



KOOLEARN TECHNOLOGY HOLDING LIMITED
新東方在線科技控股有限公司

FY2020 ANNUAL RESULTS ANNOUNCEMENT

**Stable Growth in Net Revenue and Accelerated Growth in Total Student Enrolments
Student Enrolments in K-12 Education Segment Increased by 224.5% Year-on-Year
with Rapid Expansion**

21 Aug 2020, Hong Kong, **Koolearn Technology Holding Limited** (“**Koolearn**” or the “**Company**”, together with its subsidiaries, the “**Group**”, stock code: **1797.HK**) today announced the consolidated results for the year ended 31 May 2020 (“**Reporting Period**”).

Key Financial and Operation Highlights:

- Total net revenues increased by 17.6% to RMB1,080.6 million for FY 2020 from RMB918.9 million for FY 2019. Total student enrolment increased by 30.9% year-on-year from 2.2 million to 2.9 million.
 - In the college education segment, net revenue recorded RMB641.7 million, representing a year-on-year growth of 1.6% due to optimization in product lines.
 - In the K-12 education segment, net revenue and student enrolments recorded a year-on-year growth of 85.4% and 224.5%, respectively. More specifically, the student enrolments for Koolearn K-12 courses recorded a year-on-year growth of 269.4%, while the student enrolments for DFUB courses grew year-on-year by 184.2%.
 - In the pre-school education segment, the operational focus was changed to Donut English-learning APP and the business structure was optimized, leading to an improvement in the gross profit margin from -0.9% in FY 2019 to 28.3% in FY 2020.
- Gross profit margin decreased to 45.6% for FY 2020 from 55.1% for FY 2019, primarily due to the expansion in K-12 education segment, and the provision of free courses during the COVID-19 outbreak in the second half of FY 2020.
- Loss for the period increased to RMB 758.2 million for FY 2020 from RMB64.1 million for FY 2019.

Mr. Minhong Yu, Chairman of Koolearn Technology Holding Limited emphasized: “FY 2020 has been a difficult and uncommon period for many industries in China and around the world. The COVID-19 pandemic has resulted in decrease in the number of students participating in overseas test preparation courses due to the suspension of oversea examinations and exchange programs and changes of students’ school time, while significantly increasing demand for online educational services. These factors have brought significant huge challenges to, but also unique opportunities in, the online education industry. We will continue our long-term growth strategies to increase student acquisition and geographical presence across China. To achieve this, we will remain committed to hiring, training and retaining high-calibre teaching, course research, marketing, technology professionals, which is the key to our core competitiveness. We are confident of further strengthening our leading position in the online education industry.”

Mr. Dongxu Sun, Chief Executive Officer of Koolearn Technology Holding Limited, said: “Koolearn, as the leading comprehensive online educational services provider, in face of such a severe pandemic, the first thing that comes across our mind is the safety of our students and our social responsibility to the communities we serve. We proactively offered free courses to a significant number of new students of all grades and all subjects. These initiatives have increased our cost of revenue and caused us to further invest in underlying infrastructure and human resources. However, it has also provided us with a unique opportunity to introduce our course offerings and services to a greater number of students in a number of new cities (including third-tier and fourth-tier cities) and

allowed us to accelerate the maturity of new products. During the Reporting Period, our net revenue recorded a steady growth especially in the K-12 education segment, we significantly increased our investment in course content and technology, which successfully raised our brand awareness in this highly competitive market. Net revenue and our student enrolments in the K-12 segment recorded a year-on-year growth of 85.4% and 224.5%, respectively. Furthermore, as at 31 May 2020, DFUB had entered into 172 cities across 24 provinces in China. In the future, we will continue to strengthen our 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 major business segment.”

