koolearn
新东方在线

Koolearn Technology Holding Limited
新東方在綫科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1797

Annual Report
2019

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

I would like to begin this letter by expressing my sincere gratitude to the various groups of people that have helped us reach this milestone in our journey. To our students and their families, thank you for placing your trust in us. To our employees and staff, thank you for making us who we are today. To our partners, investors and shareholders, thank you for your support and for walking this journey with us. We look forward to embarking on our future with you all, together.

Over our 2019 financial year...

As the education market reaches greater importance globally, we are fortunate to be at the forefront of one of the most important and growing education markets, China, merging technology with education to bring knowledge to a greater number of students through novel and engaging ways of learning for our next generation.

Driven by economic and population growth, and spurred by government encouragement and favourable policies, China's education market continued to experience rapid growth over the past year. Students and parents are placing more importance on the efficacy of learning, both in formal education and important global skills, such as English and other foreign languages. On the heels of this, is the continued expansion in China's after-school tutoring and test preparation market over 2018 and into 2019. This was driven by, among other factors, an increasing willingness by consumers to spend on education, higher demand for more customised education content and services, the development of more innovative technology, and a prevailing trend towards online education.

Our fortunate position in the online education space is due to a strong foundation built around our mission to become a lifelong learning partner, empowering students to achieve their full potential, and our vision to address some of the challenges that our students may face: unequal distribution of education resources, student difficulties in attending physical courses, and a lack of personalised training, with the result being our goal to bring education to all.

FY 2019 was a momentous year for us — we completed our initial public offering and listed our Shares on the main Board of the Hong Kong Stock Exchange, and successfully reached a number of significant milestones to obtain remarkable results.

(a) **We welcomed two keystone investors,** Image Frame (owned by Tencent) and Tigerstep (showing my personal support in our Group), to join our already impressive list of investors who have backed us to date (including Dragon Cloud, an associate of Greenwoods, and ChinaCity Capital).

(b) **For our college education segment,** we recorded student enrolment numbers of approximately 1.3 million, representing an increase of approximately 12% (against FY 2018) and reflecting an increase in net revenue by approximately 37% (against FY 2018), driven by our initiatives to increase the percentage of formal courses in our total course offerings. We have also successfully enhanced our development and increased our portfolio of courses in subjects other than English, our strongest subject.

(c) **For our K-12 business segment:** (i) we further optimised our "dual-teacher model" across all our *Koolearn* K-12 courses, and as of the end of FY 2019, *DFUB* has entered 63 cities across 15 provinces in China, with plans to penetrate into more cities in the near future; and (ii) our student enrolments grew by approximately 209% (against FY 2018).

(d) **For our pre-school education,** we are glad to report a growth in net revenue of approximately 206% (against FY 2018), as we continue to deliver children-friendly interactive and engaging educational content through our *Donut* English-learning app and live online classrooms for children between the ages of three and ten.

(e) **Our net revenue increased by over 41%** (against FY 2018), from RMB650 million to RMB919 million over the past year.

(f) **We are focused on recruiting and training high-quality teaching staff.** We opened a teacher training centre in Wuhan, aimed at improving the quality of our teaching staff for K-12 education and to attract a continuous supply of qualified teachers to our platforms, and in particular to *DFUB*. In terms of college education, we have also upgraded our Star Teacher Initiative and merged this with our online teacher training academy, which aims to train the next generation of online educators by collaborating with influential social media platforms such as Weibo, and leveraging our expertise in online teacher training and test preparation courses. Our online teacher training academy will spearhead our training courses for our teaching staff and address the ecological chain of teaching, business operations and publications.

(g) **We are focused on improving and optimising our content development.** We are collaborating closely with providers of overseas English tests, such as Education Testing Services ("**ETS**"), and have set up a competitive team of overseas exam preparation teachers to lead our courses in this area. As at the end of FY 2019, we had a content research and development team consisting of over 400 professional members, divided by different subjects and who have a deep understanding of product design and student needs. Our content research and development team collaborate closely with teachers who teach at the front line, to ensure immediate follow-up to the latest teaching environment.

And looking into the future...

China's online after-school tutoring and test preparation market have enormous growth potential. Looking ahead, we will continue our long-term growth strategies to increase student enrolment by increasing the retention of our existing students and attracting new students. We plan to optimise our product and course offerings across our three education segments by developing and continuously refining our course content. We will continue to invest more in recruiting, retaining, training and promoting high-calibre teaching, course research and marketing staff. To achieve this, we expect to establish a strong central platform to enhance internal service capability, in an effort to systematically discover and nurture high-calibre teaching staff for course subjects, establish class scheduling and teaching administration, and upgrade marketing efficiency through new logo and branding activities, diversified media channels, and integrated marketing resources with result-driven precise marketing analysis.

Over the upcoming year, we expect *DFUB* to enter more cities and provinces across China and offer course content tailored to materials used by local schools. In addition to the Wuhan centre, we plan to establish more teacher training centres in other locations to attract more qualified teachers and tailored training programs. For *Koolearn* K-12 courses, we will devote more resources to both product and technological development in order to improve the effectiveness and efficiency of online teaching, and enhance our target marketing strategies to lower our average user acquisition cost. We will introduce our "dual-teacher model" to our college segment courses, continue to collaborate closely with overseas test providers to strengthen our overseas test preparation segment, and optimise our Scholastic Assessment Test ("**SAT**") and Graduate Record Exams ("**GRE**") preparation courses to better suit the growing number of Chinese students taking these exams overseas.

We believe in stable, solid and scalable growth. Our business philosophy has always been to focus on long-term foundational and infrastructural improvements, over being preoccupied with short-term superficial gains. Over the upcoming year, we aim to further consolidate our leading position in the online extracurricular education market by investing our efforts into building what we see as the bedrock of our business — our talented teachers, our quality products (and the IT systems underpinning these products), and our strive to continuously offer exceptional service to our students and customers.

I would like to end this letter by reflecting on our great performance over the past financial year and express again my gratitude to our management and employees for their commitment, dedication, and invaluable contribution to our Group; to our Board of Directors for their wisdom and support; and to all our Shareholders: thank you for your continued support and for placing your confidence in us.

We are optimistic and excited for the year ahead.

YU Minhong
Chairman

Hong Kong
17 September 2019

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. SUN Dongxu (孫東旭), *Co-chief executive officer*
(appointed on 16 August 2019)
Ms. SUN Chang (孫暢), *Co-chief executive officer*
Mr. YIN Qiang (尹強)
Mr. PAN Xin (潘欣)
(resigned on 16 August 2019)

Non-executive Directors

Mr. YU Minhong (俞敏洪), *Chairman*
Mr. WU Qiang (吳強)
Ms. LEUNG Yu Hua Catherine (梁育華)

Independent non-executive Directors

Mr. CHI Yufeng (池宇峰)
Mr. TONG Sui Bau (董瑞豹)
Mr. KWONG Wai Sun Wilson (鄺偉信)

Board committees

Audit committee

Mr. TONG Sui Bau, *Committee chairman*
Mr. WU Qiang
Mr. KWONG Wai Sun Wilson

Remuneration committee

Mr. CHI Yufeng, *Committee chairman*
Ms. SUN Chang
Mr. TONG Sui Bau

Nomination committee

Mr. YU Minhong, *Committee chairman*
Mr. CHI Yufeng
Mr. TONG Sui Bau

Company secretary

Mr. CHEUNG Kai Cheong Willie (FCPA, FCCA)

Authorised representatives

Mr. YIN Qiang
Mr. CHEUNG Kai Cheong Willie

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Registered office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Headquarters

