

[For immediate release]



KOOLEARN TECHNOLOGY HOLDING LIMITED

新東方在綫科技控股有限公司

Announces Fiscal Year 2019 Annual Results and Acquisition of 49% of Dongfang Youbo

[16 August 2019, Hong Kong] **Koolearn Technology Holding Limited** (“Koolearn” or the “Company”, together with its subsidiaries, the “Group”, stock code: **1797.HK**) today announced its consolidated annual results for the financial year ended 31 May (“FY”) 2019 (“Reporting Period”).

Key Financial Highlights:

- Total net revenues increased by 41.3% from RMB650.5 million in FY 2018 to RMB918.9 million in FY 2019.
- Total gross profit increased by 27.3% to RMB506.4 million in FY 2019.
- Gross profit margin was 55.1% in FY 2019, decreased from 61.2% in FY 2018.
- Profit for the year recorded a loss of RMB64.1 million in FY 2019, decreased by 178.2% from RMB82.0 million in FY 2018.

Key Operational Highlights:

- Total student enrolments recorded 2.2 million in FY 2019, increased by 12.3% y-o-y from 1.9 million in FY 2018.
- Total average spending per enrolment increased from RMB370 in FY 2018 to RMB434 in FY 2019.
- In college segment, student enrolments reached 1.3 million in FY 2019, representing a y-o-y increase of 11.7%.
- In K-12 segment, student enrolments reached 0.6 million in FY 2019, representing a y-o-y growth of 209.2%.

Acquisition of 49% of Dongfang Youbo:

Our Group (through Beijing Xuncheng) has entered into a purchase agreement with Tianjin Qiancheng for the acquisition of the remaining 49% equity interest in Dongfang Youbo (in which we, through our Contractual Arrangements, currently hold 51% equity interest) for approximately RMB94 million, payable before 31 December 2019. Upon completion of the Acquisition, Dongfang Youbo will become our wholly-owned subsidiary.

Mr. Yu Minhong, Chairman of Koolearn Technology Holding Limited, said, “During the reporting period, we continued to execute our mission of becoming a trusted lifelong education partner for students and teachers by combining education and technology and continuously introducing best in class educational products and services. Going forward, we will continue our long-term growth strategies to increase student enrolments by increasing the retention of our existing students and the acquisition of new students. We will continuously optimize our product and course offering across each education segment.”

Mr. Sun Dongxu, Co-Chief Executive Officer of Koolearn Technology Holding Limited added, “We expect to establish a strong central platform to enhance our service capability to systematically discover and nurture high-calibre teaching staff for English subject, establish class scheduling and teaching administration, and upgrade marketing efficiency through new logo and branding activities, diversified media channels, integrated marketing resources with result-driven precise marketing analysis. In addition, the acquisition of 49% of Dongfang Youbo will allow us to wholly-own Dongfang Youbo and to receive 100% of the economic benefits from Dongfang Youbo whose business is unique and shows greater momentum. We believe this acquisition will create more synergies for our online K-12 business across education resources, talents and

industry expertise. Look ahead, we are confident to further strengthen our leading position in online education industry.”

FY 2019 Financial Review:

- College education: During the Reporting Period, performance in the college segment continued to grow steadily. Revenue from college education segment increased by 36.5% to RMB631.4 million in FY 2019. Segment gross profit increased by 41.1% to RMB414.5 million in FY 2019, and the gross profit margin increased from 63.5% in FY2018 to 65.6% in FY2019. Student enrolments in the college segment recorded 1.3 million in the Reporting Period, representing an increase of 11.7% over the previous fiscal year. Average spending per enrolment increased from RMB505 to RMB536 during the respective year.
- K-12 education: During the Reporting Period, the Company implemented a series of initiatives to accelerate the expansion of K-12 segment and achieved outstanding operating results in the segment. Revenue from K-12 education segment increased by 80.8% to RMB159.2 million in FY 2019, primarily due to the expansion of DFUB courses and the optimization of the Koolearn K-12 courses. Student enrolments for overall K-12 segment recorded year-on-year growth of 209.2%. More specifically, student enrolments for Koolearn K-12 courses recorded year-on-year growth of 188.3%, and student enrolments for DFUB courses grew year-on-year by 316.1%. The growth in the K-12 during the Reporting Period was largely attributable to the successful execution of the Company’s growth strategies in this segment. In the summer of 2018, the Company introduced an updated version of the “dual-teacher model” which was applied to all of K-12 courses on the Koolearn platform, and strengthened content development and customer services, thus attracting many new student enrolments. Koolearn accelerated the expansion of DFUB business during the Reporting Period and continued to optimize the operations of DFUB courses in each city. As of 31 May 2019, DFUB had entered 63 cities across 15 provinces in China.
- Pre-school education: The Donut English-learning app and Donut live online English classroom courses achieved significant growth during the Reporting Period.. Revenue from pre-school education segment increased by 205.8% to RMB33.4 million in FY 2019, primarily due the optimization of Donut English-learning app.

