonstrate all means of collection on the outstanding balances have been exhausted or the balances have been overdue for more than three years.

(g) Property and equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life of property and equipment is as follows:

Furniture	5 years
Office equipment	3 to 4 years
Leasehold improvements	Shorter of the lease term or the estimated useful life of the assets

Ordinary maintenance and repairs are charged to expenses as incurred, while replacements and betterments are capitalized. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value of the item disposed and proceeds realized thereon.

Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Recoverability of a long-lived asset or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying value of an asset or asset group exceeds its estimated undiscounted future cash flows, an impairment loss is recognized by the amount that the carrying value exceeds the estimated fair value of the asset or asset group. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party independent appraisals, as considered necessary. Assets to be disposed are reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated. No impairment of long-lived assets was recognized for any of the years presented.

(h) Cost method investments

Investments in entities in which the Company does not have an ability to exercise significant influence over the operating and financial matters of the investees and which do not have readily determinable fair value are accounted for using the cost method, under which the Company carries the investments at cost and recognizes as income for any dividend received from distribution of the investees' earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Cost method investments (continued)

The Company evaluates each cost method investment for impairment on a quarterly basis and recognizes an impairment loss if a decline in value is determined to be other-than-temporary. Such impairment evaluation includes, but not limited to: the current business environment; going concern considerations such as financial condition, the utilization of cash, ability to obtain additional financing to achieve its business plan, recent rounds of financing and comparable valuations.

(i) Revenue recognition

Revenue is recognized when all of the following conditions are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. These criteria as they relate to each of the following major revenue generating activities are described below. Revenue is presented net of business tax and value added taxes ("VAT") at rates ranging between 3% and 6%, and surcharges. VAT and business tax collected from customers, net of VAT paid for purchases, is recorded as a liability in the consolidated balance sheets until it is paid to the tax authorities.

Tuition fees

Educational and professional tuition fees are recognized as revenue ratably over the period of the training course, which primarily range from four to five months. The unearned portion of tuition fees is recorded as deferred revenue.

Certain qualified students are allowed to pay their tuition fees on installment for a period of time exceeding one year. When tuition services are sold on installment terms that exceeds one year beyond the point in time that revenue is recognized, the receivable, and therefore the revenue is recorded at the present value of the payments. The difference between the present value of the receivable and the nominal or principal value of the tuition fees is recognized as interest income over the contractual repayment period using the effective interest rate method. The interest rate used to determine the present value of total amount receivable is the rate at which the students can obtain financing of a similar nature from other sources at the date of the transaction.

Certification service revenue

The Company provides certification service to students who complete the training course and enroll for the exams. The Company is responsible for the certification service, including organization, proctoring and grading of exams. All certificates are issued by third parties to the students who pass the exam. The Company acts as the principal in providing this service and recognizes revenue on gross basis because the Company is the primary obligor in the arrangement and is responsible for fulfilling the ordered services by the students. Cash received before the students taking the exam, is recorded as deferred revenue, and subsequently recognized as certification service revenue upon completion of the certification service, which occurs when the certificates are provided to the students.

(j) Cost of revenues

Cost of revenues consists of payroll and employee benefits, rent expenses of learning centers, depreciation relating to property and equipment used for operating the learning centers, and other operating costs that are directly attributed to the provision of training services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Advertising costs

Advertising costs are expensed as incurred and included in selling and marketing expenses. Advertising costs were US\$11,570,458, US\$16,738,921 and US\$24,336,415 for the years ended December 31, 2013, 2014 and 2015, respectively.

(l) Operating lease

The Company leases premises for learning centers and offices under non-cancellable operating leases. Leases with escalated rent provisions are recognized on a straight-line basis commencing with the beginning of the lease term. There are no capital improvement funding, other lease concessions or contingent rent in the lease agreements. The lease terms of the Company's learning centers range between 1 and 10 years. The Company has no legal or contractual asset retirement obligations at the end of the lease term.

Certain learning centers of the Company sublease a portion of the areas to certain students for their living accommodation. Income from subleases is recognized on a straight-line basis over the term of the lease and recognized as reduction of costs of revenues.

(m) Government grant

Government grant is recognized when there is reasonable assurance that the Company will comply with the conditions attach to it and the grant will be received. Government grant for the purpose of giving immediate financial support to the Company with no future related costs or obligation is recognized in the Company's consolidated statements of comprehensive income when the grant becomes receivable. Government grants of US\$1,254,332, US\$1,613,436 and US\$939,646 were recognized and included in other income for the years ended December 31, 2013, 2014 and 2015, respectively.

(n) Research and development expense

Research and development costs are expensed as incurred.

(o) Employee benefits

Pursuant to relevant PRC regulations, the Company is required to make contributions to various defined contribution plans organized by municipal and provincial PRC governments. The contributions are made for each PRC employee at rates ranging from 25.5% to 52.5% on a standard salary base as determined by local social security bureau. Contributions to the defined contribution plans are charged to the consolidated statements of comprehensive income when the related service is provided. For the years ended December 31, 2013, 2014 and 2015, the costs of the Company's obligations to the defined contribution plans amounted to US\$5,850,415, US\$8,385,747 and US\$11,140,810, respectively. The Company has no other obligation for the payment of employee benefits associated with these plans beyond the contributions described above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates or tax laws is recognized in the consolidated statements of comprehensive income in the period the change in tax rates or tax laws is enacted. A valuation allowance is provided to reduce the carrying amount of deferred income tax assets if it is considered more likely than not that some portion or all of the deferred income tax assets will not be realized.

The Company recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company has elected to classify interest and penalties related to an unrecognized tax benefits, if and when required, as part of income tax expense in the consolidated statements of comprehensive income.

(q) Deferred offering costs

Deferred offering costs consist principally of legal, printing and registration costs in connection with the IPO. Upon completion of the IPO on April 3, 2014, the deferred offering costs of US\$615,793 were recognized as a reduction the offering proceeds.

(r) Share based compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the cost over the period the employee is required to provide service in exchange for the award, which generally is the vesting period. The Company recognizes compensation cost for an award with only service conditions that has a graded vesting schedule on a straight-line basis over the requisite service period for the entire award, net of estimated forfeitures, provided that the cumulative amount of compensation cost recognized at any date at least equals the portion of the grant-date value of such award that is vested at that date. Forfeiture rates are estimated based on historical and future expectations of employee turnover rates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Commitments and contingencies

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, shareholder lawsuits, and non-income tax matters. An accrual for a loss contingency is recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed.

The allowance for off-balance-sheet credit exposures is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to the guarantee under the Student Loan Program. See note 10. The Company evaluates the current status of the payment and performance risk of the guarantee based on periodic evaluations of the actual defaults, estimated future defaults, current understanding of the students' status and existing economic conditions.

(t) Earnings (loss) per share

Basic earnings (loss) per Class A and Class B ordinary share is computed by dividing net income (loss) attributable to Tarena International's Class A and Class B ordinary shareholders by the weighted average number of Class A and Class B ordinary shares outstanding during the year using the two-class method. Under the two-class method, net income (loss) attributable to Tarena International's Class A and Class B ordinary shareholders is allocated between Class A and Class B ordinary shares and other participating securities, if any, based on participating rights in undistributed earnings.

Tarena International's Series A convertible redeemable preferred shares, Series B convertible redeemable preferred shares and Series C convertible redeemable preferred shares were participating securities since the holders of these securities participated in dividends on the same basis as Class A and Class B ordinary shareholders. These participating securities were not included in the computation of basic loss per Class A and Class B ordinary share in periods when the Company reported net loss, because these participating security holders have no obligation to share in the losses of Tarena International based on the contractual rights and obligations of these participating securities.

Diluted earnings (loss) per share is calculated by dividing net income (loss) attributable to Tarena International's Class A and Class B ordinary shareholders as adjusted for the effect of dilutive Class A and Class B ordinary share equivalents, if any, by the weighted average number of Class A and Class B ordinary and dilutive Class A and Class B ordinary share equivalents outstanding during the year. Class A and Class B ordinary share equivalents include the Class A and Class B ordinary shares issuable upon the exercise of the outstanding share options (using the treasury stock method) and conversion of convertible redeemable preferred shares (using the as-if-converted method). Potential dilutive securities are not included in the calculation of diluted earnings (loss) per Class A and Class B ordinary share if the impact is anti-dilutive.

(u) Segment reporting

The Company uses the management approach in determining its operating segments. The management approach considers the internal reporting used by the Company's chief operating decision maker for making decisions about the allocation of resources to and the assessment of the performance of the segments of the Company. Management has determined that the Company has one operating segment, which is the training segment. All of the Company's operations and customers are located in the PRC. Consequently, no geographic information is presented.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) *Fair value measurements*

The Company applies the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring and nonrecurring basis. ASC Topic 820 defines fair value as the price that would be received to sell 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 Company 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC Topic 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC Topic 820 establishes three levels of inputs that may be used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. In situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects management's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by management based on the best information available in the circumstances.

The carrying amounts of cash and cash equivalents, time deposits, restricted time deposits, accounts receivable, housing loans to employees, accounts payable, amount due to a related party, accrued expenses and other current liabilities as of December 31, 2014 and 2015 approximate their fair value because of short maturity of these instruments.

The carrying amounts of non-current time deposits as of December 31, 2014 and 2015 approximate their fair value since the interest rates of the time deposits did not differ significantly from the market interest rates for similar types of time deposits.

The fair values of time deposits and restricted time deposits as of December 31, 2014 and 2015 are categorized as Level 2 measurement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) *Recently issued accounting standards*

The Financial Reporting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, in May 2014. ASU 2014-09 requires an entity to 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. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In December 2015, the FASB issued ASU No. 2015-14, *Revenue from contracts with customers*, which deferred the effective date of ASU 2014-09. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Company will implement the provisions of ASU 2014-09 as of January 1, 2018. The Company has not yet determined the impact of the new standard on its current policies for revenue recognition.

In 2015, the Company elected to early adopt the ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The Company adopted this new guidance retrospectively. As a result of adoption of this guidance, the Company reclassified current deferred income tax assets in the amount of USD2.1 million to other noncurrent assets as of December 31, 2014. There was no impact on results of operations or cash flows as a result of this guidance.

The FASB issued Accounting Standards Codification (“ASC”) Topic 842, *Leases*, in February 2016. ASC Topic 842 requires a lessee to recognize all leases, including operating leases, on balance sheet via a right-of-use asset and lease liability, unless the lease is a short-term lease (one with an accounting lease term of 12 months or less). All (or a portion of) fixed payments by the lessee to cover lessor costs related to ownership of the underlying assets, or executory costs, that do not represent payments for a good or service will be considered lease payments and reflected in the measurement of lease assets and lease liabilities by lessees. The new standard does not substantially change lessor accounting from current U.S. GAAP. The new standard also requires lessees and lessors to disclose more qualitative and quantitative information about their leases than current U.S. GAAP does. The standard is applied retrospectively, with elective reliefs. The new standard is effective for annual and interim reporting periods beginning after December 15, 2018 for a public business entity. Early adoption is permitted. The Company has not yet determined the impact of the new standard on its current policies for leases.

3 ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	December 31,	
	2014	2015
	US\$	US\$
Accounts receivable:		
Gross	32,420,858	36,593,434
Unearned interest	(1,971,843)	(2,463,474)
Total accounts receivable	30,449,015	34,129,960
Less: allowance for doubtful accounts	(5,776,525)	(10,295,762)
Accounts receivable, net	24,672,490	23,834,198

The classification of accounts receivable is as follows:

	December 31,	
	2014	2015
	US\$	US\$
Accounts receivable, net – current portion	23,184,239	22,637,451
Accounts receivable, net – non-current portion	1,488,251	1,196,747
Total accounts receivable, net	24,672,490	23,834,198

The movements of the allowance for doubtful accounts are as follows:

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Balance at the beginning of the year	1,306,306	2,303,029	5,776,525
Additions charged to bad debt expense	941,065	7,487,174	10,134,357
Write-off of bad debt allowance	-	(4,035,620)	(5,073,810)
Foreign currency translation adjustment	55,658	21,942	(541,310)
Balance at the end of the year	<u>2,303,029</u>	<u>5,776,525</u>	<u>10,295,762</u>

The aging analysis of our accounts receivable based on due date is as follows:

	As of December 31,	
	2014	2015
	US\$	US\$
Aging:		
– current	11,940,237	16,072,343
– 1-3 months past due	5,058,887	5,698,759
– 4-6 months past due	4,139,377	2,059,362
– 7-12 months past due	6,119,995	2,774,243
– greater than one year past due	3,190,519	7,525,253
Total accounts receivable	30,449,015	34,129,960

4 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	December 31,	
	2014	2015
	US\$	US\$
Prepaid expenses and other current assets:		
Prepaid rental expenses	2,260,000	2,760,388
Interest receivable from time deposits	2,556,518	1,768,667
Prepaid advertising deposits	175,682	1,690,126
Prepaid advertising expenses	1,751,146	1,538,659
Prepaid value-added tax	715,157	1,105,122
Housing loans made to employees (a)	436,467	352,655
Staff advances (b)	81,903	65,153
Others (c)	753,251	899,041
Total prepaid expenses and other current assets	8,730,124	10,179,811

- (a) The Company provided one-year housing loans to the employees to help them finance their purchase of apartments.
 (b) Staff advances are provided to staff for traveling and related expenses and are expensed when incurred.
 (c) Others mainly represent other deposits, professional fees and other miscellaneous prepaid expenses.

5 PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	December 31,	
	2014	2015
	US\$	US\$
Furniture	934,033	1,618,584
Office equipment	23,583,820	32,552,762
Leasehold improvements	5,525,229	8,181,251
Total property and equipment	30,043,082	42,352,597
Less: accumulated depreciation	(16,669,132)	(22,661,818)
Property and equipment, net	13,373,950	19,690,779

Depreciation expense for property and equipment was allocated to the following:

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Cost of revenues	4,001,726	6,200,645	7,797,649
Selling and marketing expenses	278,094	366,819	432,695
General and administrative expenses	347,904	431,246	486,820
Research and development expenses	26,190	79,398	112,821
Total	4,653,914	7,078,108	8,829,985

6 COST METHOD INVESTMENTS

Cost method investments consist of the following which were accounted for under cost method because the Company does not have the ability to exercise significant influence over the entities. The fair value of a cost method investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. No events or circumstances indicating a potential impairment were identified as of or for the year ended December 31, 2015. The Company determines that it is not practicable to estimate fair value of a cost method investment because the sales prices or bid-and-asked quotations of the equity interests of these entities are not currently available and the cost of obtaining an independent valuation appears excessive considering the materiality of the investments to the Company.

		December 31,	
		2014	2015
		US\$	US\$
Sino-German Know-How Education Investment Co., Ltd.	(a)	—	1,847,973
Juesheng.com	(b)	—	769,989
Mxsoft.com	(c)	—	615,991
Other cost method investments	(d)	—	461,993
Total		—	3,695,946

- (a) In October 2015, the Company paid RMB12,000,000 in cash to acquire 2.86% of the total equity interest in Sino-German Know-How Education Investment Co., Ltd, which is engaged in provision of training for senior mechanic in vehicle maintenance and repair.
- (b) In November 2015, the Company paid RMB5,000,000 in cash to acquire 0.50% of the total equity interest of an online shopping platform providing education products.
- (c) In August 2015, the Company paid RMB4,000,000 in cash to acquire 5.71% of the total equity interest in Mxsoft.com, which provides IT environment management and monitoring solution to customers.
- (d) As of December 31, 2015, the Company paid RMB3,000,000 in cash to acquire 1.43% and 0.74% equity interest in two other entities which were accounted for under cost method.