Level 18, South Wing
2 Haidian East Third Road
Haidian District
Beijing, China

Principal place of business in Hong Kong

Level 40, Sunlight Tower
248 Queen's Road East
Wanchai, Hong Kong

Legal advisers

As to Hong Kong and United States Laws

Skadden, Arps, Slate, Meagher & Flom and affiliates

As to PRC Laws

Beijing Tian Yuan Law Firm

As to Cayman Islands Laws

Conyers Dill & Pearman

Compliance adviser

China International Capital Corporation Hong Kong Securities Limited

Hong Kong share registrar

Computershare Hong Kong Investor Services Limited

Principal share registrar and transfer office

Conyers Trust Company (Cayman) Limited

Principal bank

Bank of China (Hong Kong) Limited

Stock code

1797

Website

www.koolearn.hk

FINANCIAL HIGHLIGHTS

Financial performance highlights

	FY 2019 (RMB'000)	FY 2018 (RMB'000)	Year-on-year change (%)
Revenue	**918,911**	650,457	41.3
(Loss) profit for the year	**(64,109)**	82,026	(178.2)
Total comprehensive (expense) income attributable to:			
— Owners of our Company	**(39,773)**	91,375	(143.5)
— Non-controlling interests	**(24,336)**	(9,349)	160.3
(Loss) earnings per Share			
— Basic and diluted (RMB)	**(0.06)**	0.10	(160.0)
Non-IFRS measure: Adjusted (loss) profit for the year[1]	**(289)**	73,584	(100.4)
Non-IFRS measure: EBITDA[2]	**(122,032)**	40,776	(399.3)

Condensed consolidated statements of comprehensive income

	FY-RMB'000			
	2019	2018	2017	2016
Revenue	**918,911**	650,457	446,215	334,205
Gross profit	**506,409**	397,926	303,612	225,130
Operating (loss)/profit	**(188,414)**	33,090	65,493	29,288
(Loss)/profit for the year	**(64,109)**	82,026	92,212	59,551
(Loss)/profit attributable to owners of our Company	**(39,773)**	91,375	93,960	59,551
Non-IFRS Measure: Adjusted net (loss)/profit (unaudited)	**(289)**	73,584	92,736	30,545

1 Adjusted (loss) profit for the year represents (loss) profit for the year less gain on disposal of a joint venture and gain on fair value changes of long-term investments designated as fair value through profit or loss ("**FVTPL**")/financial assets at FVTPL plus listing expenses and share-based compensation expenses for the year.

2 Earnings before interest, taxes, depreciation, and amortisation ("**EBITDA**") represents (loss) profit for the year 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 year. The reclassification of (impairment losses, net of reversal) reversal of impairment losses, net of impairment on trade receivables and, consequently, the change in the definition of our EBITDA, was due to our application of IFRS 9 on 1 June 2018.

FINANCIAL HIGHLIGHTS

Condensed consolidated balance sheets

	FY-RMB'000			
	2019	2018	2017	2016
Assets:				
Non-current assets	**293,776**	220,834	119,162	61,827
Current assets	**2,974,817**	1,199,736	1,028,844	880,654
Total assets	**3,268,593**	1,420,570	1,148,006	942,481
Equity and liabilities:				
Equity attributable to owners of our Company	**2,601,586**	885,328	789,539	641,753
Non-controlling interests	**(31,479)**	(7,143)	2,206	—
Total equity	**2,570,107**	878,185	791,745	641,753
Non-current liabilities	**16,530**	11,049	5,192	5,323
Current liabilities	**681,956**	531,336	351,069	295,405
Total liabilities	**698,486**	542,385	356,261	300,728
Total equity and liabilities	**3,268,593**	1,420,570	1,148,006	942,481

BUSINESS OVERVIEW AND OUTLOOK

Our business

We are a leading online provider of extracurricular education services in China with a comprehensive portfolio of well-recognised brands known for high-quality courses and content, with core expertise in online after-school tutoring and test preparation. We strive to become a lifelong learning partner, empowering students to achieve their full potential. We provide our courses and products through different online platforms and mobile applications in multiple formats across three core segments, namely our college education, K-12 education and pre-school education segments.

The table below sets forth, for the years indicated, the number of student enrolments in each type of our course offerings:

	FY 2019 Student enrolment '000	FY 2018 Student enrolment '000
Students		
College education	**1,293**	1,158
K-12 education	**572**	185
Pre-school education	**314**	597
Total	**2,179**	1,940

The table below sets forth, for the years indicated, average spending per enrolment in each type of our course offerings:

	FY 2019 RMB	FY 2018 RMB
Formal courses		
College education	**715**	682
K-12 education	**959**	991
Pre-school education	**203**	44
Sub-total average	**646**	462
Entry courses	**21**	11
Total average	**434**	370

Our performance overview

Overall financial performance

We achieved significant growth in terms of net revenues and student enrolments across all four business segments during the Reporting Period. Our total net revenues increased by 41.3% from RMB650.5 million in FY 2018 to RMB918.9 million in the Reporting Period. In the college education segment, we recorded RMB631.4 million in net revenue, representing a year-on-year growth of 36.5%. In the K-12 education segment, successful execution of our growth strategies led to extraordinary growth in this highly competitive market. Our net revenue and student enrolments in the K-12 segment increased year-on-year by 80.8% and 209.2%, respectively. In the pre-school education segment, we optimised our product offerings that increased the average spending per student from RMB43 to RMB185, leading to a year-on-year growth of 205.8% in net revenue.

College education

Our courses in the college segment consist of courses for college test preparation, overseas test preparation, English language learning, and other courses. Our courses are primarily used by college students and working professionals preparing for standardised tests or seeking to improve their English language proficiency. During the Reporting Period, our performance in the college segment continued to grow steadily. Our 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.

K-12 education

Our comprehensive K-12 course offerings, including primarily *Koolearn* K-12 courses and location-based live interactive after-school tutoring courses, provide after-school tutoring courses that cover the majority of standard school subjects from primary and high school in China. We also offer preparation courses designed for standardised high school and national college entrance exams. Our courses are carefully designed for K-12 students taking standard education courses in primary and high school in China.

During the Reporting Period, we implemented a series of initiatives to accelerate the expansion of our K-12 segment and achieved outstanding operating results in our K-12 segment. Our student enrolments for overall K-12 segment recorded year-on-year growth of 209.2%. More specifically, our student enrolments for *Koolearn* K-12 courses recorded year-on-year growth of 188.3%, and our student enrolments for *DFUB* courses grew year-on-year by 316.1%. Our growth in K-12 education during the Reporting Period was largely attributable to the successful execution of our growth strategies in this segment. In the summer of 2018, we introduced a modified version of the "dual-teacher model", which was applied to all of our K-12 courses on the *Koolearn* platform, strengthening our content development and customer services, and leading to increased student enrolments. We accelerated the expansion of *DFUB* business during the Reporting Period and continued to optimise the operations of *DFUB* courses in each city. As at 31 May 2019, *DFUB* had entered 63 cities across 15 provinces in China.

Pre-school education

Our pre-school education segment offers inspiring and interactive English learning and other pre-school education courses designed specifically for children between the ages of three and ten. Our child-friendly online educational content is delivered through our *Donut* English-learning app and *Donut* live online English classroom courses, both of which achieved significant growth during the Reporting Period.

Strategic update and future development

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 plan to optimise our products and course offerings across each education segment through developing and refining our content. We will continue to invest more in recruiting, retaining, training and promoting high-calibre teaching, course research and marketing staff. To achieve this, we expect to establish a strong central platform to enhance our office automation system, in an effort to systematically discover and nurture high-calibre teaching staff, establish class scheduling and teaching administration, and improve marketing efficiency through new logo and branding activities, diversified media channels, integrated marketing resources with performance-oriented precision marketing.

In the K-12 segment, we established a teaching training center in Wuhan to ensure a continuous supply of qualified teachers for *DFUB* in FY 2019. We also optimised user experience on *DFUB* platform by introducing more online features such as parents' classrooms and new students' classrooms. We deepened our cooperation with EEO Education Technology Co., Ltd ("**EEO**") and other education technology companies to provide students with a better online study experience. In FY 2020, we expect *DFUB* to expand into more cities and further customise course content based on materials used by local schools. We plan to establish teaching training centres in other geographical locations to attract more qualified teachers and provide more tailored training programs. For *Koolearn* K-12 courses, we plan to devote more resources to both product and technological development so as to improve the effectiveness and efficiency of online teaching. We will also enhance our target marketing strategies to lower our average user acquisition cost.