Financial Overview:

- College education: During the Reporting Period, revenue increased by 1.6% from RMB631.4 million in FY 2019 to RMB641.7 million in FY 2020, driven primarily by an increase in revenue from college test preparation and revenue from overseas test preparation, which increased by 23.7% and 1.6% year-on-year, respectively. Segment gross profit for college education business increased by 5.1% from RMB414.5 million in FY 2019 to RMB435.7 million in FY 2020, and the segment profit margin increased from 65.6% in FY 2019 to 67.9% in FY 2020. Due to the Company’s restructuring and upgrading of certain products, student enrolment in the college education segment decreased from 1.3 million in FY 2019 to 0.9 million in FY 2020.
- K-12 education: During the Reporting Period, revenue increased by 85.4% from RMB159.2 million in FY 2019 to RMB295.1 million in FY 2020. As DFUB courses continued to evolve and expand into more geographical cities and areas, the Company simultaneously launched offline promotional campaigns in cities where users were aware of the brand to further improve user awareness and retention. Student enrolments in the K-12 segment increased from 572 thousand in FY 2019 to 1,856 thousand in FY 2020.
- Pre-school education: Revenue from our pre-school education segment decreased by 10.1% from RMB33.4 million in FY 2019 to RMB30.0 million in FY 2020, primarily due to optimizing and upgrading of our Donut English-learning app, where average spending per enrolment in formal courses increased from RMB105 in FY 2019 to RMB161 in FY 2020, and the closing down of live English courses for Donut online classroom.

Other Key Financial News:

- The adjusted loss for FY 2020 is RMB658.0 million while adjusted loss for FY 2019 is RMB0.29 million.
- The LBITDA for FY 2020 recorded RMB673.8 million of loss while LBITDA for FY 2019 recorded RMB122.0 million of loss.
- The balance of cash and cash equivalents for FY 2020 is RMB 480.3million. The term deposits for FY 2020 is about RMB 1.5 billion. The Financial assets at FVTPL- Wealth management products for FY 2020 is RMB 277.8 million.

Business Overview:

During the Reporting Period, the Company followed its long-term growth corporate strategy and made notable progress in all business segments. Despite revenue performance being affected in the second half of FY 2020 due to the outbreak of COVID-19, the Company implemented proactive measures such as providing free course offerings and services to a large number of students of all grades and all subjects across China, the total number of student enrolments increased significantly from 2.2 million in FY 2019 to 2.9 million in FY 2020.

In college education segment, the Company optimised product lines and recorded RMB641.7 million in net revenue, representing a year-on-year growth of 1.6%. The Company further improved the product structure and concentrated on higher-priced college test preparation and overseas test preparation businesses, which increased the average spending per enrolment in formal courses from RMB715 for FY 2019 to RMB1,222 over the Reporting Period.

The Company made substantial progress in its K-12 expansion plan. The plan focused on three key aspects, namely: (i) upgrading the technological infrastructure; (ii) improving the online products and

content; and (iii) recruiting and training teaching personnel. The successful implementation of these new initiatives has helped the Company to achieve impressive operational results in its K-12 segment. The total student enrolments for K-12 segment recorded a year-on-year growth of 224.5%. More specifically, the student enrolments for Koolearn K-12 courses recorded a year-on-year growth of 269.4%, while the student enrolments for DFUB courses grew year-on-year by 184.2%. Additionally, the growth in the K-12 education segment during the Reporting Period was largely attributed to the wider exposure of the Company's K-12 course offerings to students across China. Due to the COVID-19 pandemic, the Company announced a donation of free spring semester courses to alleviate the impact caused by the suspension of offline schools and physical learning centres, particularly for students in Wuhan and other highly impacted cities. During the Reporting Period, the Company also accelerated the expansion of its DFUB business and continued to optimise the operations of DFUB courses in each city. As at 31 May 2020, DFUB had entered into 172 cities across 24 provinces in China.

In pre-school education segment, the Company adjusted the product line in the Donut live online English classroom courses and focused on the integration and optimisation of Donut APP, which resulted in a decrease in student enrolment.