Other Key Financial Information:

- Adjusted profit decreased to a loss of RMB289,000 in FY 2019, compared with RMB73.6 million in FY 2018.
- EBITDA recorded a loss of RMB122.0 million in FY 2019, compared with RMB40.8 million in FY2018.
- Cash and cash equivalents at the end of FY 2019 recorded RMB2,497.6 million

FY 2019 Business Review:

During the Reporting Period, the Company implemented a series of initiatives to accelerate the expansion of K-12 segment. In the summer of 2018, the Company introduced an updated version of the “dual-teacher model” which was applied to all of the K-12 courses on the Koolearn platform, and strengthened the content development and customer services, thus attracting many new student enrolments.

Also, Koolearn accelerated the expansion of DFUB business during the Reporting Period and continued to optimize the operations of DFUB courses in each city. Koolearn established teaching training center in Wuhan to ensure continuous supply of qualified teachers for DFUB in FY2019. The Company also optimized user experience on DFUB platform by introducing more online features such as parents’ classroom and new students’ classroom. Koolearn deepened cooperation with EEO and other education technology companies to provide students with a better online study experience. As of 31 May 2019, DFUB had entered 63 cities across 15 provinces in China, and the student enrolments for DFUB courses grew year-on-year by 316.1%.

In the college segment, the Company has taken various steps to strengthen its market leading position. The Company continuously enhance the development and portfolio of courses in subjects other than English, Koolearn’s advantaged subject. In the overseas test preparation segment, the Company introduced official

IELTS mock exam products as their official partner and new TOEFL Practice Online courses as the exclusive official partner of TOEFL in FY 2019, and will continue to collaborate closely with the developers of these two important overseas English tests.

Outlook and Strategies for FY 2020:

Going forward, Koolearn will continue its long-term growth strategies to increase student enrollments by increasing the retention of existing students and the acquisition of new students. The Company plans to optimize its product and course offering across each education segment through development and refinement of the content. The Company will continue to invest more in the recruitment, retention, training and promotion of high-calibre teaching, R&D and marketing staff. To achieve this, the Company expect to establish a strong central platform to enhance internal service capability.

In FY 2020, in the college segment, the Company will introduce more high-quality courses aimed at enhancing the efficiency of online test preparation. It will also explore “dual-teacher model” and tailor it for application in preparation courses for graduate school entrance exams. In the overseas test preparation segment, Koolearn introduced official IELTS mock exam products as their official partner and new TOEFL Practice Online courses as the exclusive official partner of TOEFL in FY 2019, and will continue to collaborate closely with the developers of these two important overseas English tests. As a growing number of Chinese students take SAT and GRE outside China, Koolearn will also optimize the SAT and GRE preparation courses to better suit their study needs.

In the K-12 segment, in FY 2020, the Company expects that DFUB will penetrate into more cities and will further customize course content based on materials used by local schools. Koolearn plans to establish teaching training centres in other geographical locations to attract more qualified teachers and provide tailored training programs. For Koolearn K-12 courses, the Company plans to devote more resources on both product and technological development that will improve the effectiveness and efficiency of online teaching. Koolearn will also enhance its target marketing strategies to lower the average user acquisition cost.