In our college segment, we have taken various steps to strengthen our market leading position. We continuously enhance our development and increase our portfolio of courses in subjects other than English, our strongest subject. In FY 2020, we will introduce more high-quality courses aimed at enhancing the efficiency of our online test preparation. We will also explore our "dual-teacher model" and tailor it for application in preparation courses for graduate school entrance exams. In our overseas test preparation segment, we will continue to collaborate closely with providers of overseas English tests such as ETS. As a growing number of Chinese students take SAT and GRE outside China, we will also optimise our SAT and GRE preparation courses to better meet their study needs.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our revenue increased by 41.3% from RMB650.5 million in FY 2018 to RMB918.9 million in FY 2019.

College education

Revenue from our college education segment increased by 36.5% from RMB462.5 million in FY 2018 to RMB631.4 million in FY 2019, driven primarily by the increase in revenue from college test preparation and revenue from overseas test preparation, which increased by 32.5% and 39.9% year-on-year, respectively. Our courses for graduate school entrance exams, the revenue from which accounted for more than half of the revenue under college test preparation, grew by 40.4% from the previous year, as both the number of our courses and the average spending per enrolment in this segment steadily increased. Student enrolment in the college segment increased from 1.2 million in FY 2018 to 1.3 million in FY 2019.

K-12 education

Revenue from our K-12 education segment increased by 80.8% from RMB88.1 million in FY 2018 to RMB159.2 million in FY 2019, primarily due to the expansion of *DFUB* courses and the optimisation of the *Koolearn* K-12 courses. In FY 2019, while we continued to increase the presence of *DFUB*, we also gradually increased the number of formal courses as the *DFUB* model began to gain wide market recognition. Student enrolments in the K-12 segment increased from 185 thousand in FY 2018 to 572 thousand in FY 2019.

Pre-school education

Revenue from our pre-school education segment increased by 205.8% from RMB10.9 million in FY 2018 to RMB33.4 million in FY 2019, primarily due the optimisation of our *Donut* English-learning app, where average spending per enrolment increased from RMB16 in FY 2018 to RMB98 in FY 2019, and the introduction of short-term courses for the *Donut* online classroom, where average spending per enrolment increased from RMB1,006 in FY 2018 to RMB1,812 in FY 2019. This enabled a substantial increase in revenue despite a drop in student enrolments in this segment.

Institutional customers

Revenue from our institutional customers increased by 6.7% from RMB89.0 million in FY 2018 to RMB94.9 million in FY 2019.

Cost of revenue, gross profit/loss and gross margin

Our total cost of revenue increased by 63.3% from RMB252.5 million in FY 2018 to RMB412.5 million in FY 2019, primarily due to an increase in teaching staff costs, course research staff costs and teaching materials costs, which grew by 54.6%, 73.1% and 67.3% over FY 2018, respectively, as we devoted significant resources to enhance the quality of our courses.

Our gross profit increased by 27.3% from RMB397.9 million in FY 2018 to RMB506.4 million in FY 2019. Our gross profit margin decreased from 61.2% in FY 2018 to 55.1% in FY 2019, primarily due to the expansion in K-12 segment, in particular an increase in teaching staff costs.


College education

Cost of revenue for our college education segment increased by 28.6% from RMB168.7 million in FY 2018 to RMB216.9 million in FY 2019, primarily due to an increase in teaching materials costs.

Segment gross profit for our college education business increased by 41.1% from RMB293.8 million in FY 2018 to RMB414.5 million in FY 2019, and the gross profit margin increased from 63.5% in FY 2018 to 65.6% in FY 2019.

K-12 education

Cost of revenue for our K-12 education segment increased by 167.9% from RMB53.5 million in FY 2018 to RMB143.4 million in FY 2019, primarily due to an enhancement of our offerings for *Koolearn* K-12 courses and the expansion of *DFUB* to more regions required significant upfront investment to attract qualified teachers and design high-quality courses.

Segment gross profit for our K-12 business decreased by 54.1% from RMB34.6 million in FY 2018 to RMB15.9 million in FY 2019, and the gross profit margin decreased from 39.2% to 10.0%, primarily due to an increase in student enrolments to entry courses from summer of 2018, the increase in teaching staff costs and course research staff costs, as we updated our *Koolearn* K-12 course offerings and committed more resources on course development, as well as the increase in IT support and technology costs, as all of our *Koolearn* K-12 courses and *DFUB* courses are delivered in a live format.

Pre-school education

Cost of revenue for our pre-school education segment increased by 131.4% from RMB14.6 million in FY 2018 to RMB33.7 million in FY 2019, primarily due to the development of small class live English learning courses by *Donut* online classroom which led to an increase in course research staff costs and teaching materials costs, as we optimised our course offerings and developed new products in this segment.

Segment gross loss for our pre-school education business decreased by 91.7% from RMB3.6 million in FY 2018 to RMB0.3 million in FY 2019, and the gross loss margin decreased from 33.4% to 0.9%, primarily due to *Donut* English learning app's gross margin improvement.

Institutional customers

Cost of revenue for services to institutional customers increased by 17.6% from RMB15.8 million in FY 2018 to RMB18.5 million in FY 2019.

Segment gross profit for our services to institutional customers remained relatively steady at RMB73.2 million in FY 2018 and RMB76.4 million in FY 2019, and the gross profit margin decreased slightly from 82.3% to 80.5%.

Other income, gains and losses

Our other income, gains and losses increased by 96.2% from RMB72.7 million in FY 2018, to RMB142.7 million in FY 2019, primarily due to RMB94.6 million of foreign exchange gain.

Selling and marketing expenses

Our selling and marketing expenses increased by 98.2% from RMB224.0 million in FY 2018 to RMB443.9 million in FY 2019, primarily due to a substantial increase in marketing expenses, in particular expenses relating to online media promotion, as we continued to invest in the promotion for our course offerings in our college and K-12 segments. The marketing expenses in the college segment increased as we diversified our online marketing channels to strengthen our leading position in this market. In the K-12 segment, marketing expenses increased primarily due to our efforts to gain wider market recognition and to reach our target students more precisely through online marketing campaigns.

Research and development expenses

Our research and development expenses increased by 46.9% from RMB100.4 million in FY 2018 to RMB147.5 million in FY 2019, primarily due to the increase in staff costs as our business strategies required more qualified research and development staff to support our expansion.

Administrative expenses

Our administrative expenses increased by 155.5% from RMB40.5 million in FY 2018 to RMB103.4 million in FY 2019, primarily due to share-based compensation expenses.

Share of result of associates

Our share of profit of associates increased by 54.9% from RMB2.0 million in FY 2018 to RMB3.1 million in FY 2019, primarily due to the increase in our share of Shidai Yuntu's profit.

Share of result of a joint venture

Our share of loss of a joint venture decreased from RMB271 thousand in FY 2018 to nil in FY 2019, as the loss-making Zhishang was re-categorised from joint venture to associate in June 2017.

Income tax (expenses) credit

From FY 2018 to FY 2019, our income tax expenses decreased by 202.0% from an expense of RMB10.7 million to a credit of RMB10.9 million in FY 2019, primarily due to a decrease in our taxable income.

Listing expenses

We incurred listing expenses of RMB15.5 million in FY 2018 and RMB31.5 million in FY 2019 in connection with our Global Offering in March 2019.

(Loss) profit for the year

As a result of the foregoing, our profit for the year decreased by 178.2% from RMB82.0 million in FY 2018 to a loss of RMB64.1 million in FY 2019.

Non-IFRS measures

To supplement our financial information presented in accordance with 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 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 EBITDA 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 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.