7 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31,	
	2014	2015
	US\$	US\$
VAT and other tax payables	1,913,361	2,825,427
Accrued payroll and employee benefits	4,389,540	5,758,853
Others	2,136,509	3,710,193
Total	8,439,410	12,294,473

Others mainly represent current deferred income under American Depository Receipt program, accrual for employee reimbursement, rental expenses and other miscellaneous expenses.

8 NET REVENUES

Net revenues consist of the following:

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Tuition fee	92,927,773	135,932,251	188,641,628
Certification service fee	2,001,705	2,936,647	4,411,095
Others	897,862	467,433	182,310
Business taxes and surcharges	(2,993,680)	(3,132,314)	(4,045,503)
Total net revenues	92,833,660	136,204,017	189,189,530

Others mainly represent miscellaneous fees, including franchise fee and guarantee fee (see note 10(b)).

9 INCOME TAXES

Under the current laws of the Cayman Islands, Tarena International is not subject to tax on its income or capital gains. For the period from its inception on October 22, 2012 to December 31, 2015, Tarena HK did not have any assessable profits arising in or derived from HK SAR. Tarena International's PRC subsidiaries and consolidated VIEs and the subsidiaries of the VIEs file separate tax returns in the PRC. Effective from January 1, 2008, the PRC statutory income tax rate is 25% according to the Corporate Income Tax ("CIT") Law which was passed by the National People's Congress on March 16, 2007.

Under the CIT Law, entities that qualify as "Advanced and New Technology Enterprise" ("ANTE") are entitled to a preferential income tax rate of 15%. In 2009, the WOFE qualified as an ANTE, which entitled it to the preferential income tax rate of 15% from January 1, 2009 to December 31, 2011. In 2012, the WOFE renewed its ANTE qualification, which entitled it to the preferential income tax rate of 15% from January 1, 2012 to December 31, 2014. In 2015, the WOFE renewed its ANTE qualification, which entitled it to the preferential income tax rate of 15% from January 1, 2015 to December 31, 2017.

Tarena Software Technology (Hangzhou) Co., Ltd. ("Tarena Hangzhou") was established in 2013 and qualified as an eligible software enterprise. As a result of this qualification, it is entitled to a tax holiday of a two-year full exemption followed by a three-year 50% exemption, commencing from the year in which its taxable income is greater than zero. As a result, its income tax rate for the years ended December 31, 2013, 2014 and 2015 were 25%, nil and nil, respectively.

Certain Tarena International's subsidiaries and branches qualified as "Small Profit Enterprises" in 2013, 2014 and 2015, and therefore are subject to the preferential income tax rate of 20% or 10%.

According to the approvals from the tax authorities in certain locations in the PRC, Tarena International's subsidiaries and consolidated VIEs and the subsidiaries of the VIEs that are based in these locations are required to use the deemed profit method to determine their income tax. Under the deemed profit method, these subsidiaries are subject to income tax at 25% on its deemed profit which is calculated based on revenues less deemed expenses equal to 85% and 90% of revenues.

9 INCOME TAXES (CONTINUED)

The components of income before income taxes are as follows:

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
PRC	16,533,265	23,827,863	32,246,850
Hong Kong	(182,447)	(319,685)	(306,499)
Cayman Islands	(32,461)	3,587,894	(2,594,280)
Total income before income taxes	16,318,357	27,096,072	29,346,071

Income tax expense consists of the following:

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Current income tax expense	3,323,591	3,087,902	4,108,376
Deferred income tax benefit	(1,052,265)	(683,078)	(3,471,315)
Total	2,271,326	2,404,824	637,061

The actual income tax expense reported in the consolidated statements of comprehensive income for each of the years ended December 31, 2013, 2014 and 2015 differs from the amount computed by applying the PRC statutory income tax rate to income before income taxes due to the following:

	Year Ended December 31,		
	2013	2014	2015
PRC statutory income tax rate	25.0%	25.0%	25.0%
Increase (decrease) in effective income tax rate resulting from:			
Cayman and HK entities not subject to income taxes	0.3%	(3.0)%	2.5%
Research and development bonus deduction	(3.3)%	(2.7)%	(3.3)%
Non-deductible selling, general and administrative expenses			
Share based compensation	1.2%	3.8%	4.5%
Other non-deductible selling, general and administrative expenses	0.4%	0.5%	0.6%
ANTE preferential tax rate	(10.2)%	(1.0)%	0.1%
Tarena Hangzhou preferential tax rate	1.4%	(0.1)%	0.7%
Change in valuation allowance	(0.9)%	6.4%	3.1%
Tarena Hangzhou tax holiday	-	(20.0)%	(31.1)%
Deemed profit method differential	(0.2)%	(0.1)%	(0.0)%
Others	0.2%	0.1%	0.1%
Actual income tax expense	13.9%	8.9%	2.2%

Basic and diluted per Class A ordinary share and Class B ordinary share effect of the Company's tax holiday for the year ended December 31, 2014 and 2015 was US\$0.10 per share and US\$0.17 per share, respectively.

9 INCOME TAXES (CONTINUED)

The principal components of deferred income tax assets are as follows:

	December 31,	
	2014	2015
	US\$	US\$
Deferred income tax assets:		
Accounts receivable	2,729,700	5,330,829
Tax loss carry forwards	691,350	1,087,954
Advertising expense	1,151,432	2,104,573
Total deferred income tax assets	4,572,482	8,523,356
Valuation allowance	(2,347,093)	(3,097,761)
Deferred income tax assets, net	2,225,389	5,425,595

The movements of the valuation allowance are as follows:

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Balance at the beginning of the year	731,828	598,117	2,347,093
Additions of valuation allowance	525,061	1,823,101	1,456,539
Reduction of valuation allowance	(678,916)	(78,687)	(532,478)
Foreign currency translation adjustment	20,144	4,562	(173,393)
Balance at the end of the year	<u>598,117</u>	<u>2,347,093</u>	<u>3,097,761</u>

The valuation allowance as of December 31, 2014 and 2015 was primarily provided for the deferred income tax assets of certain Tarena International's PRC subsidiaries, consolidated VIEs, and the subsidiaries of the VIEs, which were at cumulative loss positions. In assessing the realization of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or utilizable. Management considers projected future taxable income and tax planning strategies in making this assessment. As of December 31, 2015, the Company had tax losses carry forwards of US\$4,351,816. Tax losses of US\$11,608, US\$89,528, US\$1,760,046 and US\$2,490,634 will expire, if unused, by 2017, 2018, 2019 and 2020, respectively.

The CIT Law and its implementation rules impose a withholding income tax at 10%, unless reduced by a tax treaty or arrangement, on the amount of dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC that are related to earnings accumulated beginning on January 1, 2008. Dividends relating to undistributed earnings generated prior to January 1, 2008 are exempt from such withholding income tax.

The Company has considered temporary differences on the book to tax differences pertaining to all investment in subsidiaries including the determination of the indefinite reinvestment assertion that would apply to each foreign subsidiary. The Company evaluated each entity's historical, current business environment and plans to indefinitely reinvest all earnings accumulated in its respective jurisdiction for purpose of future business expansion.

Due to the plan to indefinitely reinvest its earnings in the PRC, the Company has not provided for deferred income tax liabilities on undistributed earnings of US\$77,848,789 and US\$93,048,180 as of December 31, 2014 and 2015, respectively. It is not practicable to estimate the unrecognized deferred income tax liabilities thereof.

9 INCOME TAXES (CONTINUED)

A reconciliation of the beginning and ending amount of total unrecognized tax benefits for the years ended December 31, 2013, 2014 and 2015 is as follows:

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Balance at beginning of year	1,700,106	3,077,693	6,033,774
Increase related to current year tax positions	2,843,585	5,768,868	8,198,639
Settlement	(1,539,717)	(2,813,061)	(5,551,468)
Foreign currency translation adjustment	73,719	274	(456,918)
Balance at end of year	<u>3,077,693</u>	<u>6,033,774</u>	<u>8,224,027</u>

US\$5,822,319 and US\$7,576,459 of unrecognized tax benefits as of December 31, 2014 and 2015, if recognized, would affect the effective tax rate. No interest and penalty expenses were recorded for the years ended December 31, 2013, 2014 or 2015. US\$4,849,529 and US\$6,543,175 of unrecognized tax benefits as of December 31, 2014 and 2015 were included in income taxes payable. US\$384,686 and US\$569,729 of unrecognized tax benefits as of December 31, 2014 and 2015 were included in other non-current liabilities. The remaining US\$799,559 and US\$1,111,123 unrecognized tax benefit as of December 31, 2014 and 2015, respectively were presented as a reduction of the deferred income tax assets for tax loss carry forwards since the uncertain tax position would reduce the tax loss carry forwards under the tax law. The unrecognized tax benefits represent the estimated income tax expenses the Company would be required to pay should its revenue for tax purposes be recognized in accordance with current PRC tax laws and regulations. Management believes that it is reasonably possible that US\$7,654,298 unrecognized tax benefits as of December 31, 2015 will be recognized in the next twelve months as a result of such revenue being reported in the income tax filing during the next twelve months.

According to the PRC Tax Administration and Collection Law, the statute of limitation is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitation is extended to five years under special circumstances where the underpayment of taxes is more than RMB100,000. In the case of transfer pricing issues, the statute of limitation is 10 years. There is no statute of limitation in the case of tax evasion. The income tax returns of Tarena International's PRC subsidiaries, consolidated VIEs, and the subsidiaries of the VIEs for the years from 2011 to 2015 are open to examination by the PRC tax authorities.

10 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2013, 2014 and 2015, the Company entered into related party transactions with Mr. Han, Chuanbang Business Consulting (Beijing) Co., Ltd. (“Chuanbang”), which is wholly owned by Mr. Han, and Precise Advance Limited (“Precise”), which is owned by an executive of the Company’s shareholder. The significant related party transactions are summarized as follows:

		Year Ended December 31,		
		2013	2014	2015
		US\$	US\$	US\$
Transactions with Chuanbang				
Tuition fees paid under the Student Loan Program	(a)	8,672,904	—	—
Guarantee fee	(b)	90,490	18,188	—
Amounts received under the Student Loan Program	(c)	(141,329)	—	—
Repayment of amounts received under the Student Loan Program	(c)	232,879	—	—
Advances from Chuanbang	(d)	(153,386)	—	—
Repayment of advances from Chuanbang	(d)	153,386	—	—
Cash collection service fee	(e)	64,586	108,068	329,767
Transactions with others				
Advances from Precise	(f)	—	—	(230,000)
Repayment of advances from Precise	(f)	—	—	230,000

Notes:

- (a) Starting from the second half of 2011, the Company began to refer its students who need financial assistance for the payment of their tuition fees to Chuanbang. Chuanbang is a person-to-person or a “peer-to-peer” (P2P) lending intermediary that assists students in obtaining loans to pay for their tuition fees by identifying potential third-party individual lenders (the “Student Loan Program”). The third-party lenders remit cash to Mr. Han, who is a representative of Chuanbang, rather than directly to the Company, because the P2P arrangement is between Chuanbang (rather than the Company) and the third party individual lenders. As a P2P lending intermediary and pursuant to the relevant agreements between the two parties, Chuanbang is responsible for processing payments from student borrowers and forwarding those payments to individual lenders. The Company has no direct involvement in or is a party to the P2P arrangement, other than serving as the guarantor of the student loans. The role of the third-party individual lenders is to provide the students with funding of the student loans that are arranged or identified by Chuanbang.

Under the Student Loan Program, before the training courses commence, the students entered into loan agreements with Mr. Han, a designated representative of Chuanbang, to borrow an amount equal to the total amount of the tuition fees. The repayment term of the loan agreements ranges between 12 and 20 months. Shortly thereafter, Mr. Han assigned such loan agreements to third party individual lenders (including certain employees and a director of the Company), with the Company serving as the guarantor of the loan amount. The terms of the assignment agreements between Mr. Han and the third party individual lenders are identical to the terms of the loan agreements between the students and Mr. Han, except that the interest rate charged to the students by Mr. Han is higher than the interest rate charged to Mr. Han by the third party individual lenders. The interest rate differential represents the compensation to Mr. Han for the estimated costs he incurred to originate and will incur to service the student loans as well as the amount payable to the Company for guaranteeing the student loans. Upon the receipt of the cash from the third party individual lenders, Mr. Han remits the cash to the Company on behalf of students for the payment of the students’ tuition fees. In substance, the Company has agreed to guarantee amounts borrowed by the students (indirectly from third-party individual lenders through Mr. Han) to purchase the training services of the Company.

10 RELATED PARTY TRANSACTIONS (CONTINUED)

The terms of the guarantee coincide with the terms of loan agreements, which range between 12 and 20 months. If the students default on a payment, the Company would have to perform under the guarantee. However, the Company would have recourse against the students. The maximum amount of undiscounted payments the Company would have to make in the event of default is US\$217,356 and nil as of December 31, 2014 and 2015, respectively. Upon the inception of the guarantee, the Company recognized a liability based on the estimated fair value of the guarantee. The liability is amortized over the term of the guarantee. The balance of the liability, which is included in accrued expenses and other current liabilities, was nil as of December 31, 2014 and 2015, respectively. The estimated amount of the loss contingency related to the guarantee was immaterial as of December 31, 2014 and 2015. The Company paid US\$78,931 in 2013 to discharge its guarantee obligations, which represented cumulative default of repayments by students as of December 31, 2013. All the third-party lenders were repaid and the Company's guarantee was released by March 15, 2015.

Under the Student Loan Program, upon the receipt of cash from third party individual lenders, Mr. Han remitted US\$8,672,904 to the Company on behalf of students for the payment of the students' tuition fees during the year ended December 31, 2013. The Company has stopped providing guarantees for any new student loans arranged by Chuanbang since April 2013.

- (b) Under the Student Loan Program, the Company allocates the total consideration between the fair value of the tuition service and the loan guarantee. Subsequent to the initial recognition, the loan guarantee liability is recognized as guarantee fee revenue over the term of the guarantee on a straight-line basis. US\$90,490, US\$18,188 and nil was recognized as guarantee fee revenue and included in other revenues for the years ended December 31, 2013, 2014 and 2015 respectively.
- (c) Under the Student Loan Program, the Company is not required to service the loans indirectly obtained by the students from the third party individual lenders. However, certain students remitted payments to the Company directly instead to Mr. Han. During the year ended December 31, 2013, the Company received cash repayments from students in the amount of US\$141,329. The amount received by the Company on behalf of Mr. Han is recorded in amounts due to Mr. Han. The Company repaid US\$232,879 to Mr. Han during the year ended December 31, 2013.
- (d) Represents advance for prepayment of services received from Chuanbang. During the year ended December 31, 2013, the Company received advances in the amount of US\$153,386 from Chuanbang. The Company repaid advances of US\$153,386 during the year ended December 31, 2013, as the services were no longer required.
- (e) Pursuant to an agreement between Chuanbang and the Company, beginning August 2013, Chuanbang provides cash collection service on the Company's accounts receivable. The fee for the service is calculated based on 6%~12% of the amount collected. Employees of Chuanbang include former employees of the Company who worked in the credit evaluation department. Chuanbang also provides similar cash collection service to financial institutions in the PRC. The cash collection service fee was US\$108,068 and US\$329,767 for the years ended December 31, 2014 and 2015, respectively. The amount due to Chuanbang as of December 31, 2014 was nil. The amount due to Chuanbang as of December 31, 2015 was US\$135,393, which has been fully paid by March 31, 2016.
- (f) In September 2015, Precise, which is owned by an executive of Kohlberg Kravis Roberts & Co. L.P ("KKR"), a shareholder of the Company, provided cash advances in the amount of US\$230,000 to the Company in order to fund its share repurchase plan. The Company has fully repaid the advances in October 2015.

