



KOOLEARN TECHNOLOGY HOLDING LIMITED

新東方在線科技控股有限公司

FY2021 ANNUAL RESULTS ANNOUNCEMENT

**Total Net Revenue Increased by 31.3% Year-on-Year to RMB1.4 Billion
Continually and Actively Adjusting the Business Strategy**

27 August 2021, 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 2021 (“Financial Year” or the “Reporting Period”).

Key Financial Highlights:

- Total Net Revenue increased by 31.3% to RMB1,418.7 million in the Reporting Period from RMB1,080.6 million over the previous Reporting Period.
 - Revenue from the college education segment reached RMB548.8 million, mainly due to our adjustment in marketing strategy for different product lines in college education segment to optimise advertising expenses, as well as prolonged effects from the cancellation of certain domestic or overseas exams and imposition of travel restrictions since the COVID-19 outbreak.
 - Revenue from the K-12 education segment increased by 166.7% to RMB787.2 million.
- Gross profit decreased to RMB412.2 million in the Reporting Period from RMB493.1 million over the previous Reporting Period. Gross profit margin decreased to 29.1% in the Reporting Period from 45.6% over the previous Reporting Period, primarily due to the development in the K-12 education segment.
- Loss for the period increased to RMB1,658.4 million in the Reporting Period from RMB758.2 million over the previous Reporting Period.

Key Operation Highlights:

- Total student enrolments increased by 36.5% year-on-year to 3.89 million in the Reporting Period.
- Student enrolments in the K-12 education segment increased by 78.6% to 3.32 million in the Reporting Period.
 - Student enrolments for Koolearn K-12 courses recorded year-on-year growth of 66.8%.
 - Student enrolments for DFUB courses grew year-on-year by 102.0%.
- As of 31 May 2021, DFUB had entered into 273 cities across 27 provinces in China.
- For college education segment, the average spending per enrolment in formal courses increased to RMB1,303 in the Reporting Period from RMB1,222 over the previous Reporting Period, as the Company continued to improve product structure, launching new college test preparation and overseas test preparation products and services.

Mr. Minhong Yu, Chairman of Koolearn Technology Holding Limited, said: "Facing the continued impact of COVID-19 pandemic on the global economy and the changing landscape of the education industry around the country this fiscal year, we still insist on creating more value through high-quality education. In addition, we have been developing more innovative, quality-oriented and more holistic

online after-school educational products and services. Leveraging on years of industry experience, we are firmly committed to continually improving students' comprehensive quality of knowledge and life and stimulate our students' interest in learning. So far, we have achieved positive results to date, and will continue to develop as a lifelong learning partner to our customers in the future."

Mr. Dongxu Sun, Chief Executive Officer of Koolearn Technology Holding Limited, said: "In the Reporting Period, our total student enrolments increased by 36.5% year-on-year to 3.89 million and the total net revenue has grown steadily, due to our effective strategic changes and measurements during the COVID-19 pandemic. In FY2021, we will continue to invest in talents, products, services, technology and operation, to realize the strong revenue. For next step, we plan to upgrade our current products, extend our product offering matrix at different price-ranges and durations, and explore new market opportunities, such as the expansion of new categories and the development of online-merge-offline (or OMO) teaching. We will also continue to increase our efforts in exploring and delivering new content, new educational products and services, such as vocational education/non-subject tutoring education, providing more affordable, high quality online educational products and service to our end users, with the aim of creating more value to the industry and society as a whole."

Financial Overview of Each Business Segment:

- **College education:** During the Reporting Period, revenue from the college education segment decreased by 14.5% to RMB548.8 million, student enrolments decreased to 573 thousand from 942 thousand over the previous Reporting Period. The decrease was mainly due to recent changes in product and marketing strategies, as well as the continued negative effects from COVID-19 pandemic on the number of students participating in our domestic and overseas test preparation courses during the Reporting Period. However, the product structure adjustment has yielded results, the average spending per enrolment in formal courses increased to RMB1,303 over the Reporting Period from RMB1,222 in the previous Reporting Period.
- **K-12 education:** During the Reporting Period, revenue from the K-12 education segment increased by 166.7% to RMB787.2 million. Student enrolments in the K-12 education segment increased by 78.6% to 3.32 million. Among them, student enrolments for Koolearn K-12 courses and DFUB courses recorded year-on-year growth of 66.8% and 102.0%, respectively.
- **Pre-school education:** During the Reporting Period, revenue from the pre-school education segment decreased by 73.8% to RMB7.9 million, primarily due to our ceased investment in the live English courses and Donut English-learning APP.