The following table reconciles our net (loss) profit to adjusted (loss) profit:

	FY 2019 RMB'000	FY 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 FVTPL	**—**	23,426
Gain on fair value changes of financial assets at FVTPL — Non-current assets	**21,926**[1]	—
Add:		
Listing expenses	**31,525**	15,453
Share-based compensation expenses	**54,221**	—
Adjusted (loss) profit for the year	**(289)**	73,584

Note

(1) For FY 2019, 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.

The following table reconciles our net profit to EBITDA:

	FY 2019 RMB'000	FY 2018 RMB'000
Reconciliation of profit (loss) for the FY to EBITDA		
(Loss) profit for the FY	**(64,109)**	82,026
Add:		
Income tax (credit) expenses	**(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, gain 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

Liquidity and capital resources

During the Reporting Period, we met our cash requirements principally from cash generated from our operating activities, proceeds from issuance of shares and our retained profits accumulated in the past. We had cash and cash equivalents represented by bank balances and cash of RMB709.4 million and RMB2,497.6 million as at 31 May 2018 and 2019, respectively. Bank balances and cash comprise of cash and short-term deposits with a term of less than three months.

During the Reporting Period, we primarily use cash to fund required working capital and other recurring expenses to support the expansion of our operations. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of internally generated cash and net proceeds from the Global Offering.

As at the end of FY 2019, our Group's gearing ratio was 21.4% (compared with 38.2% as at the end of FY 2018), calculated as the total liabilities divided by total assets.

Cash flow

The following table sets forth our cash flows for the FY indicated:

	FY 2019 RMB'000	FY 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 the beginning of the FY	**709,448**	42,376
Effect of exchange rate changes	**94,556**	3,352
Cash and cash equivalents at the end of the FY	**2,497,621**	709,448

Net cash (used in) generated from operating activities

Net cash (used in) generated from operating activities primarily consists of our profit before tax for the FY adjusted by non-cash items and changes in working capital.

Our net cash used in operating activities in FY 2019 was RMB24.7 million. The difference between cash used in operating activities before tax and interest of RMB21.2 million and the loss before tax of RMB75.0 million was mainly due to (i) inclusion of non-cash expenses items, primarily including share-based compensation expenses of RMB54.2 million; (ii) a RMB134.6 million increase in cash as a result of movements in working capital, which in turn mainly consisted of a RMB67.5 million increase in contract liabilities and a RMB62.3 million increase in accrued expenses and other payables and (iii) exclusion the effect of foreign exchange gain of RMB94.6 million and gain on fair value changes of financial assets at FVTPL of RMB41.9 million. The increase in contract liabilities was primarily attributable to the growth of our customer base and our increased revenue. The increase in accrued expenses and other payables was primarily due to the increase in teachers' commission fees and course fees and the number of our teachers.

Net cash generated from investing activities

Our net cash generated from investing activities in FY 2019 was RMB15.9 million, primarily attributable to cash generated from net disposal of financial assets at FVTPL of RMB50.7 million, which partially offset by purchase of property and equipment of RMB20.8 million and payments for investments in associates of RMB14.1 million.

Net cash generated from financing activities

Our net cash generated from financing activities in FY 2019 was approximately RMB1.70 billion, primarily attributable to proceeds from issuance of ordinary shares relating to the Global Offering.

Capital expenditure

The following table sets forth our capital expenditure for the FY indicated:

	FY 2019 **RMB'000**	FY 2018 RMB'000
Purchase of property and equipment	**20,830**	19,053

Our capital expenditures were primarily for purchases of property and equipment in FY 2018 and 2019, respectively. Our purchases of property and equipment were RMB19.1 million and RMB20.8 million for FY 2018 and 2019, respectively.

Off-balance sheet commitments and arrangements

As at 31 May 2019, we had not entered into any off-balance sheet transactions.

Future plans for material investments and capital assets

As at 31 May 2019, we did not have plans for material investments and capital assets other than the acquisition of 49% equity interest in Dongfang Youbo as disclosed in "Events After the Reporting Period" and our announcement of 16 August 2019.

Material acquisitions and/or disposals of subsidiaries and affiliated companies

During FY 2019, we did not have any material acquisitions and/or disposals of subsidiaries and affiliated companies. Following the end of FY 2019, we entered into the Dongfang Youbo Acquisition.

Employees and remuneration policy

As at 31 May 2019, we had 1,690 full-time employees and 4,545 part-time employees, among which we had 553 full-time and 4,173 part-time teaching, content development and content production staff; 597 full-time and 342 part-time selling and marketing staff; 426 full-time and 11 part-time research, development and technology staff; and 114 full-time and 19 part-time general and administrative staff. All of our employees were based in China, in our headquarters in Beijing and in various other cities across China.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our retention strategy, we offer employees competitive salaries, performance-based bonuses and other incentives. As at 31 May 2019, 123 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for FY 2019 were RMB413.3 million, representing a year-on-year increase of 76.9%.

Foreign exchange risk

Foreign exchange risk arises when commercial transactions or recognized assets and liabilities are denominated in a currency that is not the functional currency of our operating entities. We operate in the PRC with most of the transactions settled in RMB. In FY 2019, we have assets and liabilities denominated in United States dollars and Hong Kong dollars. We continuously monitor changes in currency exchange rates and will take necessary measures to mitigate exchange rate impact.

Indebtedness

During the Reporting Period, we did not incur any bank loan or other borrowing. Our Directors consider that we have adequate cash and capital resources considering our cash and cash equivalents at hand and our financial assets at FVTPL-wealth management products generated from our operating activities and the net proceeds from the Global Offering to fund our operations and expansion, therefore, we do not plan to incur any borrowing in the 12 months from the date of this report.

Pledge of assets

As at 31 May 2019, none of our Group's assets were pledged.

Contingent liabilities

As at 31 May 2019, we did not have any material contingent liabilities.

DIRECTORS AND SENIOR MANAGEMENT

Directors

As at the date of this report, our Board consists of nine members, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors, namely:

Name	Age	Position	Date of appointment
SUN Dongxu (孫東旭)	34	Executive Director, *Co-chief executive officer*	16 August 2019
SUN Chang (孫暢)	51	Executive Director, *Co-chief executive officer*	7 February 2018
YIN Qiang (尹強)	45	Executive Director, *Chief financial officer*	23 May 2018
YU Minhong (俞敏洪)	57	Non-executive Director, *Chairman*	23 May 2018
WU Qiang (吳強)	46	Non-executive Director	23 May 2018
LEUNG Yu Hua Catherine (梁育華)	36	Non-executive Director	13 July 2018
CHI Yufeng (池宇峰)	48	Independent non-executive Director	15 March 2019
TONG Sui Bau (董瑞豹)	48	Independent non-executive Director	15 March 2019
KWONG Wai Sun Wilson (鄺偉信)	53	Independent non-executive Director	15 March 2019

Note:

(1) During FY 2019 and until 16 August 2019, Mr. Pan was an executive Director. Mr. Pan resigned from our Board on 16 August 2019 in order to devote more time to his personal and other professional commitments. Our Board appointed Mr. Sun as an executive Director on the same date. See our annual results announcement of 16 August 2019 for details of Mr. Pan's resignation and Mr. Sun's appointment. See the section headed "Directors and senior management" in our Prospectus for the biographical details of Mr. Pan.

The biographies of each of our Directors are set out below:

Executive Directors

SUN Dongxu (孫東旭) ("Mr. Sun")

Mr. Sun, aged 34, is an executive Director and our Company's co-chief executive officer (together with Ms. Sun). Mr. Sun is also the co-chief executive officer and director of Beijing Xuncheng, since January 2019 and September 2019, respectively, and has been the director of Dexin Dongfang since August 2019. Prior to this, Mr. Sun was the principal of Xi'an New Oriental School from April 2016 to July 2018, and the regional president of Northwestern China of New Oriental China from April 2016 to May 2018. Mr. Sun began his career with the New Oriental Group (which, at the time, included our Group) as a teacher in the foreign exams department of Tianjin New Oriental School from June 2007 to June 2008. Between June 2008 and April 2016, Mr. Sun worked at Hefei New Oriental School, beginning as the assistant supervisor of the foreign examination department, from June 2008 to June 2009, and moving through various positions within the school to ultimately acting as the assistant principal, from March 2012 to October 2013, and principal, from October 2013 to April 2016. Aside from our Group, Mr. Sun has been the vice-president of New Oriental China since April 2019, and was previously the assistant vice-president of New Oriental China from April 2016 to April 2019. Mr. Sun received his bachelor's degree in engineering, majoring in computer science and technology, from Nankai University (南開大學), China, in June 2007.