11 ORDINARY SHARES AND STATUTORY RESERVE

(a) Ordinary shares

On October 8, 2003, Tarena International was established with authorized share capital of US\$150,000, or 90,000,000 ordinary shares with a par value of US\$0.001 (being retroactively adjusted to reflect the effect of the share split) and 60,000,000 preferred shares with a par value of US\$0.001 (being retroactively adjusted to reflect the effect of the share split).

On December 16, 2008, the Board of Directors of Tarena International approved a 10:1 share split, which increased (i) the total number of authorized ordinary shares of 9,000,000, and issued and outstanding ordinary shares of 1,358,000, to 90,000,000 and 13,580,000, respectively; and (ii) the total number of authorized preferred shares of 6,000,000, and issued and outstanding preferred shares of 1,589,125, to 60,000,000 and 15,891,250, respectively. All applicable share and per share amounts in the accompanying consolidated financial statements have been retroactively adjusted to reflect the effect of the share split.

On April 9, 2013, IDG Technology Venture Investments, LP (“IDG”), the Series A convertible redeemable preferred shareholder, entered into a series of agreements with Mr. Han, Connion Capital Ltd. (“Connion”), a company incorporated in the Cayman Islands with limited liability and wholly owned by Mr. Han, Techedu Limited, a company incorporated in the British Virgin Islands (“BVI”) with limited liability and wholly owned by Mr. Han, and GF Tarena Limited, a third party company incorporated with limited liability under the law of the BVI, pursuant to which IDG sold 1,146,059 and 229,212 of its Series A convertible redeemable preferred shares to Techedu Limited and GF Tarena Limited for a consideration of US\$5 million and US\$1 million, respectively, or US\$4.3628 per share. At the same time, Connion sold 916,848 of its ordinary shares to GF Tarena Limited for a consideration of US\$4 million, or US\$4.3628 per share. The 1,146,059 Series A convertible redeemable preferred shares purchased by Techedu Limited and 229,212 Series A convertible redeemable preferred shares purchased by GF Tarena Limited were converted to ordinary shares on December 10, 2013. To facilitate the purchase of the Series A convertible redeemable preferred shares, Techedu Limited borrowed a loan in the amount of US\$5 million from GF Tarena Limited on April 9, 2013, with an annual interest rate of 19% for a period of 30 months.

On February 27, 2014, the Board of Directors of Tarena International approved the fifth amendment of the Memorandum and Articles of Association (the “Amended M&A”), pursuant to which the authorized share capital was amended to 1,000,000,000 ordinary shares at a par value of US\$0.001 per share, of which 860,000,000 shares were designated as Class A ordinary shares, 40,000,000 as Class B ordinary shares and 100,000,000 shares were designated as Reserved Shares, each with such rights, preferences and privileges set forth in the Amended M&A. The rights of the holders of Class A and Class B ordinary shares are identical, except with respect to voting and conversion rights. Each share of Class A ordinary shares is entitled to one vote per share and is not convertible into Class B ordinary shares under any circumstances. Each share of Class B ordinary shares is entitled to ten votes per share and is convertible into one Class A ordinary share at any time by the holder thereof.

11 ORDINARY SHARES AND STATUTORY RESERVE(CONTINUED)

(a) Ordinary shares (continued)

In the Amended M&A, the Board of Directors of Tarena International approved that the Company to adopt a dual class ordinary share structure immediately upon the completion of the IPO. Upon the completion of the IPO, the Group's ordinary shares were divided into Class A ordinary shares and Class B ordinary shares. All of its issued and outstanding ordinary share prior to this offering were re-designated as Class B ordinary shares, all of its issued and outstanding preferred shares were automatically re-designated or converted into Class B ordinary shares on a one-for-one basis immediately upon the completion of the IPO and all of the issued and outstanding options, non-vested shares and non-vested share units granted by the Company pursuant to the 2008 Share Plan and the 2014 Share Incentive Plan were re-designated as options in Class A shares, non-vested Class A ordinary shares, non-vested Class A ordinary share units.

In April 2014, in connection with its IPO, Tarena International issued 11,500,000 Class A ordinary shares with par value of US\$0.001, at a price of US\$9.00 per share to investors. Net proceeds from the issuance of 11,500,000 Class A ordinary shares amounted to US\$92,223,639 (net of issuance costs of US\$4,031,356), of which US\$11,500 and US\$92,212,139 were recorded in the Class A ordinary shares and additional paid-in capital, respectively.

Concurrently upon the completion of the Company's IPO, the Company issued 1,500,000 Class A ordinary shares with par value of US\$0.001 to New Oriental Education & Technology Group Inc., in a private placement at a price of US\$9.00 per share. Proceeds from the issuance of Class A ordinary shares were US\$13,500,000, of which US\$1,500 and US\$13,498,500 were recorded in the Class A ordinary shares and additional paid-in capital, respectively.

Upon completion of the IPO on April 3, 2014, the Company had 50,657,389 ordinary shares outstanding comprised of 16,800,000 Class A ordinary shares and 33,857,389 Class B ordinary shares. From April 4, 2014 to December 31, 2014, a total of 8,924,365 Class B ordinary shares were converted to Class A ordinary shares. 1,788,393 Class A ordinary shares were issued upon exercise of share options and vesting of non-vested shares. From January 1, 2015 to December 31, 2015, a total of 18,158,128 Class B ordinary shares were converted to Class A ordinary shares. 3,043,652 Class A ordinary shares were issued upon exercise of share options and vesting of non-vested shares.

As of December 31, 2015, 860,000,000 Class A ordinary shares and 40,000,000 Class B ordinary shares have been authorized, 44,914,538 and 43,988,425 Class A ordinary shares have been issued and outstanding, respectively, and 10,574,896 Class B ordinary shares have been issued and outstanding.

(b) Treasury shares

On August 20, 2015, the board of directors of the Company authorized a share repurchase plan under which the Company may repurchase up to US\$20 million of its ordinary shares over the next 12 months. As of December 31, 2015, the Company had repurchased 926,113 ordinary shares on the open market with a total consideration of approximately US\$7.7 million.

(c) Statutory reserves

Under PRC rules and regulations, Tarena International's PRC subsidiaries, consolidated VIEs, and the subsidiaries of the VIEs (the "PRC Entities") are required to appropriate 10% of their net profit, as determined in accordance with PRC accounting rules and regulations, to a statutory surplus reserve until the reserve balance reaches 50% of their registered capital. In addition, private schools (held by the PRC Entities) which require reasonable returns are required to appropriate 25% of their net profit, as determined in accordance with PRC accounting rules and regulations, to a statutory development fund, whereas in the case of private schools which do not require reasonable return, 25% of the annual increase of their net assets. The appropriation to these statutory reserves must be made before distribution of dividends to Tarena International can be made.

11 ORDINARY SHARES AND STATUTORY RESERVE(CONTINUED)

(c) Statutory reserves(continued)

For the years ended December 31, 2013, 2014 and 2015, the PRC Entities made appropriations to the statutory reserves of US\$1,972,313,US\$2,572,599 and US\$5,264,194, respectively. As of December 31, 2013, 2014 and 2015, the accumulated balance of the statutory reserves was US\$3,674,841, US\$6,247,440 and US\$11,511,634 respectively.

(d) Reclassification between additional paid-in capital and retained earnings

On August 19, 2014, the Board of Directors approved the Company to undertake a reclassification of the balances between additional paid-in capital and retained earnings of US\$85,568,016. The reclassification was due to the accretion of convertible redeemable preferred shares, of which US\$85,568,016 were charged against the balance in accumulated deficit in the absence of additional paid-in capital.

12 PREFERRED SHARES

Series A convertible redeemable preferred shares

On January 16, 2004, pursuant to the Series A convertible redeemable preferred shares purchase agreements (“Series A Purchase Agreement”), Tarena International issued 8,571,430 Series A convertible redeemable preferred shares to a third party investor for a total consideration of US\$500,000 or US\$0.05833 per share (“Series A Original Issuance Price”) (being retroactively adjusted to reflect the effect of the share split).

The Company determined that there was no embedded beneficial conversion feature attributable to the Series A convertible redeemable preferred shares at the commitment date since the initial conversion price of the Series A convertible redeemable preferred shares was greater than the estimated fair value of the Company’s ordinary shares as of January 16, 2004. The estimated fair value of the underlying ordinary shares on January 16, 2004 was determined by management based on a retrospective valuation with the assistance of American Appraisal China Limited (“American Appraisal”), an independent valuation firm, using an income approach which requires the estimation of future cash flows and the application of an appropriate discount rate with reference to comparable listed companies engaged in a similar industry to convert such future cash flows to a single present value.

The significant terms of Series A convertible redeemable preferred shares are as follows:

(i) Conversion

The holders of Series A convertible redeemable preferred shares have the right to convert all or any portion of their holdings into ordinary shares at a rate of one-for-one at any time, subject to a contingent conversion price adjustment if there are additional ordinary shares issued or deemed to be issued, as defined in Tarena International’s Memorandum and Articles of Association, at a price lower than the Series A Original Issuance Price. In addition, each Series A Preferred Share is automatically converted into ordinary shares upon the consummation of a Qualified Public Offering, as defined in the Series A Purchase Agreement.

The contingent conversion price adjustment may provide the holders of the Series A convertible redeemable preferred shares with a beneficial conversion feature. However, any such beneficial conversion feature relating to the conversion price adjustment, if any, is recognized when the contingency is resolved.

(ii) Voting

The holders of Series A convertible redeemable preferred shares have voting rights equivalent to the ordinary shareholders on an “if-converted” basis.

(iii) Dividends

Any dividend declared and paid on ordinary shares shall be also declared and paid in respect of the Series A convertible redeemable preferred shares as if all such Series A convertible redeemable preferred shares has been converted to ordinary shares.

(iv) Liquidation preference

The liquidation preference of the holders of Series A convertible redeemable preferred shares as of December 31, 2013 is as follows:

12 PREFERRED SHARES (CONTINUED)

Series A convertible redeemable preferred shares (continued)

In the event of any liquidation, dissolution, or winding up of the Company, the proceeds shall be distributed according to the following sequence: (i) first to the holders of the Series C convertible redeemable preferred shares at 150% of the Series C Original Issuance Price, plus declared but unpaid dividends on each share of Series C convertible redeemable preferred shares; (ii) second to the holders of Series B convertible redeemable preferred shares at 150% of the Series B Original Issuance Price, plus declared but unpaid dividends on each share of Series B convertible redeemable preferred shares, (iii) third to the holders of Series A convertible redeemable preferred shares at 100% of the Series A Original Issuance Price, plus declared but unpaid dividends on each share of Series A convertible redeemable preferred shares. The remaining assets of the Company, if any, shall be distributed pro rata to the holders of Series C convertible redeemable preferred shares, Series B convertible redeemable preferred shares, Series A convertible redeemable preferred shares and ordinary shares on an “if-converted” basis.

From the date of September 25, 2008 to August 11, 2011 (the date of the issuance of Series C convertible redeemable preferred shares), the liquidation preference of the holders of Series A convertible redeemable preferred shares was as follows:

In the event of any liquidation, dissolution, or winding up of the Company, the proceeds shall be distributed according to the following sequence: (i) first to the holders of the Series B convertible redeemable preferred shares at 150% of the Series B Original Issuance Price, plus declared but unpaid dividends on each share of Series B convertible redeemable preferred shares; (ii) second to the holders of Series A convertible redeemable preferred shares at 100% of the Series A Original Issuance Price, plus declared but unpaid dividends on each share of Series A convertible redeemable preferred shares. The remaining assets of the Company, if any, shall be distributed pro rata to the holders of Series B convertible redeemable preferred shares, Series A convertible redeemable preferred shares and ordinary shares on an “if-converted” basis.

From the date of its issuance (January 16, 2004) to September 25, 2008 (the date of the issuance of Series B convertible redeemable preferred shares), the liquidation preference of the holders of Series A convertible redeemable preferred shares was as follows:

In the event of any liquidation, dissolution, or winding up of the Company, the holders of the outstanding Series A convertible redeemable preferred shares shall be entitled to receive, prior and in preference to any distribution of any of the assets of Tarena International to the holders of the ordinary shares by reason of their ownership of such shares, an amount equal to the Series A Original Issuance Price plus dividends declared but unpaid on each share of Series A convertible redeemable preferred shares. The remaining assets of the Company, if any, shall be distributed pro rata to the holders of ordinary shares and Series A convertible redeemable preferred shares then outstanding, based on the number of ordinary shares then held by each shareholder on an “if-converted” basis

(v) Drag-along rights

Holders of a majority of the Series A convertible redeemable preferred shares have a drag-along right whereby they can require the ordinary shareholders to approve a third-party offer to directly or indirectly purchase all, or substantial all, of the equity interests or assets of the Company, provided that the transaction shall occur on or after the fifth anniversary of the closing of the issuance of the Series A convertible redeemable preferred shares or the transaction shall be at a price per share of not less than US\$0.5833 per share (being retroactively adjusted to reflect the effect of the share split). Triggering of this drag-along right results in a deemed liquidation of the Company at the option of a majority of the holders of Series A convertible redeemable preferred shares with a required distribution of the transaction proceeds in accordance with the Company’s Memorandum and Articles of Association.

Consequently, the Series A convertible redeemable preferred shares are classified outside of permanent equity.

12 PREFERRED SHARES (CONTINUED)

Series B convertible redeemable preferred shares

On September 25, 2008, pursuant to Series B convertible redeemable preferred shares purchase agreement, Tarena International issued 5,630,630 Series B convertible redeemable preferred shares to a third party investor for a total consideration of US\$5 million or US\$0.888 per share ("Series B Original Issuance Price") (being retroactively adjusted to reflect the effect of the share split). On the same date, an outstanding US\$1.5 million short term borrowing was exchanged for 1,689,190 shares of Series B convertible redeemable preferred shares (being retroactively adjusted to reflect the effect of the share split).

The Company determined that there was no embedded beneficial conversion feature attributable to the Series B convertible redeemable preferred shares at the commitment date since the initial conversion price of the Series B convertible redeemable preferred shares was greater than the estimated fair value of the Company's ordinary shares as of September 25, 2008. The estimated fair value of the underlying ordinary shares on September 25, 2008 was determined by management based on a retrospective valuation with the assistance of American Appraisal, using an income approach which requires the estimation of future cash flows and the application of an appropriate discount rate with reference to comparable listed companies engaged in a similar industry to convert such future cash flows to a single present value.

The significant terms of Series B convertible redeemable preferred shares are as follows:

(i) Conversion

The holders of Series B convertible redeemable preferred shares have the right to convert all or any portion of their holdings into ordinary shares at a rate of one-for-one at any time, subject to a contingent conversion price adjustment if there are additional ordinary shares issued or deemed to be issued, as defined in Tarena International's Memorandum and Articles of Association, at a price lower than the Series B Original Issuance Price. In addition, each Series B convertible redeemable preferred share is automatically converted into ordinary shares upon the written consent of the holders of more than 45% of the then outstanding Series B convertible redeemable preferred shares and the holders of more than 45% of the then outstanding Series A convertible redeemable preferred shares or the consummation of a Qualified Public Offering, as defined in the Series B convertible redeemable preferred shares purchase agreement.

The contingent conversion price adjustment may provide the holders of the Series B convertible redeemable preferred shares with a beneficial conversion feature. However, any such beneficial conversion feature relating to the conversion price adjustment, if any, is recognized when the contingency is resolved.

(ii) Voting

The holders of Series B convertible redeemable preferred shares have voting rights equivalent to the ordinary shareholders on an "if-converted" basis.

(iii) Dividends

Any dividend declared and paid on ordinary shares shall be also declared and paid in respect of the Series B convertible redeemable preferred shares as if all such Series B convertible redeemable preferred shares have been converted to ordinary shares.