Other Key Financial News:

- The adjusted loss in the Reporting Period is RMB1,322.6 million, while the adjusted loss is RMB658.0 million in previous Reporting Period.
- The Adjusted LBITDA in the Reporting Period recorded a loss of RMB1,042.2 million, while the Adjusted LBITDA in previous Reporting Period recorded a loss of RMB673.8 million.
- The balance of cash and cash equivalents and term deposits in the Reporting Period is RMB1.5 billion and RMB316.6 million.

Strategic Update and Future Development:

In response to the changing landscape of the education industry in China and around the world, we have been shifting our strategic focus and adjusting our business lines and service offerings, moving away from traditional tutoring subjects and reorienting towards more innovative, quality-oriented and more holistic online after-school educational products and services. During the Reporting Period and over the upcoming years, our strategic operational and business development has shifted and will continue to shift as follows:

College education: we plan to upgrade and extend our product offering matrix at different price-ranges and durations, with our superb high-end product offerings already showing great demand. For example, our pilot VIP Zhitong Che (VIP 直通車), which provides small class teaching, has received positive feedback among students. Our audience and user appeal will be further expanded as we broaden the scope of subjects offered (such as tutoring courses for masters of business administration, or MBA) and introduce more flexible courses of different durations (from one-year courses to courses lasting a few months). In addition to upgrading our existing products, we will explore new market opportunities, such as the expansion of new categories and the development of online-merge-offline (or OMO) teaching.

Overseas test-preparation: going forward, we aim to provide a “one-stop” service for our students to better supplement our well-established course offerings in overseas test-preparation. This would range from helping them research overseas opportunities, to helping them prepare and apply for internships, to offering skills/knowledge/exposure training, to more holistically prepare our students for overseas education at more prestigious schools. This has been, and will continue to be, supported by enhanced technology (such as improving Zhixin to better optimise our intelligent scoring and correction technology for oral and written language practice), our continued partnership with TOEFL and IELTS providers and further strengthening our collaboration with overseas English test providers such as Cambridge Assessment English.

Product/business innovation: based on our “customer-focused” strategy and our deep understanding of the needs of parents and students over the years, we strive to improve not only our product and service offerings, but also our internal system operating procedures to deliver a seamless and enjoyable user experience to our customers. We will continue to increase our efforts in exploring and delivering new content, new educational products and services through greater data intelligence and enhanced technology, such as vocational education/non- subject tutoring education.

Technology: we have continued, and will continue, to introduce more advanced educational technology and optimise the user experience in our live-broadcast classrooms, including extending the angle of a user’s view of the classroom and introducing a “greenscreen” function. We are further gamifying the educational aspects of our products and introducing more interactive functions to better attract and sustain the attention of students throughout the duration of the class (and increase class completion rate). We have enriched the question bank to which students/teachers may access during in-class tests and after-class practice, and through smart data optimisation technology, we will be able to better personalise a student’s user interaction and learning experience. This will be underpinned by our focused efforts in R&D, which will help develop our SaaS (or software as a service) business offerings to further diversify our business/customer base.

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. The Group provides courses and products through different online platforms and mobile applications in multiple formats across different business segments, namely college education and K-12 education segments, etc. 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.

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

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Non-IFRS measures

To supplement our financial information presented in accordance with IFRS, we also use Adjusted Loss for the year and Adjusted LBITDA 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 our operating performance. We also believe these measures 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 Adjusted LBITDA may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures have 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 Adjusted Loss for the year as loss for the year less gain on fair value changes of financial assets at FVTPL plus share-based compensation expenses, impairment for property and equipment, impairment for right-of-use assets, net loss on disposal and deemed disposal of associates and other expenses for the FY. We define Adjusted LBITDA as loss for the year plus income tax expenses (credit), share-based compensation expenses, finance costs, impairment losses under expected credit loss model, net of reversal, depreciation of property and equipment, depreciation of right of- use assets, impairment for property and equipment, impairment for right-of-use assets and other expenses, less other income, gains and losses for the FY.