SUN Chang (孫暢)("Ms. Sun")

Ms. Sun, aged 51, is an executive Director, our Company's co-chief executive officer (together with Mr. Sun) and a member of the remuneration committee. Ms. Sun is also a director and co-chief executive officer of Beijing Xuncheng, since April 2015 and January 2019, respectively, Kuxue Huisi since February 2013, Tianjin Kuxue Dongfang Network Technology Co., Ltd. since December 2018, Dongfang Youbo since June 2016, Xuncheng HK since March 2018, and Dexin Dongfang since March 2018. Ms. Sun received her bachelor's degree in pre-school education from Beijing Normal University (北京師範大學), China, in July 1990 and her master's degree in business administration from Renmin University of China (中國人民大學), China, in July 1999. Aside from our Group, Ms. Sun was the assistant vice-president, from 2012 to 2016, and has been the vice-president of New Oriental China since 2016. Ms. Sun was the general manager of the investment division at China Netcom Group Corporation Limited (now China United Network Communications Group Co., Ltd. (中國聯合網絡通訊集團有限公司), or China Unicom (中國聯通)) from 2000 to 2004, and the marketing manager at Microsoft (China) Co., Ltd. (微軟（中國）有限公司) from 1997 to 2000.

YIN Qiang (尹強) ("Mr. Yin")

Mr. Yin, aged 45, is an executive Director and our Company's chief financial officer. He is also a director and chief financial officer of Beijing Xuncheng, since 2016. Mr. Yin received his bachelor's degree in economics from Capital University of Economics and Business (首都經濟貿易大學), China, in July 1996 and his master's degree in business management at Peking University, China, in July 2008. Mr. Yin is also a PRC accredited accountant (since October 2001). Aside from our Group, Mr. Yin has been the vice-president of New Oriental China since April 2019. Mr. Yin was the financial controller and assistant vice-president of New Oriental China from June 2005 to May 2016, and senior accountant at PricewaterhouseCoopers from 1996 to 2001.

Non-executive Directors

YU Minhong (俞敏洪)("Mr. Yu")

Mr. Yu, aged 57, is a non-executive Director, chairman of the Nomination Committee, and Chairman of our Board. Mr. Yu is also the chairman and a director of Beijing Xuncheng, since April 2015, and certain companies under the Retained New Oriental Group, including Leci Internet Technology (Beijing) Company Limited ("**Leci Internet**"). Mr. Yu received his bachelor's degree in English from Peking University, China in July 1985. Mr. Yu is the founder and currently the executive chairman of the board of directors of New Oriental, since 2001, and was an independent director of Sunlands Online Education Group, a company whose American depository shares are listed on the NYSE under the symbol "STG", from August 2017 to June 2019. Mr. Yu was the chief executive officer of New Oriental from 2001 to September 2016.

WU Qiang (吳強) ("Mr. Wu")

Mr. Wu, aged 46, is a non-executive Director and member of the Audit Committee. Mr. Wu is also a director of Leci Internet, since November 2015 and Beijing Xuncheng, since February 2018. Mr. Wu received his master's degree in engineering from the Institute of Automation at the Chinese Academy of Sciences (中國科學自動化研究所), China, in July 1997. Aside from our Group, Mr. Wu was the vice-president of New Oriental China from 2016 to April 2019, and is currently its senior vice-president, since April 2019. He was the principal of Beijing New Oriental School (北京新東方學校) from July 2014 to April 2018. Prior to this, Mr. Wu was the vice-principal of Beijing New Oriental School from 2013 to 2014, director of research and development at New Oriental China from 2005 to 2007, vice-principal of other New Oriental schools in Qingdao and Chengdu from 2008 to 2012, and a president of Beijing Mingri Dongfang Technology Co., Ltd. (北京明日東方科技有限公司) from 2000 to 2005.

LEUNG Yu Hua Catherine (梁育華) ("Ms. Leung")

Ms. Leung, aged 36, is a non-executive Director. She is also a director of Beijing Xuncheng, since January 2019. Ms. Leung received her bachelor of science in economics (concentration in finance) from the Wharton School of the University of Pennsylvania, the United States, in June 2004. Aside from our Group, Ms. Leung has been the vice-general manager of the strategy development department at Sixjoy Hong Kong Limited since December 2013, a subsidiary of Tencent, and previously served as a senior research analyst at Arete Research Services L.L.P. from November 2012 to June 2013, and was an executive director in the investment research division at Goldman Sachs (Asia) L.L.C. from August 2010 to November 2012.

Independent non-executive Directors

CHI Yufeng (池宇峰) ("Mr. Chi")

Mr. Chi, aged 48, is an independent non-executive Director, chairman of the Remuneration Committee, and member of the Nomination Committee. Mr. Chi received his bachelor's degree in chemistry, from Tsinghua University, China, in June 1994, and an Executive Master of Business Administration from China Europe International Business School, China, in November 2004. Aside from our Group, Mr. Chi is the founder and chairman of the board of directors of Perfect World Co., Ltd. (完美世界股份有限公司), since March 2015, a company listed on the Shenzhen Stock Exchange (Ticker: 002624), and holds directorships in its subsidiaries, including Perfect World Games (完美世界遊戲有限責任公司), since August 2015, a company that was listed on NASDAQ under the symbol "PWRD" from July 2007 to July 2015. Mr. Chi is also the founder and chairman of the board of directors of Hongen Education and Technology Co., Ltd. (洪恩教育科技股份有限公司), since November 1996.

TONG Sui Bau (董瑞豹) ("Mr. Tong")

Mr. Tong, aged 48, is an independent non-executive Director, chairman of the Audit Committee, and member of the Remuneration Committee and Nomination Committee. Mr. Tong received his bachelor's degree in accounting with an additional concentration in computer science from the University of Wisconsin, Madison, U.S., in May 1993. Mr. Tong was previously a member of the American Institute of Certified Professional Accountants (AICPA), from 1995 to 2009, and Chartered Financial Analyst, from 1999 to 2009. Mr. Tong has been a non-executive director of NetEase Inc. since 2009, a company listed on NASDAQ under the symbol "NTES." He was previously an executive director and co-chief operating officer of NetEase Inc., from 2003 to 2009, and from 2004 to 2009, respectively.

KWONG Wai Sun Wilson (鄺偉信)("Mr. Kwong")

Mr. Kwong, aged 53, is an independent non-executive Director and member of the Audit Committee. He has appropriate professional accounting or related financial management experience for the purpose of Rule 3.10(2) of the Listing Rules through his experiences below. Mr. Kwong is an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Kwong received his bachelor of arts degree from the University of Cambridge, United Kingdom, in June 1987. Mr. Kwong is an executive director of China Metal Recourses Utilisation Limited, since August 2013, a company listed on the Stock Exchange (stock code: 1636). Mr. Kwong also acts as an independent non-executive director of Shunfeng International Clean Energy Limited, since July 2014, a company listed on the Stock Exchange (stock code: 1165), C.banner International Holdings Limited, since August 2011, a company listed on the Stock Exchange (stock code: 1028), China Outfitters Holdings Limited, since June 2011, a company listed on the Stock Exchange (stock code: 1146), and China New Higher Education Group Limited, since March 2017, a company listed on the Stock Exchange, (stock code: 2001). Mr. Kwong was the president of Gushan Environmental Energy Limited, from December 2007 to October 2012, a company listed on the NYSE under the symbol "GU." Prior to this, he was a managing director in the investment banking division and the head of Hong Kong and China equity capital markets at CLSA Equity Capital Markets Limited from March 2004 to July 2006, and a director and the general manager of the corporate finance division of Cazenove Asia Limited, from 2002 to 2003, and from 1997 to 2003, respectively.