(iv) Liquidation preference

The liquidation preference of the holders of Series B convertible redeemable preferred shares as of December 31, 2013 is as follows:

12 PREFERRED SHARES (CONTINUED)

Series B convertible redeemable preferred shares (continued)

In the event of any liquidation, dissolution, or winding up of the Company, the proceeds shall be distributed according to the following sequence: (i) first to the holders of the Series C convertible redeemable preferred shares at 150% of the Series C Original Issuance Price, plus declared but unpaid dividends on each share of Series C convertible redeemable preferred shares; (ii) second to the holders of Series B convertible redeemable preferred shares at 150% of the Series B Original Issuance Price, plus declared but unpaid dividends on each share of Series B convertible redeemable preferred shares, (iii) third to the holders of Series A convertible redeemable preferred shares at 100% of the Series A Original Issuance Price, plus declared but unpaid dividends on each share of Series A convertible redeemable preferred shares. The remaining assets of the Company, if any, shall be distributed pro rata to the holders of Series C convertible redeemable preferred shares, Series B convertible redeemable preferred shares, Series A convertible redeemable preferred shares and ordinary shares on an “if-converted” basis.

From the date of September 25, 2008 to August 11, 2011 (the date of the issuance of Series C convertible redeemable preferred shares), the liquidation preference of the holders of Series B convertible redeemable preferred shares was as follows:

In the event of any liquidation, dissolution, or winding up of the Company, the proceeds shall be distributed according to the following sequence: (i) first to the holders of the Series B convertible redeemable preferred shares at 150% of the Series B Original Issuance Price, plus declared but unpaid dividends on each share of Series B convertible redeemable preferred shares; (ii) second to the holders of Series A convertible redeemable preferred shares at 100% of the Series A Original Issuance Price, plus declared but unpaid dividends on each share of Series A convertible redeemable preferred shares. The remaining assets of the Company, if any, shall be distributed pro rata to the holders of Series B convertible redeemable preferred shares, Series A convertible redeemable preferred shares and ordinary shares on an “if-converted” basis.

(v) Redemption

If a Qualified Initial Public Offering or a Trade Sale, as defined in the Series B convertible redeemable preferred shares purchase agreement, did not occur by December 31, 2012 (the “Redemption Date”), the holders of Series B convertible redeemable preferred shares had the right to request for redemption any portion of the Series B convertible redeemable preferred shares they held at a price equal to the sum of:

- an amount equal to 150% of Series B Original Issuance Price; plus,
- an amount equal to all declared but unpaid dividends on each share of Series B convertible redeemable preferred shares; plus,
- 10% compound interest per annum on 150% of Series B Original Issuance Price for each Series B convertible redeemable preferred share from the date of issuance to the earliest redemption date of the security.

On August 11, 2011, in connection with the issuance of Series C convertible redeemable preferred shares, the Company and holders of Series B convertible redeemable preferred shares agreed to defer the Redemption Date until June 30, 2014.

12 PREFERRED SHARES (CONTINUED)

Series C convertible redeemable preferred shares

On August 11, 2011, pursuant to the Series C convertible redeemable preferred shares purchase agreement (“Series C Purchase Agreement”), Tarena International issued 10,914,852 Series C convertible redeemable preferred shares to a third party investor for a total consideration of US\$19,974,179 or US\$1.83 per share (“Series C Original Issuance Price”). Total issuance cost of Series C convertible redeemable preferred shares was US\$218,376.

The Company determined that there was no embedded beneficial conversion feature attributable to the Series C convertible redeemable preferred shares at the commitment date since the initial conversion price of the Series C convertible redeemable preferred shares was greater than the estimated fair value of the Company’s ordinary shares as of August 11, 2011. The estimated fair value of the underlying ordinary shares on August 11, 2011 was determined by management based on a retrospective valuation with the assistance of American Appraisal, a third party valuation firm, using an income approach which requires the estimation of future cash flows and the application of an appropriate discount rate with reference to comparable listed companies engaged in a similar industry to convert such future cash flows to a single present value.

The significant terms of Series C convertible redeemable preferred shares are as follows:

(i) Conversion

The holders of Series C convertible redeemable preferred shares have the right to convert all or any portion of their holdings into ordinary shares at a rate of one-for-one at any time, subject to a contingent conversion price adjustment if there are additional ordinary shares issued or deemed to be issued, as defined in Tarena International’s Memorandum and Articles of Association, at a price lower than the Series C Original Issuance Price. In addition, each Series C Preferred Share is automatically converted into ordinary shares upon the closing of a Qualified Public Offering, as defined in the Memorandum and Articles of Association or the written consent of 67% of the holders of the Series C convertible redeemable preferred shares as well as the written consent of the holders of more than 45% of the then outstanding Series B convertible redeemable preferred shares and the written consent of the holders of more than 45% of the then outstanding Series A convertible redeemable preferred shares for conversion.

The contingent conversion price adjustments may provide the holders of the Series C convertible redeemable preferred shares with a beneficial conversion feature. However, any such beneficial conversion feature relating to the conversion price adjustment, is recognized when the contingency is resolved.

(ii) Voting

The holders of Series C convertible redeemable preferred shares have voting rights equivalent to the ordinary shareholders on an “if-converted” basis.

(iii) Dividends

The board of directors of Tarena International may approve the payment of dividends at their discretion to the holders of Series C convertible redeemable preferred shares. Any dividend declared and paid on ordinary shares shall be also declared and paid in respect of the Series C convertible redeemable preferred shares as if all such Series C convertible redeemable preferred shares have been converted to ordinary shares.

12 PREFERRED SHARES (CONTINUED)

Series C convertible redeemable preferred shares (continued)

(iv) Liquidation preference

The liquidation preference of the holders of Series C convertible redeemable preferred shares is as follows:

In the event of liquidation, dissolution, or winding up of the Company, the proceeds shall be distributed according to the following sequence: (i) first to the holders of the Series C convertible redeemable preferred shares at 150% of the Series C Original Issuance Price, plus declared but unpaid dividends on each share of Series C convertible redeemable preferred shares; (ii) second to the holders of Series B convertible redeemable preferred shares at 150% of the Series B Original Issuance Price, plus declared but unpaid dividends on each share of Series B convertible redeemable preferred shares, (iii) third to the holders of Series A convertible redeemable preferred shares at 100% of the Series A Original Issuance Price, plus declared but unpaid dividends on each share of Series A convertible redeemable preferred shares. The remaining assets of the Company, if any, shall be distributed pro rata to the holders of Series C convertible redeemable preferred shares, Series B convertible redeemable preferred shares, Series A convertible redeemable preferred shares and ordinary shares on an "if-converted" basis.

(v) Redemption

If a Qualified Initial Public Offering or a Trade Sale, as defined in the Series C convertible redeemable preferred shares purchase agreement, does not occur by June 30, 2014 (the "Redemption Date"), the holders of the Series C convertible redeemable preferred shares have the right to request for redemption for all or a portion of the Series C convertible redeemable preferred shares they hold at a price equal to the greater of (i) an amount equal to 137.50% of the Series C Original Issuance Price, plus declared but unpaid dividends on each share of Series C convertible redeemable preferred shares; or (ii) the fair market value of the Series C convertible redeemable preferred shares as of the most recent year end, as determined by an independent appraiser mutually agreeable to the Company and the holder of the Series C convertible redeemable preferred shares.

As of December 31, 2013, the Company concluded that it was probable that the Series B and Series C convertible redeemable preferred shares will become redeemable. The Company has elected to accrete changes in the redemption value over the period from the date of issuance to the earliest redemption date using the interest method. The total accretion of Series B convertible redeemable preferred shares of US\$2,072,284 and US\$576,431 and total accretion of Series C convertible redeemable preferred shares of US\$42,287,776 and nil were recorded as a reduction to additional paid-in capital first and then charged against accumulated deficit in the absence of additional paid-in capital for the years ended December 31 2013 and 2014, respectively.

All the Series A, Series B and Series C convertible redeemable preferred shares were automatically converted into Class B ordinary shares upon completion of the Company's IPO on April 3, 2014. As a result, 25,430,831 Class B ordinary shares were issued upon the conversion of Series A, Series B and Series C convertible preferred shares. Upon the conversion, the carrying amounts of the Series A, Series B and Series C convertible preferred shares were recorded in additional paid-in capital of US\$111,929,780 and Class B ordinary shares of US\$25,431.

13 SHARE BASED COMPENSATION

Share incentive plans

On September 22, 2008, Tarena International adopted the 2008 Share Plan (the “2008 Plan”), pursuant to which Tarena International is authorized to issue share options and other share-based awards to key employees, directors and consultants of the Company to purchase up to 6,002,020 of its Class A ordinary shares (being retroactively adjusted to reflect the effect of the share split) under the 2008 Plan. On November 28, 2012, the Company increased the number of Class A ordinary shares authorized for issuance under the 2008 Plan to 8,184,990 Class A ordinary shares. Share options issued before September 22, 2008 are also administered under the 2008 Plan.

On February 1, 2014, Tarena International adopted the 2014 Share Plan (the “2014 Plan”), pursuant to which Tarena International was authorized to issue options, non-vested shares and non-vested share units to qualified employees, directors and consultants of the Company. The maximum aggregate number of shares which may be issued pursuant to all awards under the 2014 Plan, or the Award Pool, is 1,833,696, provided that the shares reserved in the Award Pool shall be increased on the first day of each calendar year, commencing with January 1, 2015, if the unissued shares reserved in the Award Pool on such day account for less than 2% of the total number of shares issued and outstanding on a fully-diluted basis on December 31 of the immediately preceding calendar year, as a result of which increase the shares unissued and reserved in the Award Pool immediately after each such increase shall equal 2% of the total number of shares issued and outstanding on a fully-diluted basis on December 31 of the immediately preceding calendar year.

Share options

On January 1, 2011 and September 26, 2011, the board of directors of Tarena International approved the grant of options to purchase 124,000 and 1,533,020 ordinary shares of Tarena International to certain employees and directors. These options vest over a five-year period. The option holders can only exercise their vested options upon the occurrence of the earliest of (i) a qualified IPO as defined in the Plan, (ii) a liquidation event as defined in the Company’s Memorandum and Articles of Association, or (iii) the five-year anniversary of the option grant date. The options have a contractual term of ten years. The fair value of Tarena International’s ordinary shares on January 1, 2011 and September 26, 2011 was determined to be US\$0.63 and US\$0.83 per share, respectively.

On January 1, 2013, the board of directors of Tarena International approved the grant of options to certain employees to purchase 2,029,386 ordinary shares of Tarena International. These options vest over a four year period. The option holders can only exercise their vested options upon the occurrence of the earliest of (i) a qualified IPO as defined in the Plan, (ii) a liquidation event as defined in the Company’s Memorandum and Articles of Association, or (iii) the five-year anniversary of the option grant date. The options have a contractual term of ten years.

On September 16, 2013, the board of directors of Tarena International approved the grant of options to an employee to purchase 30,000 ordinary shares of Tarena International. 25% of the options will be vested at the closing of the Company’s IPO while the remaining 75% will vest over a four-year period, that can only be exercised upon the occurrence of the earliest of (i) a qualified IPO, (ii) a liquidation event, or (iii) the five-year anniversary of the option grant date. The options have a contractual term of ten years.

13 SHARE BASED COMPENSATION (CONTINUED)

Share options (continued)

On September 16, 2013, the board of directors of Tarena International approved the grant of options to an officer to purchase 458,424 ordinary shares of Tarena International. If the Company undertakes any additional round of financing or any other activities to effect an increase of the total shares outstanding on a fully diluted basis before the IPO, the officer will be granted additional share options at the same exercise price. The total number of share options the officer will be granted will be equal to not less than 1% of the Company's total shares outstanding on a fully diluted basis on the date immediately preceding the closing of the Company's IPO. 25% of the options will be immediately and fully vested at the closing of the Company's IPO while the remaining 75% will vest over a four-year period, that can only be exercised upon the occurrence of the earliest of (i) a qualified IPO, (ii) a liquidation event, or (iii) the five-year anniversary of the option grant date. The options have a contractual term of ten years. The fair value of Tarena International's ordinary shares on January 1, 2013 and September 16, 2013 was determined to be US\$3.75 and US\$5.69 per share, respectively.

On February 20, 2014, the board of the directors of Tarena International approved the grant of options to certain officers and employees to purchase 1,805,784 ordinary shares of Tarena International. The options vest over a four year period. The option holders can only exercise their vested options upon the occurrence of the earliest of (i) a qualified IPO, (ii) a liquidation event, or (iii) the five-year anniversary of the option grant date. The options have a contractual term of ten years. The fair value of Tarena International's ordinary shares on February 20, 2014 was determined to be US\$8.60 per share.

During the year ended December 31, 2015, the board of the directors of Tarena International approved the grant of options to certain officers and employees to purchase 615,624 ordinary shares of Tarena International at exercise prices ranging from US\$0.89 to US\$4.36 per share. These options vest over a period ranging between 1 year and 4 years. The options have a contractual term of ten years.

13 SHARE BASED COMPENSATION (CONTINUED)

Share options (continued)

A summary of share options activity for the years ended December 31, 2013, 2014 and 2015 is as follows:

	Number of Share Options	Weighted Average Exercise Price US\$	Weighted Average Remaining Contractual Years	Aggregate Intrinsic Value US\$
Outstanding at December 31, 2012	5,639,020	0.37		
Granted	2,517,810	1.83		
Exercised	—	—		
Forfeited	(22,000)	1.83		
Expired	—	—		
Outstanding at December 31, 2013	8,134,830	0.82		
Granted	1,805,784	3.05		
Exercised	(1,786,449)	0.14		
Forfeited	(115,215)	2.91		
Expired	—	—		
Outstanding at December 31, 2014	8,038,950	1.44	6.19	77,657,938
Granted	615,624	3.38		
Exercised	(3,015,872)	1.20		
Forfeited	(56,926)	3.33		
Expired	—	—		
Outstanding at December 31, 2015	5,581,776	1.77	5.68	48,411,629
Vested and expected to vest as of December 31, 2015	4,922,651	1.63	5.39	43,387,240
Exercisable as of December 31, 2015	2,863,674	0.92	3.63	27,271,499

On June 16, 2015, Mr. Han exercised 2,439,014 share options to purchase 2,439,014 Class A ordinary shares of Tarena International. Mr. Han remitted US\$2,783,957 to the Company on August 4, 2015.

The Company calculated the fair value of the share options on the grant date using the Binomial option-pricing valuation model. The assumptions used in the valuation model are summarized in the following table.

The total intrinsic value of options exercised during the years ended December 31, 2014 and 2015 were US\$25,047,974 and US\$37,874,734, respectively.

	Year Ended December 31,		
	2013 US\$	2014 US\$	2015 US\$
Expected volatility	52%	51.7%	62.3%-70.9%
Expected dividends yield	0%	0%	0%
Exercise multiple	2.2	2.2	2.0
Risk-free interest rate per annum	2.27%-3.38%	3.81%	2.68%-2.99%
Estimated fair value of underlying ordinary shares (per share)	US\$3.75-US\$5.69	US\$8.60	US\$9.28-US\$12.85

13 SHARE BASED COMPENSATION (CONTINUED)

Share options (continued)

Because the Company's ordinary shares did not have a sufficient trading history at the time the options were issued, the expected volatility was based on the historical volatilities of comparable publicly traded companies engaged in the similar industry.

The estimated fair value of the underlying ordinary shares on each date of grant prior to September 2013, was determined by management based on a retrospective valuation conducted by American Appraisal. The estimated fair values of the underlying ordinary shares on September 16, 2013 and February 20, 2014 were determined by management based on a contemporaneous valuation conducted by American Appraisal. The Company first determined its enterprise value by using income approach, which required the estimation of future cash flows, and the application of an appropriate discount rate with reference to comparable listed companies engaged in the similar industry to convert such future cash flows to a single present value, and then allocated the enterprise value between the ordinary shares and preferred shares. The fair values of the underlying ordinary shares on each date of grant after April 2014, were the closing prices of the Company's Class A ordinary shares traded in the Stock Exchange.

