

[For immediate release]



KOOLEARN TECHNOLOGY HOLDING LIMITED

新東方在綫科技控股有限公司

FY2020 INTERIM RESULTS ANNOUNCEMENT

Steady Growth in Net Revenue and Student Enrolments

20 Jan 2020, Hong Kong **Koolearn Technology Holding Limited** (“Koolearn” or the “Company”, together with its subsidiaries, the “Group”, stock code: **1797.HK**) today announced the unaudited consolidated results for the six months ended 30 November 2019 (“Reporting Period”).

Key Financial Highlights:

- Total net revenues increased by 18.8% to RMB567.6 million in the Reporting Period from RMB478.0 million over the previous fiscal period.
- Gross profit increased by 12.8% to RMB317.1 million in the Reporting Period.
- Gross profit margin decreased to 55.9% in the Reporting Period from 58.8% over the previous fiscal period, primarily due to the expansion in K-12 segment.
- Profit for the period decreased by 341.9% from RMB36.2 million in the six months ended 30 November 2018 to a loss of RMB87.5 million in the Reporting Period, primarily due to the Company’s rapid business expansion and product optimization.

Key Operation Highlights:

- Total student enrollment increased by 19.3% period-on-period from 1.1 million to 1.3 million.
- The student enrolment in K-12 segment recorded period-on-period growth of 158.6%. More specifically, the student enrollment in DFUB courses recorded period-on-period growth of 186.2%.
- The average spending per enrolment relatively stabilized at RMB425, among which the average spending per enrolment in formal courses of college education segment increased period-on-period by 56.5% to RMB1,128; and that of K-12 education increased period-on-period by 7.7% to RMB1,040

Mr. Minhong Yu, Chairman of Koolearn Technology Holding Limited emphasized: “We will persistently execute our long-term growth strategy. More investment will be made to the strategically deployed key sectors to launch first-class course products and services. With better integration of education and technology, we provide high-quality experiences for users. We believe it will keep on attracting new customers and raising customers’ stickiness which further enhance our pricing ability. We are confident to consolidate our leading position in the online education industry.”

Mr. Dongxu Sun, Chief Executive Officer of Koolearn Technology Holding Limited, said: “During the Reporting Period, our business in college, K-12 and pre-school education has steadily grown, especially the K-12 sector. This year, we acquired the remaining 49% equity interest in DFUB, which as our wholly-owned subsidiaries has generated great synergy effect and brought rich resources to the expansion of K-12 segment. Moreover, it strengthened our leading position in the domestic K-12 market. During the Reporting Period, DFUB has entered 65 cities and in the future, DFUB will continually expand to more cities with adaptive course content suit to local conditions and combine with offline marketing channels to attract more user. Furthermore, we streamlined our product line in the sectors of college

education and pre-school education to maintain a more concentrated product combinations and clearer development strategies. Next step, we will constantly establish a strong central platform to enhance our internal service ability, systematically discover and nurture high-calibre teaching staff, and improve marketing efficiency through precision marketing, in an effort to maintain steady and healthy growth in all three business segment.

Financial Overview:

- College education: During the Reporting Period, the Group further adjusted the product combination. Benefited from the optimization of cost and product structure, college education will maintain sustainable and stable development in medium-to-long-term. During the Reporting Period, revenue from college education recorded RMB361.4 million, representing a period-on-period growth of 5.5%. The average spending per enrolment in formal courses increased from RMB723 to RMB 1,128.
- K-12 Education: During the Reporting Period, benefited from the successful execution of the growth strategies, K-12 education segment recorded an impressive growth. The revenue from K-12 education segment increased period-on-period by 69.4% primarily due to DFUB course expansion and optimization of Koolearn K-12 course. The student enrolment in K-12 education increased period-on-period by 158.6%. Average spending per enrolment in formal courses increased from RMB967 million in the six months ended 30 November 2018 to RMB1,040 in the six months ended 30 November 2019.
- Pre-school education: During the Reporting Period, the Group continually optimized course offerings and strategically focused on Donut English-learning APP. Our net revenue in pre-school education segment recorded a period-on period growth of 72.8%

Other Key Financial News:

- The adjusted loss in the six months ended 30 November 2019 is RMB56.3 million while adjusted profit in the six months ended 30 November 2018 is RMB31.4 million.
- The EBITDA in the six months ended 30 November 2019 recorded RMB108.8 million of loss while EBITDA in the six months ended 30 November 2018 is RMB33.9 million of loss.
- The balance of cash and cash equivalents and term deposits of the Reporting Period is RMB716.5 million and 1757.5 million.

Business Overview:

During the Reporting Period, as the college education is the Company's core segment, the company further optimized its product structure which adjusted and improved the product system. The strategy focused on higher-priced college test preparation and overseas test preparation businesses. The success of strategy execution led to the increase in the average spending per enrolment from RMB723 in the six months ended 30 November 2018 to RMB1,128 in the six months ended 30 November 2019.