Both Mr. Tong and Mr. Kwong have appropriate professional accounting or related financial management experience for the purpose of Rule 3.10(2) of the Listing Rules.

We have received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and our Board considers each of them to be independent.

Save as disclosed in this annual report and in our annual results announcement of 16 August 2019: (a) none of our Directors has: (i) held any other directorship on another public company in Hong Kong or overseas in the last three years preceding the Latest Practicable Date, (ii) has any other professional qualifications, or (iii) any other relationship with any other Director, senior manager or substantial shareholder (as defined in the Listing Rules) of our Company; and (b) no other matters have occurred during the Relevant Period that need to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules or that need to be brought to the attention of our Shareholders or the Stock Exchange.

Senior management

Mr. Sun and Ms. Sun are our Company's co-chief executive officers and Mr. Yin is our Company's chief financial officer. Mr. Sun, Ms. Sun and Mr. Yin are also our executive Directors. See "— Executive Director" above for their biographies.

Company secretary

CHEUNG Kai Cheong Willie (張啟昌)

Mr. Cheung is a manager of SWCS Corporate Services Group (Hong Kong) Limited, a provider of a wide range of corporate services, and the company secretary of our Company. Mr. Cheung has been a member of the Hong Kong Institute of Certified Public Accountants since January 2009, and a fellow member of the Association of Chartered Certified Accountants since October 2008. Mr. Cheung received his bachelor's degree in arts (with honours), majoring in accounting and finance from University of Glamorgan, the United Kingdom, in June 1996.

DIRECTORS' REPORT

Our Board is pleased to present this Directors' report together with our Group's consolidated financial statements for FY 2019.

Our principal activities

Our Company is an investment holding company. We were incorporated as an exempted company with limited liability under the Laws of the Cayman Islands on 7 February 2018, and our shares were listed on the Main Board of The Stock Exchange of the Hong Kong Limited on 28 March 2019.

Our Group is an online provider of extracurricular education services in China with core expertise in online after-school tutoring and test preparation. Our education products include website and mobile applications for our three core segments: college, K-12 and pre-school. We offer our courses mainly through our four platforms: *Koolearn*, *DFUB*, *Donut* and *Koo*.

	Koolearn	***DFUB***	***Donut***	***Koo***
College education				
Chinese college test preparation	✓			
Overseas test preparation	✓			
English learning and others	✓			✓
K-12 education	✓	✓		
Pre-school education	✓		✓	

Our subsidiaries are set out in Note 41 to the consolidated financial statements.

Business review

A fair review of our Group's business (as required by Schedule 5 to the Companies Ordinance), including an analysis of our Group's financial performance, an indication of our Group's likely future business developments, a description of the principal risks and uncertainties facing our Group and our Group's key relationships with our stakeholders who have a significant impact on our Group and on which our Group's success depends, is set out in "Chairman's statement", "Business overview and outlook", and "Management discussion and analysis." These discussions form part of this annual report. Events affecting our Company that have occurred between the end of FY 2019 and date of this annual report are set out in "Events after the Reporting Period."

Financial results and summary

Our Group's results for FY 2019 are set out in the "Consolidated statement of profit or loss and other comprehensive income" at page 101.

A summary of our Group's condensed consolidated results and financial positions is set out at pages 102 to 103.

Our major customers and suppliers

During FY 2019: (a) our Group's five largest customers accounted for approximately 1.70% of our total revenues, while the largest customer accounted for approximately 0.40% of our total revenues; and (b) our Group's top five suppliers accounted for approximately 14.64% of our total purchase amounts, while the largest supplier accounted for approximately 5.71% of our total purchase amounts.

Use of net proceeds from our global offering

Our Shares listed on the Stock Exchange on 28 March 2019. The net proceeds received from the Global Offering were approximately HK$1.78 billion. There was no change in the intended use of net proceeds as previously disclosed in the Prospectus and our Company will gradually utilise the residual amount of the net proceeds in accordance with the intended purposes depending on actual business needs and circumstances surrounding the utilisation and as at the Latest Practicable Date, we anticipated to use up the residual amount of the net proceeds within ten years of the Listing Date.

As at the date of this annual report, we have not utilised any of the net proceeds and we held our proceeds in term deposits offered by licensed institutions or in accordance with our treasury policy detailed in "Business — Risk management and internal control — Treasury management policy" in the Prospectus. We set out further details of our use of proceeds from our Global Offering below:

	Net proceeds from Global Offering (HK$ million)	Utilisation for FY 2019 (HK$ million)	Remaining amount (HK$ million)
Staff recruitment and training activities	470	—	470
Acquisitions and/or investments	470	—	470
Course development	157	—	157
Technology infrastructure	157	—	157
Marketing activities	157	—	157
Working capital and general corporate purposes	157	—	157

Share capital

Movements in our Company's share capital and details of issued Shares during FY 2019 are set out at Note 28 to the consolidated financial statements.

On 6 March 2019, our Shareholders granted to our Directors a general mandate to repurchase up to 10% of our then-total number of issued Shares. During the FY 2019 Listed Period, we did not make any repurchases on the Stock Exchange, and neither we nor our subsidiaries purchased, sole or redeemed any of our Company's listed securities.

Debentures issued

Our Group did not issue any debentures during FY 2019.

Emolument policy and Directors' remuneration

In compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules, we established the Remuneration Committee to formulate our Directors' remuneration policies. The remuneration is determined based on each Directors' and senior manager's qualification, position, responsibility and seniority. In additional to this, our Directors and senior managers may have been granted options under our pre-IPO share option scheme adopted by our Board on 13 July 2018 ("**Pre-IPO ESOP**") and are eligible to participate as grantees of our post-IPO share option scheme adopted by our Board on 30 January 2019 ("**Post-IPO ESOP**"). Our Directors', senior managers' and top five highest paid individuals' remuneration are detailed at Notes 10, 12 and 40 to the consolidated financial statements.

None of our Directors and senior managers have waived or agreed to waive any remuneration and there were no emoluments paid by our Group to any of our Directors and senior managers as an inducement to join, or upon joining our Group, or as compensation for loss of office.

During FY 2019, our Group paid our Directors and senior managers an aggregate of approximately RMB1.1 million in discretionary bonuses. Additional details on Directors' and senior manager's remuneration are set out in Note 10 to the consolidated financial statements.

Equity-linked agreements

Except as disclosed in "Share Option Schemes" above, no equity-linked agreement was entered into by our Group, or existed during FY 2019.

Final dividends

Our Board did not recommend the payment of a final dividend for FY 2019 (FY 2018: nil).

Property and equipment

Movements in our Group's property and equipment during FY 2019 are detailed in Note 15 to the consolidated financial statements.

Bank loans and other borrowings

Our Group did not incur any bank loans or other borrowings during FY 2019.

Material litigation

As at FY 2019, our Company was not involved in any material litigation or arbitration. Nor were our Directors aware of any material litigation or claims that were pending or threatened against our Company.

Reserves

As at the end of FY 2019, our Company had distributable reserves of approximately RMB2.4 billion, further details of which are set out at Note 43 to the consolidated financial statements.

Directors and their service contracts and appointment letters

Directors and senior management

A list of Directors and senior managers and their biographical details (including changes in our Board during FY 2019 and until the Latest Practicable Date) are set out in "Directors and senior management" above.

The interests and short positions as at the end of FY 2019 of our Directors, and our Company's chief executives and substantial shareholders (as defined in the SFO) in our Company and associated corporations (as appropriate) that falls to be disclosed under Part XV of the SFO are set out in "Other information" below.