No income tax benefit was recognized in the consolidated statements of comprehensive income as the share-based compensation expense was not tax deductible.

The fair values of the options granted for the years ended December 31, 2013, 2014 and 2015 are as follows:

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Weighted average grant date fair value of option per share	2.13	6.35	9.16
Aggregate grant date fair value of options	5,372,463	11,467,907	5,640,789

As of December 31, 2015, there was approximately US\$9,465,571 of total unrecognized compensation cost related to unvested share options. The unrecognized compensation costs are expected to be recognized over a weighted average period of approximately 1.89 years.

Non-vested shares

On April 3, 2014, the board of directors of Tarena International approved the grant of two batches of non-vested shares to three independent directors. The number of the first batch of non-vested shares is equal to 27,780 shares, which was calculated as US\$250,000 divided by US\$9, i.e. the IPO price of ordinary share of Tarena International. Conditioned on the Grantee's continuous services as a director of the Company, a second batch of non-vested shares should be granted with the number equal to US\$250,000 divided by the closing price of ordinary share of Tarena International on April 3, 2015. 25,000 non-vested shares were granted on April 3, 2015, which was calculated as US\$250,000 divided by US\$10. The two batches of non-vested shares shall vest on the April 3, 2015 and 2016, respectively. Grantees of non-vested shares have no voting rights or dividend rights with respect to shares that have not been vested.

On November 11, 2014, the board of directors of Tarena International approved the grant of 1,944 non-vested shares to 8 employees. One hundred percent of the non-vested shares shall vest immediately on the grant date.

13 SHARE BASED COMPENSATION (CONTINUED)

Non-vested shares (continued)

A summary of the non-vested shares activity under the 2014 Share Plan is summarized as follows:

	Number of Non-vested Shares	Weighted Average Grant Date Fair Value US\$
Outstanding as of December 31, 2013	—	—
Granted	29,724	9.38
Vested	(1,944)	13.95
Forfeited	—	—
Outstanding as of December 31, 2014	27,780	9.06
Granted	25,000	9.63
Vested	(27,780)	9.06
Forfeited	—	—
Outstanding as of December 31, 2015	<u>25,000</u>	<u>9.63</u>

As of December 31, 2015, there was approximately US\$39,690 of total unrecognized compensation cost related to non-vested shares, which is expected to be recognized over a weighted average period of approximately 0.25 years. The total fair value of shares vested during the year ended December 31, 2014 and 2015 was US\$27,120 and US\$251,687, respectively.

14 EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share is calculated as follows:

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Numerator:			
Net income (loss) attributable to Class A and Class B ordinary shareholders	(30,313,029)	24,114,817	28,709,010
Less:			
Earnings allocated to participating Series A convertible redeemable preferred shares	—	(918,266)	—
Earnings allocated to participating Series B convertible redeemable preferred shares	—	(934,046)	—
Earnings allocated to participating Series C convertible redeemable preferred shares	—	(1,392,790)	—
Net income (loss) for basic and diluted earnings (loss) per share	<u>(30,313,029)</u>	<u>20,869,715</u>	<u>28,709,010</u>
Denominator:			
Denominator for basic earnings per share:			
Weighted average number of Class A and Class B ordinary shares outstanding	10,930,412	41,223,389	53,767,810
Dilutive effect of outstanding share options	—	6,546,743	4,983,046
Denominator for diluted earnings (loss) per share	<u>10,930,412</u>	<u>47,770,132</u>	<u>58,750,856</u>
Basic earnings (loss) per Class A and Class B ordinary share	<u>(2.77)</u>	<u>0.51</u>	<u>0.53</u>
Diluted earnings (loss) per Class A and Class B ordinary share	<u>(2.77)</u>	<u>0.44</u>	<u>0.49</u>

The following table summarizes potential ordinary shares outstanding excluded from the calculation of diluted earnings per Class A and Class B ordinary share for the years ended December 31, 2013, 2014 and 2015, because their effect is anti-dilutive:

	Year Ended December 31,		
	2013	2014	2015
Shares issuable upon exercise of share options	8,134,830	—	—
Shares issuable upon conversion of preferred shares	25,430,831	—	—

The Company uses the two-class method to calculate basic and diluted earnings per Class A and Class B ordinary share. Under the two-class method, when calculating the basic and dilutive earnings per Class A and Class B ordinary share, net income attributable to Class A and Class B ordinary shareholders is adjusted to reflect the net income which is allocated to preferred shares.

15 COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

Future minimum lease payments under non-cancelable operating lease agreements as of December 31, 2015 were as follows. The Company's leases do not contain any contingent rent payment terms.

	US\$
Year ending December 31,	
2016	14,828,199
2017	13,603,574
2018	9,070,769
2019	6,367,021
2020	4,217,222
2021 and thereafter	<u>7,974,602</u>
Total	<u><u>56,061,387</u></u>

Gross rent expenses incurred under operating leases were US\$9,684,871, US\$12,615,613 and US\$17,504,333 for the years ended December 31, 2013, 2014 and 2015, respectively. Sublease rental income of US\$114,361, US\$230,503 and US\$61,403 for the years ended December 31, 2013, 2014 and 2015, respectively, were recognized as reductions of gross rental expenses.

16 PARENT ONLY FINANCIAL INFORMATION

The following presents condensed parent company financial information of Tarena International.

Condensed Balance Sheets

	December 31,	
	2014	2015
	US\$	US\$
ASSETS		
Current assets:		
Cash	1,296,102	966,276
Time deposits	92,182,582	61,196,856
Restricted time deposits	—	23,099,668
Prepaid expenses and other current assets	2,256,709	1,669,839
Total current assets	95,735,393	86,932,639
Investments and loans to subsidiaries	88,854,260	121,082,908
Total assets	184,589,653	208,015,547
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accrued expenses and other current liabilities	449,351	1,004,410
Other non-current liabilities	1,253,070	867,510
Total liabilities	1,702,421	1,871,920
Commitments and contingencies	—	—
Shareholders' equity:		
Class A ordinary shares (US\$0.001 par value, 860,000,000 shares authorized, 23,712,758 and 44,914,538 shares issued, 23,712,758 and 43,988,425 shares outstanding as of December 31, 2014 and 2015, respectively)	23,712	44,914
Class B ordinary shares (US\$0.001 par value, 40,000,000 shares authorized, 28,733,024 shares and 10,574,896 shares issued and outstanding as of December 31, 2014 and 2015, respectively)	28,733	10,575
Treasury shares (nil and 926,113 class A ordinary shares as of December 31, 2014 and 2015, respectively, at cost)	—	(7,738,834)
Additional paid-in capital	135,886,427	144,776,619
Accumulated other comprehensive income (loss)	1,701,598	(4,905,419)
Retained earnings	45,246,762	73,955,772
Total shareholders' equity	182,887,232	206,143,627
Total liabilities and shareholders' equity	184,589,653	208,015,547

16 PARENT ONLY FINANCIAL INFORMATION (CONTINUED)

Condensed Statements of Comprehensive Income

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
General and administrative expenses	(57,172)	(170,440)	(681,129)
Operating loss	(57,172)	(170,440)	(681,129)
Equity in income of subsidiaries	14,079,492	21,103,354	31,303,290
Foreign currency exchange gains (losses)	—	1,180,466	(5,126,911)
Interest income	24,711	2,288,698	2,828,200
Other income	—	289,170	385,560
Income before income taxes	14,047,031	24,691,248	28,709,010
Income tax expense	—	—	—
Net income	14,047,031	24,691,248	28,709,010
Other comprehensive income			
Foreign currency translation adjustment, net of nil income tax	1,150,824	66,678	(6,607,017)
Comprehensive income	15,197,855	24,757,926	22,101,993

16 PARENT ONLY FINANCIAL INFORMATION (CONTINUED)

Condensed Statements of Cash Flows

	Year Ended December 31,		
	2013	2014	2015
	US\$	US\$	US\$
Operating activities:			
Net cash provided by (used in) operating activities	(3,570)	3,226,599	1,381,505
Investing activities:			
Purchase of time deposits	—	(92,682,582)	(94,501,933)
Proceeds from maturity of time deposits	—	500,000	96,923,091
Investments made to subsidiaries	—	(17,000,000)	—
Net cash provided by (used in) investing activities	—	(109,182,582)	2,421,158
Financing activities:			
Payment of IPO costs	(76,719)	(2,804,600)	—
Issuance of Class A ordinary shares upon the IPO	—	96,254,995	—
Issuance of Class A ordinary shares in private placement concurrent with the IPO	—	13,500,000	—
Issuance of Class A ordinary shares in connection with exercise of share options	—	248,812	3,606,345
Advances from a related party	—	—	230,000
Repayment of advances from a related party	—	—	(230,000)
Repurchase of treasury shares	—	—	(7,738,834)
Net cash provided by (used in) financing activities	(76,719)	107,199,207	(4,132,489)
Net increase (decrease) in cash	(80,289)	1,243,224	(329,826)
Cash at beginning of year	133,167	52,878	1,296,102
Cash at end of year	52,878	1,296,102	966,276
Non-cash investing and financing activities:			
Conversion of Series A convertible redeemable preferred shares to Class B ordinary shares	80,224	419,776	—
Conversion of Series B convertible redeemable preferred shares to Class B ordinary shares	—	16,324,300	—
Conversion of Series C convertible redeemable preferred shares to Class B ordinary shares	—	95,211,135	—
Accrual of IPO costs	107,866	—	—

17 SUBSEQUENT EVENTS

On March 7, 2016, The Board of Directors approved to declare a cash dividend of US\$0.15 per ordinary share to shareholders as of the close of trading on April 6, 2016. The cash dividend will be paid on or about May 30, 2016. The aggregate amount of cash dividends to be paid is approximately US\$8.6 million.

REGISTRATION RIGHTS AGREEMENT

by and between

Tarena International, Inc.

and

Talent Fortune Investment Limited

Dated as of July 17, 2015

Table of Contents

	Page
Article I Definitions	1
1.1 Defined Terms.	1
1.2 Other Definitional Provisions; Interpretation	4
Article II Registration Rights	5
2.1 Securities Act Registration on Request.	5
2.2 Piggyback Registration.	7
2.3 Expenses.	8
2.4 Registration Procedures.	9
2.5 Underwritten Offerings.	12
2.6 Preparation: Reasonable Investigation.	14
2.7 Postponements.	14
2.8 Indemnification by the Company.	15
2.9 Registration Rights to Others.	17
2.10 Adjustments Affecting Registrable Shares.	17
2.11 ADS.	18
2.12 Termination of Registration Rights.	18
Article III Miscellaneous	18
3.1 Amendments; Entire Agreement.	18
3.2 Severability.	18
3.3 Successors and Assigns.	18
3.4 Notices.	19
3.5 Counterparts.	19
3.6 Injunctive Relief.	19
3.7 Governing Law; Consent to Jurisdiction.	19
3.8 Waiver of Jury Trial.	20

SCHEDULES:

SCHEDULE A – NOTICES

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT, dated as of July 17, 2015, by and between Tarena International, Inc., a Cayman Islands exempted company (the "Company"), and Talent Fortune Investment Limited, a Cayman Islands limited liability company ("KKR").

WHEREAS, the Company has agreed to provide KKR with certain registration rights; and

WHEREAS, KKR is acquiring 6,826,263 Ordinary Shares (defined below) from certain shareholders of the Company, and the Company acknowledges that such transaction provides benefits to the Company including but not limited to providing a degree of stability in its shareholder base;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE I DEFINITIONS

1.1 Defined Terms.

As used in this Agreement, terms defined in the headings and the recitals shall have their respective assigned meanings, and the following capitalized terms shall have the meanings ascribed to them below:

"ADR" has the meaning set forth in Section 2.11.

"ADSs" means American Depositary Shares representing one Ordinary Share.

"Affiliate" means any Person who is an "affiliate" of such Person as defined in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

"Agreement" means this Registration Rights Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Board" means the Board of Directors of the Company.

"Business Day" means a day when banks are generally open for business in New York, New York.

"Commission" means the U.S. Securities and Exchange Commission or any similar agency then having jurisdiction to enforce the Securities Act.

"Company" has the meaning set forth in the preamble of this Agreement.

"Company Indemnitee" has the meaning set forth in Section 2.8.

“Connion” means Connion Capital Limited, a limited liability company incorporated under the laws of the British Virgin Islands.

“Designated Exchange” means the Nasdaq Global Select Market.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, or any successor statute.

“Expenses” means all expenses incurred by the Company incident to the Company’s performance of or compliance with its obligations under Sections 2.1, 2.2, 2.4 and 2.5 of this Agreement, including all registration, filing, listing, stock exchange and FINRA fees, all fees and expenses of complying with state securities or blue sky laws, all of the Company’s word processing, duplicating and printing expenses, messenger, telephone and delivery expenses, the fees, disbursements and other charges of counsel for the Company and of its independent registered public accounting firm, including the expenses incurred in connection with “cold comfort” letters required by or incident to such performance and compliance, reasonable fees and disbursement for one (1) counsel for KKR and other selling shareholders, if any, the fees and expenses incurred by the Company in connection with the listing of the securities to be registered on each securities exchange or national market system on which similar securities issued by the Company are then listed, the fees and expenses of any special experts retained by the Company in connection with such registration, and the fees and expenses of other persons retained by the Company, but excluding underwriting discounts and commissions, expenses charged by the depositary bank relating to the issuance or transfer of ADSs and applicable transfer taxes, if any, with respect to Registrable Shares being sold by KKR, which discounts, commissions, expenses, transfer taxes, fees and expenses shall be borne by the selling shareholders, except as otherwise provided in this Agreement.

“FINRA” means the Financial Industry Regulatory Authority, Inc.

“Goldman Sachs” means Goldman Sachs Investment Partners Master Fund, L.P. and Goldman Sachs Investment Partners Private Opportunities Holdings, L.P..

“Governmental Authority” means (a) the government of any nation, state, city, locality or other political subdivision thereof, (b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and (c) any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

“IDG” means IDG Technology Venture Investments, L.P.

“KKR” has the meaning set forth in the preamble of this Agreement.

“Listing” means a listing of Ordinary Shares or ADSs on a national securities exchange.

“Loss” and “Losses” have the meanings set forth in Section 2.8.

“Offering Documents” has the meaning set forth in Section 2.8.

“Ordinary Shares” means Class A ordinary shares of the Company.

“Person” means any individual, corporation, company, partnership, firm, voluntary association, joint venture, trust, unincorporated organization, Governmental Authority or any other entity whether acting in an individual, fiduciary or other capacity.

“Public Offering” means an underwritten public offering and sale of Ordinary Shares or ADSs pursuant to an effective registration statement filed under the Securities Act; provided, that a Public Offering shall not include an offering made in connection with a business acquisition or combination pursuant to a registration statement on Form S-4 or any similar form, or an employee benefit plan pursuant to a registration statement on Form S-8 or any similar form.

“Registrable Shares” means any of the Ordinary Shares that (i) are owned by KKR or any of its Affiliates and were acquired from Goldman Sachs or IDG pursuant to the Share Purchase Agreements, (ii) are indirectly owned by KKR or any of its Affiliates through Moocon Education Limited and were acquired from Goldman Sachs or IDG pursuant to the Share Purchase Agreements, if KKR or any of its Affiliates control Moocon Education Limited or (iii) may be sold or disposed of by KKR or any of its Affiliates after any charge under any Share Charge Agreement becomes enforceable in accordance with its terms; provided, however, that an Ordinary Share will cease to be a Registrable Share upon the earliest to occur of the time that such Ordinary Share has been sold under a registration statement effected pursuant hereto or sold pursuant to Rule 144 promulgated under the Securities Act.