During the Reporting Period, the Company continued to implement a series of initiatives to accelerate the expansion of the K-12 segment and achieved outstanding operating results in the K-12 segment. The student enrolment in K-12 education increased period-on-period by 158.6%. Among which the Koolearn K-12 course was comprehensively upgraded in accordance with education platforms and course experiences. The Company continued to invest more in teaching, teaching assistants, course research and teaching training system, on the other hand, strengthen its target marketing strategies to improve marketing efficiency and attract a large number of new students. Thus, the student enrolment in Reporting Period increased period-on-period by 157.5%. Moreover, the Company continually optimized the operation of DFUB in each city to enhance its expansion. As of 30 November 2019, DFUB entered an additional 65 cities bringing it to a total of 128 cities covered 23 provinces. As DFUB continues to develop through further enhancing effective operational management strategy and quantity in teacher training ability, student enrolment maintain rapid growth. The student enrolment of DFUB increased period-on-period by 186.2%.

In the pre-school education segment, the Company strategically concentrated on the Donut English-learning APP. During the Reporting Period, the Company readjusted and optimized the product structure which it invested more resources into the renovation of Donut English-learning APP in order to lay the groundwork of future's products and services. The revenue in pre-school education increased period-on-period by 72.8%.

Future Prospects and Strategy:

Looking forward, Koolearn will continue their long-term growth strategies to increase student enrolment through increasing the retention of our existing students and the acquisition of new students. The Company plans to optimize products and course offerings across each education segment through research development and content completion. The Company will constantly invest more resources in recruiting, retaining, training, promoting high-caliber teaching, course research and marketing staff. To achieve this, the Company expects to establish a strong central platform to enhance the internal service ability.

The K-12 education sector has significant growth potentials. As the Company's wholly-owned subsidiaries DFUB has become the core growth segment in the business which strengthen the influence of the Group in China's K-12 education market. During the Reporting Period, DFUB entered 65 cities and for the remaining of 2020, DFUB will expand to more cities through diversified offline marketing channels and design adaptive course content according to the teaching materials used by the local school. For the Koolearn K-12 education, the Group plans to invest more resources into product and technology research and development to improve the effectiveness and efficiency of online teaching and will also improve its target marketing strategies.

For the remainder of FY2020, the Company will be concentrated on key sectors and key customers in the college sector to strengthen its market leading position. With product lines adjusted to be more focused, the Company expects to invest more in domestic test preparation and overseas test preparation courses. In response to the booming demands for new technology and new content, the Company will accelerate development progress and upgrade the portfolio of courses by adding more live steaming content and interactive modules. The Company intends to continue introducing more high-quality courses with the aim of enhancing efficiency for students. The Company will also continuously explore the "dual-teacher model" and further apply it to course series for graduate school entrance exams. As a growing number of Chinese students take SAT and GRE outside China, Koolearn will also continue optimizing the SAT and GRE preparation courses to better meet students' study needs.

About KOOLEARN TECHNOLOGY HOLDING LIMITED

KOOLEARN TECHNOLOGY HOLDING LIMITED is a leading online provider of extracurricular education services in China with a comprehensive portfolio of well-recognized brands known for high-quality courses and content, with core expertise in online after-school tutoring and test preparation. According to the Frost & Sullivan Report, the Company is the largest comprehensive online after-school tutoring and test preparation service provider in China in 2017 in terms of revenue. The Group was founded with New Oriental since 2005. New Oriental has more than 26 years of experiences as the pioneer of China's private education industry. The Group provides courses and products through different online platforms and mobile applications in multiple formats across three core segments, namely college education, K-12 education and pre-school education segments. The Group strives to become a lifelong learning partner, empowering students to achieve their full potential. The group has established a portfolio of well-known online education brands which known for quality courses and content. Koolearn, the group's 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 & Sullivan. Moreover, the innovative courses under DFUB and Donut brands continue to gain recognition among K-12 and pre-school students and their parents, respectively.

For more information about the company, please visit www.koolearn.hk

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Non-IFRS measures

To supplement the financial information that is prepared and present in accordance with IFRS, we have used “adjusted (loss) profit” and EBITDA as non-IFRS measures, which are not required by, or presented in accordance with IFRS.

We define “adjusted (loss) profit” (or “Adjusted Net (Loss) Profit”) as the (loss) profit for the period less gain on changes in fair value of financial assets at FVTPL plus listing expenses and share-based compensation for that period. We have defined EBITDA as (loss) profit for the six months ended plus income tax (credit) expenses, listing expenses, share-based compensation expenses, finance costs, depreciation of property and equipment and depreciation of right-of-use assets less other income, gains and losses and impairment losses under expected credit loss model, net of reversal for the period. The change of finance costs and depreciation of right-of-use assets, in the reconciliation and consequently, the change in the definition of our EBITDA, was due to our application of IFRS16 on 1 June 2019.