Directors' service agreements

Each of our executive Directors entered into a service agreement with our Company for an initial term of three years from the effective date of the appointment or until the third annual general meeting of our Company since the effective date of the appointment, whichever is earlier (and subject to retirement requirements as and when required by our Articles of Association). The appointment of Mr. Yin and Ms. Sun took effect on the Listing Date and the appointment of Mr. Sun took effect on 16 August 2019. No annual director fees are payable to the executive Directors under the current arrangement.

Each of our non-executive Directors and independent non-executive Directors signed a letter of appointment with our Company for an initial terms of three years with effect from the Listing Date or until the third annual general meeting of our Company since the Listing Date (which is earlier, and subject to retirement requirements as and when required by our Articles of Association). Under the current arrangement, no annual director fees are payable to the non-executive Directors, while each of our independent non-executive Directors are to receive an annual director's fee of RMB120,000.

None of our Directors (including the Directors proposed for re-election at our upcoming AGM) have entered into an agreement with our Company that is not determinable by us within one year without payment of compensation (other than statutory compensation).

Permitted Indemnity Provision

Pursuant to Article 164 of the Articles of Association and subject to applicable Laws, every Director (including Mr. Pan during the period of his directorship at our Company) shall be indemnified out of the assets and profits of our Company against all losses or liabilities incurred or sustained by him/her as a Director, except for losses or liabilities in respect of fraud or dishonesty. This permitted indemnity provision was in force during the Relevant Period and continued to be in force as at the Latest Practicable Date.

Our Controlling Shareholder's and Directors' competing business

New Oriental, our Controlling Shareholder, controls two businesses that provide education services and products in educational consulting and software development, namely Leci Internet and Beijing Bilin New Oriental Education & Technology Company Limited (collectively, the "**Other Businesses**"). However, given that our Directors consider these Other Businesses to be distinct from our businesses in terms of business focus and strategy, and in particular, and given that New Oriental has given a non-compete undertaking to our Company, the scope of which includes the Other Businesses, we do not consider these Other Businesses to compete with us in any material way. See "Relationship with our Controlling Shareholder" in the Prospectus for further details on how our business is distinguished from that of New Oriental (and its other subsidiaries), the Other Businesses and why we consider them not to compete with our Group, and the non-compete undertaking given by New Oriental to our Company.

Save as disclosed in this annual report and the Prospectus, neither our Controlling Shareholder nor any of our Directors had any interest in a business, apart from that of our Group, that competes or is likely to compete, directly or indirectly, with our Group's business, which would require disclosure pursuant to Rule 8.10 of the Listing Rules.

Continuing connected transactions

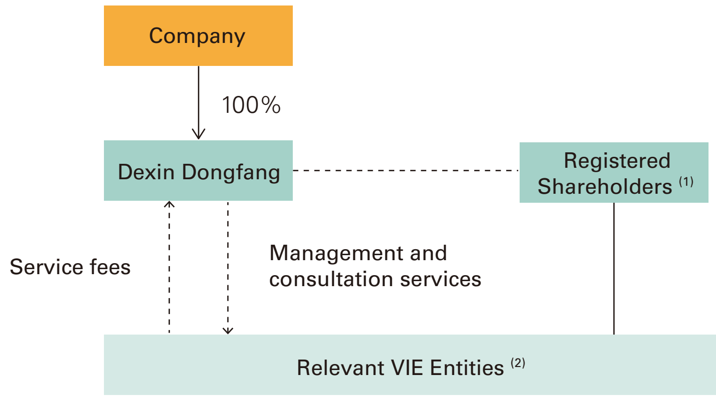
Reference is made to our Prospectus and announcement of 23 May 2019 in respect of revising the annual caps for the Payment Services transaction under the Tencent Framework Agreement. We have entered into a number of continuing transactions with our connected persons in our ordinary and usual course of business, which constitute continuing connected transactions under the Listing Rules. We set out below details of our non-exempt continuing connected transactions during FY 2019 in accordance with Chapter 14A of the Listing Rules:

Contractual Arrangements

Overview

Our Group entered into a series of Contractual Arrangements with Beijing Xuncheng and Beijing Kuxue Huisi Network Technology Co., Ltd. (北京酷學慧思網絡科技有限公司), a wholly-owned subsidiary of Beijing Xuncheng (and together with Beijing Xuncheng, the "**Relevant VIE Entities**"), and their Registered Shareholders, pursuant to which our Company obtained effective control over and had the right to receive all of the economic benefits derived from our Relevant VIE Entities, and proportional control and right to receive the economic benefits derived from our non-wholly owned subsidiary, Dongfang Youbo, through our Operating Entity's controlling interest and proportionate shareholding in Dongfang Youbo. As a result of the Contractual Arrangements, the financial results of our Consolidated Affiliated Entities are able to be consolidated into our Group's financial information as if they were our Company's subsidiaries. We set out a summary of our Contractual Arrangements during FY 2019. For developments that have occurred after the Reporting Period, see " Events after the Reporting Period" at page 37 of this report.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group under the Contractual Arrangements during FY 2019:



Notes:

(1) Our Registered Shareholders are New Oriental China, Linzhi Tencent and the Tianjin Limited Partnerships.

(2) Beijing Xuncheng, our Operating Entity, directly holds 51% equity interest in Dongfang Youbo (and will hold 100% of Dongfang Youbo following completion of the Dongfang Youbo Acquisition).

(3) "→" denotes legal and beneficial ownership in the equity interests of Dexin Dongfang.

(4) "—" denotes legal ownership in the equity interests of the Relevant VIE Entities.

(5) "⇢" denotes control by Dexin Dongfang under the Contractual Arrangements through (1) powers of attorney to exercise all Registered Shareholders' rights in the Operating Entity, (2) exclusive options to acquire all or part of the equity interests in the Operating Entity, and (3) equity pledges over the equity interests in the Operating Entity.

(6) "---" denotes the control by Dexin Dongfang over the Consolidated Affiliates Entities through the respective powers of attorney to exercise all shareholders' rights in Beijing Xuncheng, exclusive options to acquire all or part of the equity interests in the Consolidated Affiliates Entities and equity pledges over the equity interest in the Consolidated Affiliates Entities.

Summary of our Contractual Arrangements

We set out below a brief description of each of the specific agreements that comprise the Contractual Arrangements, the further details of which are set out in "Contractual Arrangements" in the Prospectus:

(a) Exclusive management Consultancy and Business Cooperation Agreement

Dexin Dongfang, on the one hand, and the Registered Shareholders and our Relevant VIE Entities, on the other hand, entered into an exclusive management consultancy and business cooperation agreement on 10 May 2018 ("**Exclusive Management Consultancy and Business Cooperation Agreement**"), pursuant to which Dexin Dongfang has the exclusive right to provide, or designate any third party to provide each of our Relevant VIE Entities with corporate management and educational services, intellectual property licensing services as well as technical and business support services. Such services include, among others, advisory services, research and consulting services, market development and planning services, human resources and internal information management, sales of proprietary products and intellectual property and know-how, and other additional services as the parties may mutually agree from time to time.

(b) Exclusive Call Option Agreement

Dexin Dongfang, on the one hand, and the Registered Shareholders and Beijing Xuncheng, on the other hand, entered into an exclusive call option agreement on 10 May 2018 ("**Exclusive Call Option Agreement**"), pursuant to which Dexin Dongfang had an exclusive option to purchase all or part of the equity interests in Beijing Xuncheng from the Registered Shareholders for the minimum amount of consideration permitted by applicable PRC Law and under circumstances in which Dexin Dongfang or its designated third party is permitted under PRC Laws to acquire all or part of the equity interests of Beijing Xuncheng.

(c) Equity Pledge Agreement

Dexin Dongfang, on the one hand, and the Registered Shareholders and Beijing Xuncheng, on the other hand, entered into an equity pledge agreement on 10 May 2018 ("**Equity Pledge Agreement**"), pursuant to which the Registered Shareholders unconditionally and irrevocably pledged all of their respective equity interests in Beijing Xuncheng to Dexin Dongfang in order to guarantee the performance of the Contractual Arrangements by the Relevant VIE Entities and the Registered Shareholders.