Future Prospects and Strategy:

Looking forward, Koolearn will continue its long-term growth strategies to increase student acquisition and geographical presence across China. To achieve this, the Company will remain committed to hiring, training and retaining high-calibre teaching, course research, marketing, technology professionals, which is the key to its core competitiveness. The Company will continue to make strategic investments in developing innovative and efficient central backing platform to support the growth of front-end business expansion. Because of the Company's continuous investment in strengthening technological infrastructure to drive the enhancement of our products and services, increasingly more students have tried its courses and retained on the platform. More notably, its newly-developed ECCP system has been witnessing rapid progress and supporting millions of students' study during Covid-19. Furthermore, the Company is always balanced on the scale expansion and the efficiency and efficacy of its investments. For example, it will continue to exert efforts on refining standard operating procedures and intelligent management system to enhance operational efficiency. Such measures will enable the Company to concentrate its core resources on main businesses and products and promote the development of a healthy business model.

K-12 education is the Company's strategic focus and long-term growth driver. On the consumer front, owing to the early, forceful expansion into lower-tier cities through Dongfang Youbo, the Company currently enjoy a significant first-mover advantage and stand to benefit from the ongoing trend that demand in lower-tier cities continues to boost alongside the rising levels of consumption. DFUB business have been present in an aggregate of 172 cities nationwide by the end of FY2020. While DFUB is expected to expand its footprint even deeper into county-level cities, it will further deepen customer operation in existing local cities. With respect to the Koolearn K-12 courses, the Company focus on continuously upgrading the APP and online platform. Through introducing new education technologies and adding more new features to online classes, it will be able to offer the best-in-class learning experience. The Company have also continued its plan to establish teaching training centers in other geographical locations to attract more qualified teachers and tutors and provide systematic training programs. It will increase investment in diversified high ROI marketing channels and evaluating unit economics in real time, which will in return keep its average user acquisition cost at low level. Attributable to its improvements to operational teams, marketing capabilities as well as positive word-of-mouth, it will continue to acquire new users, while enhance student's retention and conversion.

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 27 years of experiences as the pioneer of China's private education industry. Leveraging New Oriental's extensive experience, we offer

a wide spectrum of high quality courses and programmes in three core segments, namely our college, K-12, and pre-school online education segments, providing a superior online learning experience to our students. 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" and LBITDA as non-IFRS measures, which are not required by, or presented in accordance with IFRS.

We define "adjusted loss" as the loss for the year less gain on fair value changes of financial assets at fair value through profit or loss ("FVTPL") plus net loss on disposal and deemed disposal of associates, listing expenses, other expenses and share-based compensation expenses for the FY. We have defined LBITDA as loss for the year plus income tax expenses (credit), listing expenses, other expenses, share-based compensation expenses, finance costs, impairment losses under expected credit loss model, net of reversal, depreciation of property and equipment and depreciation of right-of-use assets less other income, gains and losses for the FY. The change of finance costs and depreciation of right-of-use assets, in the reconciliation and consequently, the change in the definition of our LBITDA, 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 Loss or LBITDA 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 YEAR ENDED 31 MAY 2020**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	1,080,587	918,911
Cost of revenue	<u>(587,501)</u>	<u>(412,502)</u>
Gross profit	493,086	506,409
Other income, gains and losses	195,653	142,728
Impairment losses under expected credit loss model, net of reversal	(1,566)	(880)
Selling and marketing expenses	(872,293)	(443,930)
Research and development expenses	(317,286)	(147,520)
Administrative expenses	(184,692)	(103,373)
Listing expenses	—	(31,525)
Other expenses	(15,981)	—
Share of results of associates	(1,796)	3,111
Finance costs	<u>(10,576)</u>	<u>—</u>
Loss before tax	(715,451)	(74,980)
Income tax (expense) credit	<u>(42,788)</u>	<u>10,871</u>
Loss for the year	<u>(758,239)</u>	<u>(64,109)</u>
Other comprehensive income:		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation of foreign operations	<u>220</u>	<u>—</u>
Total comprehensive expense for the year	<u>(758,019)</u>	<u>(64,109)</u>
Loss for the year attributable to:		
Owners of the Company	(742,005)	(39,773)
Non-controlling interests	<u>(16,234)</u>	<u>(24,336)</u>
	<u>(758,239)</u>	<u>(64,109)</u>
Total comprehensive expense for the year attributable to:		
Owners of the Company	(741,785)	(39,773)
Non-controlling interests	<u>(16,234)</u>	<u>(24,336)</u>
	<u>(758,019)</u>	<u>(64,109)</u>
Loss per share		
- Basic and diluted (RMB)	<u>(0.79)</u>	<u>(0.06)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT THE END OF FY 2020