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 our operating performance. We also believe that these measures provide useful information to potential investors and shareholders of our Company (“Shareholder”) in understanding and evaluating our consolidated statements of profit or loss in the same manner as they have assisted our management. Please note, however, that our presentation of Adjusted Net Profit (Loss) or EBITDA may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and you should not consider these figures in isolation from, or as substitute for, our consolidated statements of profit or loss or financial condition as reported under IFRS.

Appendix:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 November 2019

	Six months ended 30 November	
	2019	2018
	RMB'000	RMB'000
	(unaudited	(audited
))
Revenue	567,641	477,969
Cost of revenue	<u>(250,535)</u>	<u>(196,759)</u>
Gross profit	317,106	281,210
Other income, gains and losses	88,754	89,220
Impairment losses under expected credit loss model, net of reversal	(209)	(670)
Selling and marketing expenses	(291,553)	(232,575)
Research and development expenses	(128,883)	(61,653)
Administrative expenses	(78,797)	(28,427)
Listing expenses	—	(14,925)
Share of result of associates	3,274	3,588
Finance costs	<u>(4,555)</u>	<u>—</u>
(Loss) profit before tax	(94,863)	35,768
Income tax credit	<u>7,347</u>	<u>417</u>
(Loss) profit for the period	(87,516)	36,185
Other comprehensive income item that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of foreign operations	<u>124</u>	<u>—</u>
Total comprehensive (expense) income for the period	<u><u>(87,392)</u></u>	<u><u>36,185</u></u>
(Loss) profit for the period attributable to:		
Owners of the Company	(71,282)	48,912
Non-controlling interests	<u>(16,234)</u>	<u>(12,727)</u>
	<u><u>(87,516)</u></u>	<u><u>36,185</u></u>
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(71,158)	48,912
Non-controlling interests	<u>(16,234)</u>	<u>(12,727)</u>
	<u><u>(87,392)</u></u>	<u><u>36,185</u></u>
(Loss) earnings per share		
- Basic and diluted (RMB)	<u><u>(0.08)</u></u>	<u><u>0.07</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 November 2019

	As at 30 November 2019 RMB'000 (unaudited)	As at 31 May 2019 RMB'000 (audited)
Non-current Assets		
Property and equipment	33,340	29,548
Right-of-use assets	251,310	—
Interests in associates	87,560	84,025
Financial assets at fair value through profit or loss	146,869	146,855
Deferred tax assets	34,942	27,591
Deposits for acquisition of property and equipment	26,535	5,757
Refundable rental deposits	12,289	—
	<u>592,845</u>	<u>293,776</u>
Current Assets		
Trade and other receivables	67,378	35,478
Prepayments	53,117	81,870
Financial assets at fair value through profit or loss	210,486	352,943
Income tax recoverable	6,905	6,905
Term deposits	1,757,450	—
Bank balances and cash	716,531	2,497,621
	<u>2,811,867</u>	<u>2,974,817</u>
Current Liabilities		
Lease liabilities	56,780	—
Contract liabilities	388,617	400,928
Refund liabilities	26,863	19,414
Trade payables	36,300	41,541
Accrued expenses and other payables	258,296	219,645
Income tax payables	428	428
	<u>767,284</u>	<u>681,956</u>
Net current assets	<u>2,044,583</u>	<u>2,292,861</u>
Total assets less current liabilities	<u>2,637,428</u>	<u>2,586,637</u>
Capital and Reserves		
Share capital	120	120
Reserves	2,436,777	2,601,466
Equity attributable to owners of the Company	2,436,897	2,601,586
Non-controlling interests	—	(31,479)
Total Equity	<u>2,436,897</u>	<u>2,570,107</u>
Non-current Liabilities		
Deferred tax liabilities	16,534	16,530
Lease liabilities	183,997	—
	<u>200,531</u>	<u>16,530</u>
	<u>2,637,428</u>	<u>2,586,637</u>

RECONCILIATIONS OF IFRS TO NON-IFRS RESULTS
As at 30 November 2019

	Six months ended 30 November 2019 RMB'000	Six months ended 30 November 2018 RMB'000
Reconciliation of net (loss) profit to Adjusted Net (Loss) Profit:		
Gross (Loss) profit for the period	(87,516)	36,185
Less:		
Gain on fair value changes of financial assets at FVTPL		
— Non-current assets	14	19,677
Add:		
Listing expenses	—	14,925
Share-based compensation expenses	31,280	—
Adjusted Net (Loss) Profit	(56,250)	31,433
Reconciliation of (loss) profit for the period to EBITDA		
Gross (Loss) profit for the period	(87,516)	36,185
Add:		
Income tax (credit) expenses	(7,347)	(417)
Listing expenses	—	14,925
Share-based compensation expenses	31,280	—
Finance costs	4,555	—
Depreciation of property and equipment	6,200	3,980
Depreciation of right-of-use assets	32,544	—
Less:		
Other income, gain and losses	88,754	89,220
Impairment losses under expected credit loss model, net of reversal	(209)	(670)
EBITDA	(108,829)	(33,877)