“Registration Demand” has the meaning set forth in Section 2.1.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, or any successor statute.

“Share Charge Agreements” means the following agreements in respect of the charge of Ordinary Shares:

- (a) the share charge agreement dated July 15, 2015 between Moocon Education Limited and Talent Wise Investment Limited; and
- (b) the share charge agreement dated July 15, 2015 between Techedu Limited and Talent Wise Investment Limited.

“Share Purchase Agreements” means the following agreements in respect of the transfer of Ordinary Shares:

- (c) the share purchase agreement dated June 13, 2015 among KKR, Connion and Goldman Sachs; and
- (d) the share purchase agreement dated June 13, 2015 among KKR, Connion and IDG.

“Shareholder Indemnitee” has the meaning set forth in Section 2.8.

“Shareholder Information” has the meaning set forth in Section 2.4.

“Subsidiary” means with respect to any Person, any corporation, partnership, association or other business entity of which fifty percent (50%) or more of the total voting power of shares of capital stock entitled (without regard to the occurrence of any contingency) to vote generally in the election of directors, managers or trustees thereof, or fifty percent (50%) or more of the equity interest therein, is at the time owned or controlled, directly or indirectly, by any Person or one or more of the other Subsidiaries of such Person or a combination thereof.

1.2 Other Definitional Provisions; Interpretation

In this Agreement, unless the context otherwise requires:

- (a) the words “hereof”, “herein”, and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Subsection and Schedule references are to this Agreement unless otherwise specified;
- (b) headings are for convenience only and do not affect the interpretation of this Agreement;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to an Article, party, Schedule or Section is a reference to that Article or Section of, or that party or Schedule to, this Agreement;
- (e) a reference to a document includes an amendment or supplement to, or replacement or novation of, that document but disregarding any amendment, supplement, replacement or novation made in breach of this Agreement;
- (f) whenever the words “include,” “includes” or “including” are used in this Agreement, they are deemed to be followed by the words “without limitation”; and
- (g) a reference to a party to any document includes that party’s successors and permitted assigns.

**ARTICLE II
REGISTRATION RIGHTS**

2.1 Securities Act Registration on Request.

(a) Request. Subject to the terms and conditions of this Agreement, any time and from time to time, KKR may make a written request to the Company for the registration with the Commission under the Securities Act of all or part of the Registrable Shares, which request shall specify the number of Registrable Shares to be disposed of by KKR and the proposed plan of distribution therefor (a "Registration Demand"). Upon the receipt of any request for registration made in accordance with the terms of this paragraph, the Company will use its reasonable best efforts to effect, at the earliest practicable date, such registration under the Securities Act of the Registrable Shares that the Company has been requested to register; provided that,

(i) the Company shall not be required to effect more than a total of three (3) Registration Demands pursuant to this Section 2.1 and at least a period of 180 days shall have elapsed since the previous Registration Demand and the previous registration in which KKR had an opportunity to participate pursuant to Section 2.2; and

(ii) if at the time a demand for registration is made under this Section 2.1(a), the Company is a "well-known seasoned issuer" (as defined in Rule 405 of the Securities Act), then the Company's obligation to file a registration statement under this Section 2.1 shall be deemed satisfied if there is a Form F-3 or S-3 on file pursuant to which KKR shall be entitled to dispose of the number of Registrable Shares that it has requested to register.

(b) Registration Statement Form. Registrations under Section 2.1 hereof shall be on Form F-1 or S-1 or, if permitted by law, Form F-3 or S-3 (or, in either case, any successor forms thereto) and shall permit the disposition of the Registrable Shares pursuant to an underwritten Public Offering unless KKR determines otherwise, in which case pursuant to the method of disposition determined by KKR. The Company agrees to include in any such registration statement filed pursuant to Section 2.1 all information which KKR shall reasonably request.

(c) Effective Registration Statement. A registration requested pursuant to Section 2.1 or Section 2.1(f) shall not be deemed to have been effected:

(i) unless a registration statement with respect thereto has become effective by the Commission and remains effective in compliance with the provisions of the Securities Act and the laws of any state or other jurisdiction applicable to the disposition of Registrable Shares covered by such registration statement until such time as all of such Registrable Shares have been disposed of in accordance with such registration statement;

(ii) if, after it has become effective, such registration is interfered with by any stop order, injunction or other order or requirement of the Commission or other Governmental Authority or court for any reason other than a violation of applicable law solely by KKR and has not thereafter become effective, or in the case of a Form F-3 or S-3, the Company ceases to be eligible to use such Form; or

(iii) if, in the case of an underwritten Public Offering, the conditions to closing specified in an underwriting agreement to which the Company is a party are not satisfied or waived other than by reason of any breach or failure by KKR.

(d) Selection of Underwriters. The underwriter or underwriters of each underwritten Public Offering, if any, of the Registrable Shares to be registered pursuant to Section 2.1 or Section 2.2 hereof shall be an internationally recognized investment bank selected by KKR, which must be reasonably acceptable to the Company and any other shareholders joining such underwritten Public Offering.

(e) Ranking in Requested Registration. If a registration under this Section 2.1 involves an underwritten Public Offering, and the managing underwriter of such underwritten Public Offering shall advise the Company in writing (with a copy to KKR) that, in its opinion, the number of securities requested to be included in such registration exceeds the number of such securities that can be sold in such offering within a price range stated to such managing underwriter by KKR and shareholders joining such underwritten Public Offering, the Company shall include in such registration, to the extent of the number and type of securities which the Company is advised can be sold in such offering, (i) first, all of the Registrable Shares being sold for the accounts of KKR and its Affiliates, (ii) second, Ordinary Shares or ADSs to be sold by the Company for their own account and (iii) third, other Ordinary Shares or ADSs, if any.

(f) Shelf Registration. To the extent the Company is eligible, KKR may make a written request that the Company file a shelf registration statement (a "Shelf Registration Statement") pursuant to Rule 415 promulgated under the Securities Act (a "Shelf Registration") and undertake any related qualification or compliance, with respect to all or part of the Registrable Shares. The Company shall as soon as practicable, use its reasonable best efforts to file such Shelf Registration Statement under the Securities Act at the earliest practicable date, but in any event not later than forty-five (45) days after the Shelf Registration is requested, and use its reasonable best efforts to have such Shelf Registration Statement thereafter become effective with the Commission at the earliest practicable date. The Company agrees to use its reasonable best efforts to keep the Shelf Registration Statement continuously effective for the period beginning on the date on which the Shelf Registration Statement becomes effective under the Securities Act until the earlier to occur of (i) three years thereafter (plus a number of Business Days equal to the number of Business Days, if any, that the Shelf Registration Statement is not kept effective after the initial date of its effectiveness, subject to applicable law), (ii) the day after the date on which all of the Registrable Shares covered by the Shelf Registration Statement has been sold pursuant to the Shelf Registration Statement or another registration statement and (iii) the first date on which there shall cease to be any Registrable Shares covered by such Shelf Registration Statement. The Company further agrees, if necessary, to supplement or amend the Shelf Registration Statement, if required by the rules, regulations or instructions applicable to the registration form used by the Company for such Shelf Registration or by the Securities Act or by any other rules and regulations thereunder for Shelf Registration, and the Company agrees to furnish to KKR copies of any such supplement or amendment promptly after its being issued or filed with the Commission. No registration request pursuant to this Section 2.1(f) shall be deemed a Registration Demand. If at the time a request for a Shelf Registration is made under this Section 2.1(f), the Company is a "well-known seasoned issuer" (as defined in Rule 405 of the Securities Act), then the Company's obligation to file a registration statement under this Section 2.1(f) shall be deemed satisfied if there is a Form F-3 or S-3 on file pursuant to which KKR shall be entitled to dispose of all its Registrable Shares that it has requested to register. Notwithstanding anything to the contrary herein, at any time that a Shelf Registration Statement registering Registrable Shares shall be effective, KKR shall be permitted to effect an unlimited number of non-underwritten offerings or non-underwritten shelf-take-downs off the Shelf Registration Statement.

2.2 Piggyback Registration.

If the Company proposes to register any of its securities under the Securities Act (other than pursuant to (i) a registration, the primary purpose of which is to register debt securities or (ii) a registration statement on Form S-8, F-4 or S-4 or any successor form), whether or not pursuant to registration rights granted to other holders of its securities and whether or not for sale for its own account, it shall give prompt written notice to KKR of its intention to do so, which notice, in any event, shall be given at least 30 days prior to the filing of any registration statement for such proposed registration. Upon the written request of KKR made within 30 days after the receipt of any such notice (15 days if the Company states in such written notice or gives telephonic notice to KKR, with written confirmation to follow promptly thereafter, stating that (i) such registration will be on Form F-3 or S-3 and (ii) such shorter period of time is required because of a planned filing date), which request shall specify the Registrable Shares intended to be disposed of by KKR, the Company shall, subject to Section 2.5(b) hereof, effect the registration under the Securities Act of all Registrable Shares which the Company has been so requested to register by KKR; provided that,

(a) prior to the effective date of the registration statement filed in connection with such registration, promptly following receipt of notification by the Company from the managing underwriter (if an underwritten Public Offering) of the price at which such securities are to be sold, the Company shall so advise KKR of such price, and KKR shall then have the right, exercisable in its sole discretion, irrevocably to withdraw its request to have its Registrable Shares included in such registration statement, by delivery of written notice of such withdrawal to the Company within five (5) Business Days of its being advised of such price, without prejudice to the rights of KKR to include Registrable Shares in any future registration (or registrations) pursuant to this Section 2.2 or to cause such registration to be effected as a registration under Section 2.1 hereof, as the case may be;

(b) if at any time after giving written notice of its intention to register any securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register or to delay registration of such securities, the Company may, at its election, give written notice of such determination to KKR and (i) in the case of a determination not to register, shall be relieved of its obligation to register any Registrable Shares in connection with such registration (but not from any obligation of the Company to pay the Expenses in connection therewith, if any), without prejudice, however, to the rights of KKR to include Registrable Shares in any future registration (or registrations) pursuant to this Section 2.2 or to cause such registration to be effected as a registration under Section 2.1 hereof, as the case may be, and (ii) in the case of a determination to delay registering, shall be permitted to delay registering any Registrable Shares, for the same period as the delay in registering such other securities; and

(c) if such registration was initiated by the Company for its own account and involves an underwritten Public Offering, KKR shall sell its Registrable Shares on the same terms and conditions as those that apply to the Company, and, notwithstanding Section 2.1(d), the underwriters of each such underwritten Public Offering shall be a nationally recognized underwriter (or underwriters) selected by the Company, which must be reasonably acceptable to KKR if KKR is selling its Registrable Shares.

No registration effected under this Section 2.2 shall relieve the Company of its obligation to effect any registration upon request under Section 2.1 hereof and no registration effected pursuant to this Section 2.2 shall be deemed to have been effected pursuant to Section 2.1 hereof.

2.3 Expenses.

(a) Except as otherwise provided herein, the Company shall pay all Expenses in connection with any registration initiated pursuant to Section 2.1 or 2.2 hereof, whether or not such registration shall become effective and whether or not all or any portion of the Registrable Shares originally requested to be included in such registration are ultimately included in such registration.

(b) Notwithstanding anything in this Agreement to the contrary, in the event the Company does not issue or sell any securities in connection with a registration initiated pursuant to Section 2.1 hereof or a registration in which KKR participates in pursuant to Section 2.2 hereof, the Company shall not be obligated to pay any Expense in connection with such registration, and KKR and the other shareholders participating in such registration shall bear and pay such party's proportionate share (based on the total number of shares sold in such registration) of all Expenses, in connection with such registration.

(c) Notwithstanding anything in this Agreement to the contrary, but subject to Sections 2.3(b) and 2.7(a) hereof, the Company shall not be required to pay for any Expenses of any registration initiated pursuant to Section 2.1 hereof, if the registration request is subsequently withdrawn at the request of KKR, unless KKR agrees that such registration constitutes the use by KKR of one (1) demand registration pursuant to Section 2.1 hereof; provided, however, that if at the time of such withdrawal, KKR has learned of a material adverse change in the condition, business, or prospects of the Company not known to KKR at the time of its request for such registration and have withdrawn their request for registration with reasonable promptness after learning of such material adverse change, then KKR shall not be required to pay any of such expenses and such registration shall not constitute the use of a demand registration pursuant to Section 2.1.

2.4 Registration Procedures.

If and whenever the Company is required to effect any registration under the Securities Act as provided in Sections 2.1 or 2.2 hereof, the Company shall, as expeditiously as possible:

(a) prepare and file with the Commission (promptly and, in any event on or before the date that is (i) 90 days, in the case of any registration pursuant to Section 2.1(a), after the receipt by the Company of the written request from KKR or (ii) 30 days, in the case of any registration pursuant to Section 2.1(f) after the receipt by the Company of the written request from KKR) the requisite registration statement to effect such registration and thereafter use its reasonable best efforts to cause such registration statement to become and remain effective; provided, however, that the Company may discontinue any registration of its securities that are not Registrable Shares (and, under the circumstances specified in Sections 2.2 and 2.7(b) hereof, its securities that are Registrable Shares) at any time prior to the effective date of the registration statement relating thereto;

(b) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus, including any free writing prospectus as defined in Rule 405 under the Securities Act, used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Shares and any other securities being sold in an underwritten Public Offering covered by such registration statement until such time as all of such Registrable Shares and any other securities being sold in an underwritten Public Offering has been disposed of in accordance with the method of disposition set forth in such registration statement; provided, however, that with respect to each free writing prospectus or other materials to be delivered to purchasers at the time of sale of the Registrable Shares, the Company shall (i) ensure that no Registrable Shares be sold "by means of" (as defined in Rule 159A(b) under the Securities Act) such free writing prospectus or other materials without the prior written consent of KKR covered by such registration statement, which free writing prospectus or other materials shall be subject to the review of counsel to KKR and (ii) make all required filings of all free writing prospectuses or other materials with the SEC as are required.