	At 31 May 2020 RMB'000	2019 RMB'000
Non-current Assets		
Property and equipment	81,676	29,548
Right-of-use assets	331,122	—
Interests in associates	82,458	84,025
Financial assets at fair value through profit or loss	183,328	146,855
Deferred tax assets	—	27,591
Deposits for acquisition of property and equipment	13,852	5,757
Refundable rental deposits	15,396	—
	<u>707,832</u>	<u>293,776</u>
Current Assets		
Trade and other receivables	41,993	35,478
Prepayments	70,838	81,870
Financial assets at fair value through profit or loss	277,800	352,943
Income tax recoverable	—	6,905
Term deposits	1,470,530	—
Bank balances and cash	480,251	2,497,621
	<u>2,341,412</u>	<u>2,974,817</u>
Current Liabilities		
Lease liabilities	77,263	—
Contract liabilities	420,103	400,928
Refund liabilities	36,491	19,414
Trade payables	34,067	41,541
Accrued expenses and other payables	343,752	219,645
Income tax payables	—	428
	<u>911,676</u>	<u>681,956</u>
Net current assets	<u>1,429,736</u>	<u>2,292,861</u>
Total assets less current liabilities	<u>2,137,568</u>	<u>2,586,637</u>
Capital and Reserves		
Share capital	120	120
Reserves	1,863,580	2,601,466
	<u>1,863,700</u>	<u>2,601,586</u>
Equity attributable to owners of the Company	1,863,700	2,601,586
Non-controlling interests	—	(31,479)
Total Equity	<u>1,863,700</u>	<u>2,570,107</u>
Non-current Liabilities		
Deferred tax liabilities	25,648	16,530
Lease liabilities	248,220	—
	<u>273,868</u>	<u>16,530</u>
Net assets	<u>1,863,700</u>	<u>2,570,107</u>

LOSS FOR THE YEAR TO ADJUSTED LOSS AND LBITDA

	FY 2020 RMB'000 (unaudited)	FY 2019 <i>RMB'000</i> (unaudited)
Reconciliation of net loss to adjusted loss:		
Loss for the year	(758,239)	(64,109)
Less:		
Gain on fair value changes of financial assets at FVTPL — non-current assets	36,473	21,926
Add:		
Net loss on disposal and deemed disposal of associates	213	—
Listing expenses	—	31,525
Other expenses	15,981	—
Share-based compensation expenses	120,496	54,221
Adjusted loss for the year	(658,022)	(289)
Reconciliation of loss for the year to LBITDA		
Loss for the year	(758,239)	(64,109)
Add:		
Income tax expenses(credit)	42,788	(10,871)
Listing expenses	—	31,525
Other expenses	15,981	—
Share-based compensation expenses	120,496	54,221
Finance costs	10,576	—
Impairment losses under expected credit loss model, net of reversal	1,566	880
Depreciation of right-of-use assets	73,337	—
Depreciation of property and equipment	15,384	9,050
Less:		
Other income, gains and losses	195,653	142,728
LBITDA	(673,764)	(122,032)