About Koolearn Technology Holding Limited

Koolearn Technology Holding Limited is a leading online extracurricular education service provider in China, with a comprehensive portfolio of well-recognised brands and core expertise in after-school tutoring and test preparation. The Company is the largest comprehensive online after-school tutoring and test preparation service provider in China in 2017 in terms of revenue, according to Frost and Sullivan. Its business was established in 2005 by New Oriental, a pioneer in China’s private education industry with over two decades of experience. Leveraging New Oriental’s extensive experience, it offers a wide spectrum of high quality courses and programmes in three core segments, namely college, K-12, and pre-school online education segments, providing a superior online learning experience to the students. Its mission is to become a lifelong learning partner, empowering students to achieve their full potential. Since its inception, it has established a portfolio of well-recognised online education brands known for high-quality courses and content. Koolearn, its flagship brand, is the largest online education brand in the college test preparation market in China, with a market share of 8.2% in 2017 in terms of revenue, according to Frost and Sullivan. Its innovative courses under DFUB and Donut brands continue to gain recognition among K-12 and pre-school students and their parents, respectively.

Additional information about the Company is available at www.koolearn.hk.

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Non-IFRS measures

To supplement our financial information presented in accordance with International Financial Reporting Standards ("IFRS"), we also use adjusted profit (loss) and EBITDA as non-IFRS measures, which are not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitate comparison of operating performance from period to period by eliminating potential impacts of items that our management do not consider to be indicative of operating performance. We also believe these measure provide useful information to investors and others in understanding and evaluating our consolidated statements of profit or loss in the same manner as they have assisted our management. Please note, however, our presentation of EBITDA may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our consolidated statements of profit or loss or financial condition as reported under IFRS.

We define EBITDA as (loss) profit for the FY plus income tax (credit) expenses, listing expenses share-based compensation expenses and depreciation of property and equipment less other income, gains and losses and (impairment losses, net of reversal) reversal of impairment losses, net of impairment on trade receivables for the FY.

Appendix

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MAY 2019

| | <u>2019</u> RMB'000 | <u>2018</u> RMB'000 |
|---|------------------------|------------------------|
| Revenue | 918,911 | 650,457 |
| Cost of revenue | <u>(412,502)</u> | <u>(252,531)</u> |
| Gross profit | 506,409 | 397,926 |
| Other income, gains and losses | 142,728 | 72,739 |
| (Impairment losses, net of reversal) reversal of impairment losses, net of impairment on trade receivable | (880) | 566 |
| Selling and marketing expenses | (443,930) | (223,978) |
| Research and development expenses | (147,520) | (100,392) |
| Administrative expenses | (103,373) | (40,466) |

| | | |
|-------------------------------|----------|----------|
| Listing expenses | (31,525) | (15,453) |
| Share of result of associates | 3,111 | 2,008 |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME -
continued

FOR THE YEAR ENDED 31 MAY 2019

| | 2019 RMB'000 | 2018 RMB'000 |
|---|------------------------|----------------------|
| Share of result of a joint venture | <u>-</u> | <u>(271)</u> |
| (Loss) profit before tax | (74,980) | 92,679 |
| Income tax credit (expense) | <u>10,871</u> | <u>(10,653)</u> |
| (Loss) profit for the year | <u><u>(64,109)</u></u> | <u><u>82,026</u></u> |
| (Loss) profit and total comprehensive (expense) income for the year attributable to: | | |
| Owners of the Company | (39,773) | 91,375 |
| Non-controlling interests | <u>(24,336)</u> | <u>(9,349)</u> |
| | <u><u>(64,109)</u></u> | <u><u>82,026</u></u> |
| (Loss) earnings per share | | |
| - Basic and diluted (RMB) | <u><u>(0.06)</u></u> | <u><u>0.10</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MAY 2019