(c) furnish to KKR and each underwriter, if any, such number of copies of such drafts and final conformed versions of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of such drafts and final versions of the prospectus contained in such registration statement (including each preliminary prospectus and any summary prospectus) and any other prospectus filed under Rule 424 under the Securities Act, in conformity with the requirements of the Securities Act, and such other documents, as KKR or any underwriter may reasonably request in writing;

(d) use its reasonable best efforts (i) to register or qualify all Registrable Shares and other securities, if any, covered by such registration statement under such other securities or blue sky laws of such states or other jurisdictions of the United States of America as KKR shall reasonably request in writing, (ii) to keep such registration or qualification in effect for so long as such registration statement remains in effect and (iii) to take any other action that may be necessary or reasonably advisable to enable KKR to consummate the disposition in such jurisdictions of the securities to be sold by KKR, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it would not but for the requirements of this subsection (d) be obligated to be so qualified, to subject itself to taxation in such jurisdiction or to consent to general service of process in any such jurisdiction;

(e) use its reasonable best efforts to obtain and, if obtained, furnish to KKR, and each underwriter, if any, a signed

(i) opinion and disclosure letter of counsel for the Company, dated the effective date of such registration statement (and, if such registration involves an underwritten Public Offering, dated the date of the closing under the underwriting agreement and addressed to the underwriters), reasonably satisfactory (based on the customary form and substance of opinions and disclosure letters of issuers' counsel customarily given in such an offering) in form and substance to the managing underwriters, and

(ii) "cold comfort" letter, dated the effective date of such registration statement (and, if such registration involves an underwritten Public Offering, dated the date of the closing under the underwriting agreement and addressed to the underwriters) and signed by the independent registered public accounting firm that certified the Company's financial statements included or incorporated by reference in such registration statement, reasonably satisfactory (based on the customary form and substance of "cold comfort" letters of issuers' independent registered public accounting firm customarily given in such an offering) in form and substance to the managing underwriters,

in each case of clauses (i) and (ii) above, covering substantially the same matters with respect to such registration statement (and the prospectus included therein) and, in the case of the independent registered public accounting firm's comfort letter, with respect to events subsequent to the date of such financial statements, as are customarily covered in opinions of issuer's counsel and in the independent registered public accounting firm's comfort letters delivered to underwriters in underwritten Public Offerings of securities;

(f) notify KKR at any time when a prospectus relating to the Registrable Shares and any other securities covered by such registration statement, if any, is required to be delivered under the Securities Act, upon discovery that, or upon the happening of any event as a result of which, the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made, and, at the written request of KKR, promptly prepare and furnish to it a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus, as supplemented or amended, shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made;

(g) use its reasonable best efforts to obtain the withdrawal of any order suspending the effectiveness of a registration statement relating to the Registrable Shares at the earliest possible moment;

(h) otherwise comply with all applicable rules and regulations of the Commission and any other Governmental Authority having jurisdiction over the offering, and make available to its security holders, as soon as reasonably practicable, an earning statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first full calendar month after the effective date of such registration statement, which earning statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 promulgated thereunder, and furnish to KKR and to the managing underwriter, if any, at least ten days prior to the filing thereof a copy of any amendment or supplement to such registration statement or prospectus;

(i) use its reasonable best efforts to cause all Registrable Shares and any other securities being sold in an underwritten Public Offering covered by a registration statement (i) to be listed on the Designated Exchange, if the listing of such Registrable Shares is then permitted under the rules of such exchange, or another national securities exchange if the listing is not then permitted or (ii) if the Company is not permitted pursuant to clause (i) above to list Registrable Shares on a national securities exchange, use its reasonable best efforts to secure designation of all Registrable Shares and any other securities being sold in an underwritten Public Offering as a "national market system security" within the meaning of Rule 600(b)(46) of Regulation NMS;

(j) provide a transfer agent and registrar for the Registrable Shares covered by a registration statement no later than the effective date thereof;

(k) enter into such agreements (including an underwriting agreement in customary form) and take such other actions as KKR shall reasonably request in order to expedite or facilitate the disposition of such Registrable Shares, including customary indemnification and contribution to the effect and to the extent provided in Section 2.8 hereof;

(l) in connection with an underwritten Public Offering, if reasonably requested by the managing underwriter(s) or KKR, promptly incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriter(s) and KKR agree should be included therein relating to the plan of distribution with respect to such Registrable Shares, including without limitation, information with respect to the number of Registrable Shares being sold to such underwriters, the purchase price being paid therefore by such underwriters and with respect to any other terms of the underwritten Public Offering of the Registrable Shares to be sold in such offering; and make all required filings of such prospectus supplement or post-effective amendment as soon as notified of the matters to be incorporated in such prospectus supplement or post-effective amendment;

(m) if requested by KKR, cooperate with KKR and the managing underwriter(s), if any, to facilitate the timely preparation and delivery of certificates representing Registrable Shares to be sold and not bearing any restrictive legends; and enable such Registrable Shares to be in such share amounts and registered in such names as the managing underwriter(s) or KKR may request on or prior to any sale of Registrable Shares to the underwriters;

(n) if the registration shall be for an underwritten Public Offering, cause senior officers of the Company to participate in reasonable and customary roadshows necessary to effect the disposition of the Registrable Shares as provided by the managing underwriters of such underwritten Public Offering; and

(o) take such actions as are necessary to permit any Ordinary Shares covered by any registration effected hereunder to be sold in the form of ADSs.

As a condition to the obligations of the Company to complete any registration pursuant to this Agreement with respect to the Registrable Shares, KKR must furnish to the Company in writing such information (the "Shareholder Information") regarding itself, the Registrable Shares held by it and the intended methods of disposition of the Registrable Shares held by it as is necessary to effect the registration of the Registrable Shares and is requested in writing by the Company. At least fifteen (15) days prior to the first anticipated filing date of a registration statement for any registration under this Agreement, the Company will notify in writing KKR of the Shareholder Information which the Company is requesting from KKR.

2.5 Underwritten Offerings.

(a) Requested Underwritten Offerings. If requested by the underwriters in connection with a request for a registration under Section 2.1 hereof that is a firm commitment underwritten Public Offering, the Company and KKR shall enter into a firm commitment underwriting agreement with such underwriters for such offering, such agreement to be reasonably satisfactory in substance and form to the Company and KKR and to contain such representations and warranties by the Company and KKR and such other terms as are customary in agreements of that type, including, without limitation, customary indemnification and contribution to the effect and to the extent provided in Section 2.8 hereof.

(b) Piggyback Underwritten Offerings; Priority.

(i) If the Company proposes to register any of its securities under the Securities Act for its own account as contemplated by Section 2.2 hereof and such securities are to be distributed by or through one or more underwriters, and if the managing underwriter of such underwritten Public Offering shall advise the Company in writing (with a copy to KKR) that if all the securities (including the Registrable Shares) requested to be included in such registration were so included, in its opinion, the number and type of securities proposed to be included in such registration would exceed the number and type of securities which could be sold in such offering within a price range acceptable to the Company (such writing to state the basis of such opinion and the approximate number and type of securities which may be included in such offering without such effect), then the Company shall include in such registration pursuant to Section 2.2, to the extent of the number and type of securities which the Company is so advised can be sold in such offering, (i) first, securities that the Company proposes to issue and sell for its own account, (ii) second, the Registrable Shares requested by KKR and its Affiliates to be included in such registration, and (iii) third, other securities, if any.

(ii) In the case of any other registration contemplated by Section 2.2 involving an underwritten Public Offering, if the managing underwriter of such underwritten Public Offering shall advise the Company in writing (with a copy to KKR) that if all securities (including Registrable Shares) requested to be included in such registration were so included, in its opinion, the number and type of securities proposed to be included in such registration would exceed the number and type of securities which would be sold in such offering within a price range stated to such managing underwriter by the selling shareholder or selling shareholders, as the case may be, owning at least a majority of the securities requested to be included in such registration to be acceptable to any such selling shareholders (such writing to state the basis of such opinion and the approximate number and type of securities which may be included in such offering without such effect), then the Company shall include in such registration pursuant to Section 2.2, to the extent of the number and type of securities which the Company is so advised can be sold in such offering, (i) first, securities that the Company proposes to issue and sell for its own account, and (ii) second, the other securities (including the Registrable Shares) requested to be included in such registration by selling shareholders pro rata among the selling shareholders on the basis of the number of securities requested to be registered by all such selling shareholders and (iii) third, other securities, if any.

KKR may withdraw its request to have all or any portion of its Registrable Shares included in any such offering by notice to the Company within ten (10) days after receipt of a copy of a notice from the managing underwriter pursuant to this Section 2.5(b).

(c) Holdback Agreements. KKR agrees, unless otherwise agreed to by the managing underwriter for any underwritten Public Offering pursuant to this Agreement, not to effect any sale or distribution of any equity securities of the Company or securities convertible into or exchangeable or exercisable for equity securities of the Company, including any sale under Rule 144 under the Securities Act, during the 10 days prior to the date on which an underwritten registration of Registrable Shares pursuant to Sections 2.1 or 2.2 hereof has become effective and until 90 days after the effective date of such underwritten registration, except as part of such underwritten registration or to the extent that KKR is prohibited by applicable law from agreeing to withhold securities from sale.

(d) Representations and Warranties by KKR. KKR shall not be required to make any representations or warranties to or agreements with the Company other than representations, warranties or agreements regarding KKR, the Registrable Shares and KKR's intended method of distribution in connection with any registered offering.

2.6 Preparation: Reasonable Investigation.

(a) Registration Statements. In connection with the preparation and filing of each registration statement under the Securities Act pursuant to this Agreement, the Company shall (i) give representatives (designated to the Company in writing) of KKR, the underwriters, if any, and one firm of counsel, one firm of accountants and one firm of other agents retained on behalf of all underwriters and one firm of counsel, one firm of accountants and one firm of other agents retained on behalf of the selling shareholders (as a group), the reasonable opportunity to participate in the preparation of such registration statement, each prospectus included therein or filed with the Commission, and each amendment thereof or supplement thereto, (ii) upon reasonable advance notice to the Company, give each of them such reasonable access to all financial and other records, corporate documents and properties of the Company and its subsidiaries, as shall be necessary, in the reasonable opinion of such shareholders' and such underwriters' counsel, to conduct a reasonable due diligence investigation for purposes of the Securities Act, and (iii) upon reasonable advance notice to the Company, give each of them the opportunity to receive relevant information regarding the business of the Company from its officers, directors, employees and the independent public accounting firm that certified its financial statements as shall be necessary, in the reasonable opinion of such shareholders' and such underwriters' counsel, to conduct a reasonable due diligence investigation for purposes of the Securities Act.

2.7 Postponements.

(a) If the Company shall fail to file any registration statement to be filed pursuant to a request for registration under Section 2.1 hereof, KKR shall have the right to withdraw the request for registration. Any such withdrawal shall be made by giving written notice to the Company within 20 days after, in the case of a request pursuant to Section 2.1 hereof, the date on which a registration statement would otherwise have been required to have been filed with the Commission under clause (i) of Section 2.4(a) hereof (i.e., 20 days after the date that is 90 days after the receipt by the Company of the written request from KKR). In the event of such withdrawal, the request for registration shall not be counted for purposes of determining the number of registrations to which KKR is entitled pursuant to Section 2.1 hereof. Subject to Section 2.3(b), the Company shall pay all Expenses incurred by the Company in connection with a request for registration withdrawn pursuant to this paragraph.

(b) The Company shall not be obligated to file any registration statement, or file any amendment or supplement to any registration statement, and may suspend any of KKR's rights to make sales pursuant to any effective registration statement, at any time (but not to exceed one time in any twelve-month period) when the Company, in the good faith judgment of the Board, reasonably believes that the filing thereof at the time requested, or the offering of securities pursuant thereto, would materially adversely affect the Company and its shareholders. The filing of a registration statement, or any amendment or supplement thereto, by the Company cannot be deferred, and KKR's rights to make sales pursuant to an effective registration statement cannot be suspended, pursuant to the provisions of the preceding sentence, for more than 90 days after the date of the Board's determination referenced in the preceding sentence. If the Company suspends KKR's rights to make sales pursuant hereto, the applicable registration period shall be extended by the number of days of such suspension, subject to applicable law.

2.8 Indemnification by the Company.

(a) In connection with any registration statement filed by the Company pursuant to Sections 2.1 or 2.2 hereof, to the fullest extent permitted by law the Company shall, and hereby agrees to, indemnify and hold harmless, KKR and its Affiliates covered by such registration statement and each other Person who participates as an underwriter in the offering or sale of such securities and each other Person, if any, who controls (within the meaning of the Exchange Act) KKR or any such underwriter, and their respective shareholders, members, directors, officers, employees, partners, agents and Affiliates (each, a "Company Indemnitee" for purposes of this Section 2.8), against any losses, claims, damages, liabilities (or actions or proceedings, whether commenced or threatened, in respect thereof), joint or several, and expenses, including the reasonable fees, disbursements and other charges of legal counsel and reasonable costs of investigation, to which such Company Indemnitee may become subject under the Securities Act or otherwise (collectively, a "Loss" or "Losses"), insofar as such Losses arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such securities were registered or otherwise offered or sold under the Securities Act or otherwise, any preliminary prospectus, final prospectus or summary prospectus related thereto, or any amendment or supplement thereto, and free writing prospectus or other offering materials (collectively, "Offering Documents"), or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein in the light of the circumstances in which they were made not misleading, or any violation by the Company of any federal or state law, rule or regulation applicable to the Company and relating to action required of or inaction by the Company in connection with any such registration; provided that, the Company shall not be liable in any such case to the extent that any such Loss arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such Offering Documents in reliance upon and in conformity with information furnished to the Company in writing by such Company Indemnitee specifically stating that it is for use therein; and provided, further, that the Company shall not be liable to any Person who participates as an underwriter in the offering or sale of Registrable Shares or any other person, if any, who controls (within the meaning of the Exchange Act) such underwriter, in any such case to the extent that any such Loss arises out of such Person's failure to send or give a copy of the final prospectus (including any documents incorporated by reference therein), as the same may be then supplemented or amended, to the Person asserting an untrue statement or alleged untrue statement or omission or alleged omission at or prior to the written confirmation of the sale of Registrable Shares to such Person if such statement or omission was corrected in such final prospectus. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Company Indemnitee and shall survive the transfer of such securities by such Company Indemnitee.

(b) Indemnification by the Offerors and Sellers. In connection with any registration statement filed by the Company pursuant to Sections 2.1 or 2.2 hereof in which any Registrable Share is registered, KKR hereby agrees to, indemnify and hold harmless to the fullest extent permitted by law (i) the Company and its Affiliates and each other Person, if any, who controls (within the meaning of the Exchange Act) the Company and their respective shareholders, members, directors, officers, employees, partners, agents and Affiliates and (ii) each other seller and its Affiliates and each other Person, if any, who controls (within the meaning the Exchange Act) such seller and their respective shareholders, members, directors, officers, employees, partners, agents and Affiliates (but only if such seller provides identical indemnifications to KKR with respect to information furnished by such seller) (for both clauses (i) and (ii), each, a “Shareholder Indemnitee” for purposes of this Section 2.8), against all Losses insofar as such Losses arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any Offering Documents (or any document incorporated by reference therein) or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein in the light of circumstances in which they were made not misleading, if such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with information furnished to the Company in writing by KKR or its Affiliates specifically stating that it is for use therein; provided, however, that the liability of KKR under this Section shall be limited to the amount of the net proceeds (after giving effect to underwriting discounts and commissions) received by KKR in the sale of Registrable Shares giving rise to such liability. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Shareholder Indemnitee and shall survive the transfer of such Registrable Shares by KKR.

(c) Notices of Losses, etc. Promptly after receipt by an indemnified party of written notice of the commencement of any action or proceeding involving a Loss referred to in the preceding subsections of this Section, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action; provided, however, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding subsections of this Section except to the extent that the indemnifying party is prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, the indemnifying party shall be entitled to participate in and to assume and control the defense thereof, in each case at its own expense, jointly with any other indemnifying party similarly notified, to the extent that it may wish, and shall be entitled to retain its own counsel, and after its assumption of the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall be liable for any settlement of any such action or proceeding effected without its written consent, which shall not be unreasonably withheld. No indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such Loss.

(d) Contribution. If the indemnification provided for in this Section shall for any reason be unavailable to an indemnified party under subsection (a) or (b) of this Section in respect of any Loss, then, in lieu of the amount paid or payable under subsection (a) or (b) of this Section, the indemnified party and the indemnifying party under subsection (a) or (b) of this Section shall contribute to the aggregate Losses (including legal or other expenses reasonably incurred in connection with investigating the same) (i) in such proportion as is appropriate to reflect the relative fault of the Company and KKR which resulted in such Loss or action in respect thereof, with respect to the statements, omissions or action which resulted in such Loss or action in respect thereof, as well as any other relevant equitable considerations, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as shall be appropriate to reflect the relative benefits received by the Company, on the one hand, and KKR, on the other hand, from the sale of Registrable Shares; provided that, for purposes of this clause (ii), the relative benefits received by KKR shall be deemed not to exceed the amount received by KKR. No Person guilty of fraudulent misrepresentation (within the meaning of Section 10(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. In addition, no Person shall be obligated to contribute hereunder any amounts in payment for any settlement of any action or Loss effected without such Person's consent.

