

Tarena International, Inc.
Form 20-F
April 15, 2015
Table of Contents

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, 2014.

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

Beijing 100098, People's Republic of China

(Address of principal executive offices)

1/F, Block A, Training Building, 65 Kejiyuan Road, Baiyang Jie Dao, Economic Development District,

Hangzhou 310000, People's Republic of China

(Address of principal executive offices)

Suhai Ji, Chief Financial Officer

E-mail: jish@tarena.com.cn

Suite 10017, Building E, Zhongkun Plaza, A18 Bei San Huan West Road, Haidian District

Beijing 100098, People's Republic of China

Telephone: +86 10-6213 5687

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

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each	The NASDAQ Stock Market LLC
representing one Class A ordinary share,	(The NASDAQ Global Select Market)
par value US\$0.001 per share	
Class A ordinary shares,	The NASDAQ Stock Market LLC
par value US\$0.001 per share	(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, 2014, there were 52,445,782 ordinary shares outstanding, par value \$0.001 per share, being the sum of 23,712,758 Class A ordinary shares and 28,733,024 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):

Edgar Filing: Tarena International, Inc. - Form 20-F

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 Other

by the International Accounting Standards Board

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

TABLE OF CONTENTS

<u>INTRODUCTION</u>	1
<u>FORWARD-LOOKING INFORMATION</u>	2
<u>PART I.</u>	3
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	3
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	3
ITEM 3. <u>KEY INFORMATION</u>	3
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	39
ITEM 4.A. <u>UNRESOLVED STAFF COMMENTS</u>	68
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	69
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	87
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	98
ITEM 8. <u>FINANCIAL INFORMATION</u>	100
ITEM 9. <u>THE OFFER AND LISTING</u>	101
ITEM 10. <u>ADDITIONAL INFORMATION</u>	102
ITEM 11. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	112
ITEM 12. <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	113
<u>PART II.</u>	115
ITEM 13. <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	115
ITEM 14. <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	115
ITEM 15. <u>CONTROLS AND PROCEDURES</u>	115
ITEM 16. A. <u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	116
ITEM 16. B. <u>CODE OF ETHICS</u>	116
ITEM 16. C. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	117
ITEM 16. D. <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	117
ITEM 16. E. <u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	117
ITEM 16. F. <u>CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	117
ITEM 16. G. <u>CORPORATE GOVERNANCE</u>	117

Table of Contents

ITEM 16. H.	<u>MINE SAFETY DISCLOSURE</u>	117
	<u>PART III.</u>	118
ITEM 17.	<u>FINANCIAL STATEMENTS</u>	118
ITEM 18.	<u>FINANCIAL STATEMENTS</u>	118
ITEM 19.	<u>EXHIBITS</u>	118

Table of Contents

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. being 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 RMB6.2046 to US\$1.0000, the noon buying rate for December 31, 2014 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 10, 2015, the noon buying rate set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.2082 to US\$1.0000.

Table of Contents

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 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.

Table of Contents**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, 2012, 2013 and 2014 and the selected consolidated balance sheet data as of December 31, 2013 and 2014 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 year ended December 31, 2011 and the selected consolidated balance sheet data as of December 31, 2012 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
(In thousands of US\$, except for share,
per share and per ADS data)

Selected Consolidated Statements of Comprehensive Income Data:	2011	2012	2013	2014
Net revenues	25,741	56,820	92,834	136,204
Cost of revenues ⁽¹⁾	(8,714)	(17,762)	(29,068)	(39,080)
Gross profit	17,027	39,058	63,766	97,124
Operating expenses ⁽¹⁾ :				
Selling and marketing	(7,676)	(16,875)	(30,252)	(42,562)
General and administrative	(7,832)	(9,948)	(16,224)	(29,948)
Research and development	(1,159)	(1,792)	(3,807)	(5,446)

Edgar Filing: Tarena International, Inc. - Form 20-F

Operating income	360	10,443	13,483	19,168
Interest income	275	1,165	1,541	4,360
Foreign exchange gain				1,197
Income before income taxes	840	11,771	16,318	27,096
Net income	701	9,552	14,047	24,691
Net income (loss) attributable to ordinary shareholders	(9,593)	(16,993)	(30,313)	24,115
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
Diluted	12,518,419	10,851,287	10,930,412	47,770,132
Income (loss) per Class A ordinary share, and per Class B ordinary share ⁽³⁾				
Basic	(0.77)	(1.57)	(2.77)	0.51
Diluted	(0.77)	(1.57)	(2.77)	0.44
Income (loss) per ADS ⁽⁴⁾				
Basic	(0.77)	(1.57)	(2.77)	0.51
Diluted	(0.77)	(1.57)	(2.77)	0.44

Table of Contents

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

- (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 13 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 during which there were two classes of ordinary shares.
- (4) Each ADS represents one Class A ordinary share.

	As of December 31,		
	2012	2013	2014
	(In thousands of (US\$))		
Selected Consolidated Balance Sheet Data:			
Cash and cash equivalents	16,197	26,139	42,660
Time deposits	795	12,162	124,148
Accounts receivable, net of allowance for doubtful accounts	16,984	15,417	24,672
Property and equipment, net	8,172	12,806	13,374
Total assets	46,870	73,673	217,954
Deferred revenue	9,656	15,487	19,277
Total liabilities	14,738	25,578	35,067
Total mezzanine equity	67,099	111,379	
Total shareholders' equity (deficit)	(34,967)	(63,284)	182,887

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

Table of Contents

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. 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. 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.

Table of Contents

We rely on Java and digital art courses for a majority of our total net revenues, and a decrease in the popularity and usage of Java or of Adobe design 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 Java and digital art course. In 2012, 2013 and 2014, our Java courses contributed 71.3%, 59.3% and 36.7% of our total net revenues, respectively. In 2014, our digital art course contributed 29.1% of our total net revenues. The historical rapid growth of our business has been driven by the popularity and usage of Java and Adobe design 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 the Java and digital art courses is mainly attributable to the wide adoption of Java and Adobe design technology. However, whether Java as a programming language or Adobe design technology as a digital art tool can maintain their popularity is beyond our control. Any factor that materially and adversely affects student enrollment in our Java or digital art course, such as a decrease in the popularity and usage of Java or Adobe design 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 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.

Table of Contents

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 2014, China's gross domestic product grew at a rate of 7.4%. 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 possibility of a war involving Ukraine. 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 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.

Table of Contents

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 57 as of December 31, 2012 to 118 as of December 31, 2014. 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.

Table of Contents

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, 2014, we had a total of 118 learning centers, of which 38 were managed by schools and 80 were managed by our subsidiaries. Among the learning centers operated by our subsidiaries, 30 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, 2014, and these learning centers in the aggregate accounted for 22.0% of our student enrollments in 2014. 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, 11 learning centers operated by our subsidiaries only have education information related consultation