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Non-current Assets | | |
| Property and equipment | 29,548 | 20,713 |
| Interests in associates | 84,025 | 66,855 |
| Long-term investments designated as fair value through profit or loss | - | 124,929 |
| Financial assets at fair value through profit or loss | 146,855 | - |
| Deferred tax assets | 27,591 | 5,224 |

| | | |
|--|--------------|--------------|
| Deposits for acquisition of property and equipment | <u>5,757</u> | <u>3,113</u> |
| | 293,776 | 220,834 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued
AT 31 MAY 2019

| | 2019 RMB'000 | 2018 RMB'000 |
|---|------------------|------------------|
| Current Assets | | |
| Trade and other receivables | 35,478 | 33,426 |
| Prepayments | 81,870 | 69,214 |
| Available-for-sale investments | - | 380,000 |
| Financial assets at fair value through profit or loss | 352,943 | - |
| Income tax recoverable | 6,905 | 7,648 |
| Bank balances and cash | <u>2,497,621</u> | <u>709,448</u> |
| | <u>2,974,817</u> | <u>1,199,736</u> |
| Current Liabilities | | |
| Contract liabilities | 400,928 | 333,421 |
| Refund liabilities | 19,414 | 9,272 |
| Trade payables | 41,541 | 29,067 |
| Accrued expenses and other payables | 219,645 | 158,730 |
| Income tax payables | <u>428</u> | <u>846</u> |
| | <u>681,956</u> | <u>531,336</u> |
| Net current assets | <u>2,292,861</u> | <u>668,400</u> |
| Total assets less current liabilities | <u>2,586,637</u> | <u>889,234</u> |
| Non-current Liabilities | | |
| Deferred tax liabilities | <u>16,530</u> | <u>11,049</u> |
| Net assets | <u>2,570,107</u> | <u>878,185</u> |
| Capital and Reserves | | |

| | | |
|---------------|------------------|----------------|
| Share capital | 120 | 73 |
| Reserves | <u>2,601,466</u> | <u>885,255</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued

AT 31 MAY 2019

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-------------------------|-----------------------|
| Equity attributable to owners of the Company | 2,601,586 | 885,328 |
| Non-controlling interests | <u>(31,479)</u> | <u>(7,143)</u> |
| Total Equity | <u><u>2,570,107</u></u> | <u><u>878,185</u></u> |

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MAY 2019

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Net cash (used in) generated from operating activities | (24,711) | 149,449 |
| Net cash generated from investing activities | 15,880 | 508,724 |
| Net cash generated from financing activities | 1,702,448 | 5,547 |
| Net increase in cash and cash equivalents | 1,693,617 | 663,720 |
| Cash and cash equivalents at 1 June | 709,448 | 42,376 |
| Effect of exchange rate changes | 94,556 | 3,352 |
| Cash and cash equivalents at 31 May | 2,497,621 | 709,448 |

RECONCILIATIONS OF IFRS TO NON-IFRS RESULTS
FOR THE YEAR ENDED 31 MAY 2019

| | 2019 RMB'000 | 2018 RMB'000 |
|---|------------------|-----------------|
| Reconciliation of net (loss) profit to adjusted (loss) profit | | |
| (Loss) profit for the FY | (64,109) | 82,026 |
| Less: | | |
| Gain on disposal of a joint venture | - | 469 |
| Gain on fair value changes of long term investments designated as fair value through profit or loss | - | 23,426 |
| Gain on fair value changes of financial assets at FVTPL | 21,926 | - |
| Add: | | |
| Listing expenses | 31,525 | 15,453 |
| Share-based compensation expenses | 54,221 | - |
| Adjusted (loss) profit for the year | (289) | 73,584 |
| | <hr/> | <hr/> |
| Reconciliation of profit (loss) for the FY to EBITDA | | |
| (Loss) profit for the FY | (64,109) | 82,026 |
| Add: | | |
| Income tax credit (expense) | (10,871) | 10,653 |
| Listing expenses | 31,525 | 15,453 |
| Share-based compensation expenses | 54,221 | - |
| Depreciation of property and equipment | 9,050 | 5,949 |
| Less: | | |
| Other income, gains and losses | 142,728 | 72,739 |
| Impairment losses, net of reversal (reversal of impairment losses, net of impairment) on trade receivables | (880) | 566 |
| EBITDA | (122,032) | 40,776 |