Appendix:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MAY 2021

	2021	2020
	RMB'000	RMB'000
Revenue	1,418,655	1,080,587
Cost of revenue	<u>(1,006,447)</u>	<u>(587,501)</u>
Gross profit	412,208	493,086
Other income, gains and losses	(86,886)	195,653
Impairment for property and equipment	(62,588)	—
Impairment for right-of-use assets	(16,678)	—
Impairment losses under expected credit loss model, net of reversal	(5,702)	(1,566)
Selling and marketing expenses	(1,188,967)	(872,293)
Research and development expenses	(444,387)	(317,286)
Administrative expenses	(259,081)	(184,692)
Other expenses	—	(15,981)
Share of results of associates	7,788	(1,796)
Finance costs	<u>(15,099)</u>	<u>(10,576)</u>
Loss before tax	(1,659,392)	(715,451)
Income tax credit (expense)	<u>(1,000)</u>	<u>(42,788)</u>
Loss for the year	<u>(1,658,392)</u>	<u>(758,239)</u>
Other comprehensive income		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	<u>—</u>	<u>220</u>
Total comprehensive expense for the year	(1,658,392)	(758,019)
Loss for the year attributable to:		
Owners of the Company	(1,658,392)	(742,005)
Non-controlling interests	<u>—</u>	<u>(16,234)</u>
	<u>(1,658,392)</u>	<u>(758,239)</u>
Total comprehensive expense for the year attributable to:		
Owners of the Company	(1,658,392)	(741,785)
Non-controlling interests	<u>—</u>	<u>(16,234)</u>
	<u>(1,658,392)</u>	<u>(758,019)</u>
Loss per share		
—Basic and diluted (RMB)	<u>(1.72)</u>	<u>(0.79)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT THE END OF FY2021

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Non-current Assets		
Property and equipment	113,552	81,676
Right-of-use assets	302,622	331,122
Interests in associates	90,246	82,458
Financial assets at fair value through profit or loss	207,497	183,328
Deposits for acquisition of property and equipment	4,188	13,852
Refundable rental deposits	20,467	15,396
	<u>738,572</u>	<u>707,832</u>
Current Assets		
Trade and other receivables	30,881	41,993
Prepayments	55,417	70,838
Financial assets at fair value through profit or loss	624,235	277,800
Term deposits	316,649	1,470,530
Bank balances and cash	1,519,564	480,251
	<u>2,546,746</u>	<u>2,341,412</u>
Current Liabilities		
Lease liabilities	104,316	77,263
Contract liabilities	397,461	420,103
Refund liabilities	93,293	36,491
Trade payables	42,909	34,067
Accrued expenses and other payables	404,863	343,752
	<u>1,042,842</u>	<u>911,676</u>
Net Current Assets	<u>1,503,904</u>	<u>1,429,736</u>
Total Assets less Current Liabilities	<u>2,242,476</u>	<u>2,137,568</u>
Capital and Reserves		
Share capital	129	120
Reserves	2,008,743	1,863,580
Total Equity	<u>2,008,872</u>	<u>1,863,700</u>
Non-current Liabilities		
Deferred tax liabilities	24,092	25,648
Lease liabilities	209,512	248,220
	<u>233,604</u>	<u>273,868</u>
Net Assets	<u>2,008,872</u>	<u>1,863,700</u>

LOSS FOR THE YEAR TO ADJUSTED LOSS AND ADJUSTED LBITDA

	FY2021 RMB'000 (unaudited)	FY2020 RMB'000 (unaudited)
Reconciliation of loss for the year to Adjusted Loss for the year:		
Loss for the year	(1,658,392)	(758,239)
Less:		
Gain on fair value changes of financial assets at FVTPL		
— Non-current assets	24,169 ⁽¹⁾	36,473
Add:		
Share-based compensation expenses	280,738	120,496
Impairment for property and equipment	62,588 ⁽²⁾	—
Impairment for right-of-use assets	16,678 ⁽²⁾	—
Net loss on disposal and deemed disposal of associates	—	213
Other expenses	—	15,981
Adjusted Loss for the year	(1,322,557)	(658,022)
 Reconciliation of loss for the year to Adjusted LBITDA		
Loss for the year	(1,658,392)	(758,239)
Add:		
Income tax (credit) expense	(1,000)	42,788
Share-based compensation expenses	280,738	120,496
Finance costs	15,099	10,576
Impairment losses under expected credit loss model, net of reversal	5,702	1,566
Depreciation of property and equipment	45,830	15,384
Depreciation of right-of-use assets	103,659	73,337
Impairment for property and equipment	62,588 ⁽²⁾	—
Impairment for right-of-use assets	16,678 ⁽²⁾	—
Other expenses	—	15,981
Less:		
Other income, gain and losses	(86,886)	195,653
Adjusted LBITDA	(1,042,212)	(673,764)

Note:

- (1) During the Reporting Period, gain on fair value changes of financial assets at FVTPL includes interest income from wealth management products, which is excluded for calculation of Adjusted Loss for the year.
- (2) In FY2021, we recognised an impairment loss of RMB62.6 million against the carrying amount of property and equipment (FY2020: nil) and RMB16.7 million against the carrying amount of right-of-use assets (FY2020: nil), primarily due to changes in the regulatory environment surrounding the online education industry in China and the financial performance of our K-12 education segment.