2.9 Registration Rights to Others.

Without the prior written consent of KKR, the Company covenants and agrees that it shall not grant, or cause or permit to be created, for the benefit of any person or entity any registration rights of any kind relating to any securities of the Company which are senior to, or on a parity with, those granted to KKR or its Affiliates under this Agreement.

2.10 Adjustments Affecting Registrable Shares.

The Company shall not effect or permit to occur any combination, subdivision or reclassification of the Registrable Shares that would materially adversely affect the ability of KKR to include such Registrable Shares in any registration of its securities under the Securities Act contemplated by this Agreement or the marketability of such Registrable Shares under any such registration or other offering.

2.11 ADS.

The Company agrees to maintain the existing sponsored American Depositary Receipt ("ADR") facility and the Listing so long as KKR holds Registrable Securities.

2.12 Termination of Registration Rights.

The Company's obligations under this Agreement shall terminate when all Registrable Shares could be sold without restriction under Rule 144(e) under the Securities Act within a ninety (90) day period.

**ARTICLE III
MISCELLANEOUS**

3.1 Amendments: Entire Agreement.

Any amendment or waiver of, or any consent given under, any provision of this Agreement shall be in writing and, in the case of an amendment, signed by all of the parties hereto. This Agreement supersedes all prior discussions, memoranda of understanding, agreements and arrangements (whether written or oral, including all correspondence), if any, between the parties with respect to the subject matter hereof, and this Agreement contains the sole and entire agreement between the parties hereto with respect to the subject matter hereof.

3.2 Severability.

If any provision of this Agreement is held to be illegal, invalid or unenforceable in whole or in part under any applicable law from time to time: (a) such provision will be fully severable from this Agreement; (b) such provision shall apply with whatever deletion or modification is necessary so that such provision is legal, valid and enforceable, giving effect to the intention of the parties hereto under this Agreement; and (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom.

3.3 Successors and Assigns.

The provisions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors. This Agreement, and any and all rights, duties and obligations hereunder, shall not be assigned or transferred by the Company without the prior written consent of KKR. Any purported assignment in violation of this provision shall be null and void *ab initio*.

3.4 Notices.

(a) Any notice, request or other communication to be given or made under this Agreement shall be in writing. Any such communication shall be delivered by hand, airmail, established courier service or facsimile to the party to which it is required or permitted to be given or made at such party's address set forth on Schedule A or at such other address as such party may from time to time designate by written notice to the other parties hereto, and shall be effective upon the earlier of (i) actual receipt and (ii) deemed receipt under Section (b) below.

(b) Unless there is reasonable evidence that it was received at a different time, notice pursuant to this Section 3.4 is deemed given if: (i) delivered by hand, when left at the address referred to in Section 3.4(a); (ii) sent by airmail or established courier services within a country, three Business Days after posting it; (iii) sent by airmail or established courier service between two countries, six Business Days after posting it; and (iv) sent by facsimile, when confirmation of its transmission has been recorded by the sender's facsimile machine. Each such notice shall also be delivered by electronic means.

3.5 Counterparts.

This Agreement may be executed in several counterparts, each of which is an original, but all of which constitute one and the same agreement.

3.6 Injunctive Relief.

It is hereby agreed and acknowledged that it will be impossible to measure in money the damage that would be suffered if the parties fail to comply with any of the obligations herein imposed on them and that in the event of any such failure, an aggrieved Person will be irreparably damaged and will not have an adequate remedy at law. Any such Person shall, therefore, be entitled (in addition to any other remedy to which it may be entitled in law or in equity) to injunctive relief, including specific performance, to enforce such obligations, and if any action should be brought in equity to enforce any of the provisions of this Agreement, none of the parties hereto shall raise the defense that there is an adequate remedy at law.

3.7 Governing Law; Consent to Jurisdiction.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York. The parties hereto irrevocably submit to the exclusive jurisdiction of any state or federal court sitting in the County of New York, in the State of New York over any suit, action or proceeding arising out of or relating to this Agreement. To the fullest extent they may effectively do so under applicable law, the parties hereto irrevocably waive and agree not to assert, by way of motion, as a defense or otherwise, any claim that they are not subject to the jurisdiction of any such court, any objection that they may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

3.8 Waiver of Jury Trial.

Each party acknowledges and agrees that any controversy which may arise under this Agreement is likely to involve complicated and difficult issues and, therefore, each such party irrevocably and unconditionally waives any right it may have to a trial by jury in respect of any action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

[remainder of this page intentionally left blank; signature pages follow]

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement as of the date first above written.

TARENA INTERNATIONAL, INC.

By: /s/ Shaoyun Han

Name: Shaoyun Han

Title: Chief Executive Officer

TALENT FORTUNE INVESTMENT LIMITED

By: /s/ William J. Janetschek

Name: William J. Janetschek

Title: Director

NOTICES

If to the Company:

Suite 10017, Building E, Zhongkun
Plaza, A18 Bei San Huan West
Road, Haidian District, Beijing
100098, People's Republic of China
Facsimile: (8610) 6211-0873
Attention: Shaoyun Han

with a copy to (which shall not constitute notice):
Skadden, Arps, Slate, Meagher & Flom
42/F, Edinburgh Tower, The Landmark,
15 Queen's Road Central
Hong Kong
Facsimile: (852) 3910-4863 / (852)
3910-4891
Attention: Julie. Z. Gao / Will H. Cai

If to KKR:

c/o KKR Asia Limited
Level 56, Cheung Kong Center
2 Queen's Road Central, Hong Kong
Facsimile: (852) 2219-3000
Attention: Julian J. Wolhardt and
Lane Zhao

with a copy to (which shall not constitute notice):
Paul, Weiss, Rifkind, Wharton & Garrison
12th Floor, Hong Kong Club Building
3A Chater Road, Central
Hong Kong
Facsimile: (852) 2840-4300
Attention: John E. Lange

List of Major Subsidiaries and Variable Interest Entities

Name	Jurisdiction of Incorporation	Affiliate Relationship with The Registrant
Tarena Hong Kong Limited	Hong Kong	Wholly-owned subsidiary
Tarena Software Technology (Hangzhou) Co., Ltd.	PRC	Wholly-owned subsidiary
Tarena Technologies Inc.	PRC	Wholly-owned subsidiary
Shenyang Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Jinan Tarena Software Co., Ltd.	PRC	Wholly-owned subsidiary
Qingdao Tarena Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Tarena (Wuhan) Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Chongqing Tarena Software Co., Ltd.	PRC	Wholly-owned subsidiary
Kunming Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Nanjing Tarena Software Co., Ltd.	PRC	Wholly-owned subsidiary
Zhuhai Tarena Software Co., Ltd.	PRC	Wholly-owned subsidiary
Guangzhou Tarena Information Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Shenzhen Tarena Software Co., Ltd.	PRC	Wholly-owned subsidiary
Beijing Yingcai Tianyi Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Heilongjiang Tarena Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Harbin Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Shijiazhuang Tarena Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Changchun Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Tianjin Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Yantai Tarena Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Xi'an Tarena Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Suzhou Tarena Information Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Wuxi Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Ningbo Tarena Information Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Nanchang Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Fuzhou Tarena Information Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Nanjing Tarena Weishang Information Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Guangxi Nanning Tarena Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Zhengzhou Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Changsha Tarena Software Co., Ltd.	PRC	Wholly-owned subsidiary
Chengdu Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Hefei Tarena Software Co., Ltd.	PRC	Wholly-owned subsidiary
Xiamen Tarena Information Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Dalian Tarena Software Co., Ltd.	PRC	Wholly-owned subsidiary
Wuhan Tarena Software Co., Ltd.	PRC	Wholly-owned subsidiary
Shanghai Tarena Weishang Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Shanghai Tarena Weiguan Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Shanghai Tarena Weicheng Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary

Name	Jurisdiction of Incorporation	Affiliate Relationship with The Registrant
Shanghai Tarena Weixin Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Changchun Yingcai Tianyi Technology Co. Ltd.	PRC	Wholly-owned subsidiary
Beijing Pairuite Internet Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Shanghai Tarena Weiyang Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Chengdu Tarena Weishang Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Taiyuan Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Hangzhou Tarena Weishang Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Dongguan Tarena Software Co., Ltd.	PRC	Wholly-owned subsidiary
Weifang Tarena Times Software Co., Ltd.	PRC	Wholly-owned subsidiary
Luoyang Tarena Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Tianjin Tarena Software Development Co. Ltd.	PRC	Wholly-owned subsidiary
Tianjin Weishang Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Gansu Tarena Information Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Beijing Caixiu Renren Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Shanghai Tarena Software Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Shanghai Tarena Weijia Software Co., Ltd.	PRC	Wholly-owned subsidiary
Guizhou Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Hainan Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Haikou Tarena Technology Co., Ltd.	PRC	Wholly-owned subsidiary
Linyi Tarena Technology Software Co., Ltd.	PRC	Wholly-owned subsidiary
Shenzhen Tarena Weishang Software Co., Ltd.	PRC	Wholly-owned subsidiary
Shenyang Tarena Professional Education School	PRC	School sponsored by Shenyang Tarena Technology Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.
Jinan Tarena Professional Education School	PRC	School sponsored by Jinan Tarena Software Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.
Qingdao Tarena Professional Education School	PRC	School sponsored by Qingdao Tarena Software Technology Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.
Wuhan Tarena Professional Education School	PRC	School sponsored by Wuhan Tarena Software Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.
Chongqing Jiulongpo Tarena Professional Education School	PRC	School sponsored by Chongqing Tarena Software Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.
Kunming Guandu Tarena Professional Education School	PRC	School sponsored by Kunming Tarena Technology Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.

Name	Jurisdiction of Incorporation	Affiliate Relationship with The Registrant
Nanjing Tarena Professional Education School	PRC	School sponsored by Nanjing Tarena Software Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.
Zhuhai Tarena Professional Education School	PRC	School sponsored by Zhuhai Tarena Software Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.
Guangzhou Tarena Software Professional Education School	PRC	School sponsored by Guangzhou Tarena Information Technology Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.
Shenzhen Bao'an Tarena Professional Education School	PRC	School sponsored by Shenzhen Tarena Software Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.
Harbin Tarena Professional Education School	PRC	School sponsored by Harbin Tarena Technology Co., Ltd., a wholly-owned subsidiary of Tarena International, Inc.
Dalian High-Tech Zone Tarena Professional Education School	PRC	School sponsored by Dalian Tarena Software Co., Ltd.
Nanjing Tarena Weishang Education School	PRC	School sponsored by Nanjing Tarena Weishang Information Technology Co., Ltd.
Shenyang Tarena Times Professional Education School	PRC	School sponsored by Shenyang Tarena Technology Co., Ltd.
Zhengzhou Tarena Professional Education School	PRC	School sponsored by Zhengzhou Tarena Technology Co., Ltd.
Dalian Shahekou Tarena Accounting Professional Education School	PRC	School sponsored by Dalian Tarena Software Technology Co., Ltd.
Chengdu High-tech Zone Tarena Professional Education School	PRC	School sponsored by Chengdu Tarena Technology Co., Ltd.
Chengdu Tarena Professional Education School	PRC	School sponsored by Chengdu Tarena Technology Co., Ltd.
Chongqing Nanan Tarena Professional Education School	PRC	School sponsored by Chongqing Tarena Software Co., Ltd.
Wuhan Technology Tarena Professional Education School	PRC	School sponsored by Wuhan Tarena Software Co., Ltd.
Weifang Tarena Professional Education School	PRC	School sponsored by Tarena Technology Co., Ltd.
Shenzhen Longhua Xinqu Tarena Professional Skills Education School	PRC	School sponsored by Shenzhen Tarena Software Technology Co., Ltd.
Beijing Tarena Jinqiao Technology Co., Ltd.	PRC	Variable interest entity
Shanghai Tarena Software Technology Co., Ltd.	PRC	Variable interest entity
Guangzhou Huicai Software Co., Ltd.	PRC	Subsidiary of Variable interest entity

Name	Jurisdiction of Incorporation	Affiliate Relationship with The Registrant
Hangzhou Tarena Technology Co., Ltd.	PRC	Subsidiary of Variable interest entity
Hangzhou Tarena Computer Co., Ltd.	PRC	Subsidiary of Variable interest entity

**Certification by the Principal Executive Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Shaoyun Han, certify that:

1. I have reviewed this Annual Report on Form 20-F of Tarena International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the period 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; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 20, 2016

/s/ Shaoyun Han

Name: Shaoyun Han
Title: Chief Executive Officer

**Certification by the Principal Financial Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Yuduo Yang, certify that:

1. I have reviewed this Annual Report on Form 20-F of Tarena International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the period 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 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; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 20, 2016

/s/ Yuduo Yang

Name: Yuduo Yang
Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Tarena International, Inc. (the "Company") on Form 20-F for the fiscal year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shaoyun Han, 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.

April 20, 2016

/s/ Shaoyun Han

Name: Shaoyun Han
Title: Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Tarena International, Inc. (the "Company") on Form 20-F for the fiscal year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yuduo Yang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 20, 2016

/s/ Yuduo Yang

Name: Yuduo Yang
Title: Chief Financial Officer

April 20, 2016

Matter No.: 822393
Doc Ref: 102510014
852 2842 9556

Christopher.bickleyl@conyersdill.com

Tarena International, Inc.
Suite 10017, Building E, Zhongkun Plaza
A18 Bei San Huan West Road
Haidian District
Beijing 100098
The People's Republic of China

Dear Sirs,

Re: **Tarena International, Inc.**

We consent to the reference to our firm under the heading "Item 10. Additional Information — E. Taxation — Cayman Islands Taxation" in Tarena International, Inc.'s Annual Report on Form 20-F for the year ended 31 December 2015 (the "**Annual Report**"), which will be filed with the Securities and Exchange Commission (the "**SEC**") in the month of April 2016, and further consent to the incorporation by reference into the Registration Statements on Form S-8 (File No.: 333-197226) filed on July 3, 2014 and on Form S-8 (File No.: 333-204494) filed on May 28, 2015, in each case pertaining to Tarena International, Inc.'s 2008 share plan and 2014 share incentive plan of the summary of our opinion under the heading "Item 10. Additional Information — E. Taxation — Cayman Islands Taxation" in the Annual Report. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully,

/s/ Conyers Dill & Pearman

Conyers Dill & Pearman

[Han Kun Law Offices Letterhead]

April 20, 2016

Tarena International, Inc.
Suite 10017, Building E, Zhongkun Plaza
A18 Bei San Huan West Road, Haidian District
Beijing 100098 The People's Republic of China

Dear Sir/Madam:

We hereby consent to the reference of our name under the heading "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure," "Item 4. Information on the Company—C. Organizational Structure" and "Item 10. Additional Information—E. Taxation—People's Republic of China Taxation" in Tarena International, Inc.'s Annual Report on Form 20-F for the year ended December 31, 2015 (the "**Annual Report**"), which will be filed with the Securities and Exchange Commission (the "**SEC**") in the month of April 2016, and further consent to the incorporation by reference into the Registration Statements on Form S-8 (File No.: 333-197226) filed on July 3, 2014 and on Form S-8 (File No.: 333-204494) filed on May 28, 2015, in each case pertaining to Tarena International, Inc.'s 2008 share plan and 2014 share incentive plan of the summary of our opinion under the heading "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure," "Item 4. Information on the Company—C. Organizational Structure" and "Item 10. Additional Information—E. Taxation—People's Republic of China Taxation" in the Annual Report. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/ Han Kun Law Offices

Han Kun Law Offices

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements on Form S-8 (No. 333-204494 and No. 333-197226) of Tarena International, Inc. of our report dated April 20, 2016, with respect to the consolidated balance sheets of Tarena International, Inc. as of December 31, 2014 and 2015, and the related consolidated statements of comprehensive income, changes in equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 2015, which report appears in the December 31, 2015 annual report on Form 20-F of Tarena International, Inc.

/s/ KPMG Huazhen LLP

KPMG Huazhen LLP

Beijing, China

April 20, 2016