Under the Equity Pledge Agreement, the Registered Shareholders have agreed that, without prior written consent of Dexin Dongfang, they will not transfer or dispose of the pledged equity interests or create or allow any third party to create any encumbrance on the pledged equity interests that would prejudice Dexin Dongfang's interest.

(d) Powers of Attorney

Each of the Registered Shareholders and Beijing Xuncheng has executed an irrevocable power of attorney on 10 May 2018 ("**Powers of Attorney**"), appointing Dexin Dongfang (or any person that it designates) to appoint directors and vote on behalf of that relevant shareholder on all matters of the relevant Consolidated Affiliated Entity or Entities that require that shareholders' approval.

Reasons for our Contractual Arrangements

We operate online and mobile education platforms in China, which constitute value-added telecommunication service business ("**Relevant Business**"). The operation of a Relevant Business is subject to foreign investment restrictions under PRC law, namely: (a) foreign investors are restricted from holding more than 50% equity interest in a company operating the Relevant Business ("**Relevant Company**"), and (b) the foreign investor holding any equity interest in a Relevant Company must meet certain qualification requirements. See "Contractual Arrangements — PRC Laws relating to foreign investment restrictions" in the Prospectus for more information on these restrictions.

Given the above restrictions and as advised by our PRC legal adviser, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we operate our Relevant Business through our Consolidated Affiliated Entities (being Beijing Xuncheng and its subsidiaries). To maintain effective control over the Relevant Business operated by our Consolidated Affiliated Entities and to receive the economic benefits generated by our Relevant Business, a series of Contractual Arrangements have been entered into between our WFOE (being Dexin Dongfang) and our Relevant VIE Entities (being Beijing Xuncheng and Kuxue Huisi) and their Registered Shareholders.

Our Directors believe that: (a) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (b) the Contractual Arrangements (and the terms of the VIE agreements underlying the Contractual Arrangements) have been entered into in the ordinary and usual course of business and on normal commercial terms or better for our Company and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Qualification requirements

As mentioned above, in addition to the 50% foreign ownership restriction, a foreign investor who invests in a value-added telecommunications business in China must satisfy qualification requirements, including having prior experience in operating value-added telecommunications business and a proven track record of business operations overseas ("**Qualification Requirements**").

See "Contractual Arrangements — PRC Laws relating to foreign investment restrictions — Qualification requirements" in the Prospectus for the current position of Qualification Requirements in respect of value-added telecommunications business in China.

Our PRC legal adviser advised us that, as of the Latest Practicable Date: (a) the MIIT guidance memorandum (stating that an applicant is required to provide, among others, satisfactory proof of the Qualification Requirements and business development plan, and that applicants should submit written statements about the main foreign investors' experience and qualifications or that of their parents or subsidiaries in providing value-added telecommunications services; see page 183 of the Prospectus) had no legal or regulatory effect under the PRC Laws; and (b) no applicable PRC Laws had provided clear guidance or interpretation on the Qualification Requirements.

Despite the lack of clear guidance on or interpretation of the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in any of our Consolidated Affiliated Entities when the relevant PRC Laws allow foreign investors to invest and to hold any equity interests in enterprises that engage in the Relevant Business. We are in the process of expanding our overseas value-added telecommunications business through our overseas subsidiaries. We have taken various measures to meet the Qualification Requirements, for example:

(a) Xuncheng HK has registered a domain name overseas and will expand its business operations in Hong Kong and overseas as and when appropriate;

(b) we have made our app, *Donut*, available for download and use on international iTunes and Android based systems such as Google Play stores through Xuncheng HK; and

(c) we established our overseas www.koolearn.hk, which is primarily for the purpose of introducing our business to users and investor relations.

Subject to the discretion of the competency authority in determining whether our Group has fulfilled the Qualification Requirements, our PRC legal adviser is of the view that these steps are reasonable and appropriate to comply with the Qualification Requirements.

Risks relating to our Contractual Arrangements

We believe that the following risks, among others, may be associated with the use of our Contractual Arrangements:

(a) the PRC government may find that the agreements that establish the structure for operating our business in China do not comply with applicable PRC Laws, which may subject us to severe penalties and our business may be materially and adversely affected;

(b) substantial uncertainties exist in relation to the interpretation and implementation of Foreign Investment Law of the PRC (中華人民共和國外商投資法) and how it may impact the viability of our current corporate structure, corporate governance and business operations;

(c) we rely on the Contractual Arrangements with our Relevant VIE Entities and the Registered Shareholders for our business operations in China, which may not be as effective in providing operational control or enabling us to derive economic benefits as through ownership of controlling equity interest;

(d) we may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are material to our business operations if any of our Consolidated Affiliated Entities declares bankruptcy or become subject to a dissolution or liquidation proceeding;

(e) the largest ultimate shareholder of Beijing Xuncheng, Mr. Yu, may have conflicts of interest with us, which may materially and adversely affect our business;

(f) if we exercise the option to acquire equity ownership of our Operating Entity, the ownership transfer may subject us to certain limitations and substantial costs; and

(g) our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

See "Risk factors — Risks relating to our corporate structure" in the Prospectus for further discussion on these risks.

Listing Rules implications and waiver

For the purposes of Chapter 14A of the Listing Rules, our Consolidated Affiliated Entities are treated as our Company's wholly-owned subsidiaries, and their directors, chief executives and substantial shareholders (as defined in the Listing Rules, which include the Registered Shareholders) and their respective associates are treated as "connected persons." As such, our Contractual Arrangements constitute continuing connected transactions for our Company.

Given that the highest applicable percentage ration under the Listing Rules is expected to be higher than 5% and more than HK$10 million, and this transaction constitutes a non-exempt continuing connected transaction, we have applied to the Stock Exchange, and the Stock Exchange has granted to us, a waiver from strict compliance with, in respect of the Contractual Arrangements: (a) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.105 of the Listing Rules; (b) the requirement under Rule 14A.53 of the Listing Rules of setting an annual cap for the transactions; and (c) the requirement under Rule 14A.52 of the Listing Rules of limiting the terms of the Contractual Arrangements to three years or less, for as long as our Shares are listed on the Stock Exchange ("**Applicable Requirements**"), subject to the following conditions:

(a) no change to our Contractual Arrangements without our independent non-executive Directors' approval;

(b) no change to the agreements underlying our Contractual Arrangements without independent Shareholders' approval, except for paragraph (d) below;

(c) our Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Consolidated Affiliated Entities;

(d) our Contractual Arrangements may be renewed and/or reproduced without strict compliance with the Applicable Requirements (including obtaining our Shareholders' approval): (i) upon the expiry of the existing arrangements; or (ii) in relation to any existing, newly established or acquired wholly foreign-owned enterprises or operating company (including branch company), engaging in the same business as that of our Group where such renewal and/or reproduction is justified by business expediency and on substantially the same terms and conditions as the existing Contractual Arrangements; and

(e) we will disclose details relating to our Contractual Arrangements on an on-going basis.

Other continuing connected transactions

As discussed in the Prospectus, the following transactions constituted non-exempt continuing connected transactions of our Group for FY 2019:

New Oriental Framework Agreement

On 13 March 2019, our Company (for itself and on behalf of other members of our Group) and New Oriental (for itself and on behalf of other members of the Retained New Oriental Group) entered into the New Oriental Framework Agreement, pursuant to which, our Group and the Retained New Oriental Group would provide each other, among others, the following non-exempt continuing connected transactions for our Company: (i) sub-licensing of TPO examinational materials, (ii) provision of educational materials; and (iii) provision of online and offline educational resources. The New Oriental Framework Agreement is for a period of three years from the Listing Date to the date immediately before the third anniversary of the Listing Date (being 27 March 2022, both dates inclusive), and the terms of which were entered into on normal commercial terms.

The annual cap and actual transaction amounts for the above non-exempted continuing connected transactions for FY 2019 are:

No.	Transaction	Annual cap for FY 2019 (RMB million)	Annual transaction amount for FY 2019 (RMB million)
1.	Sub-licensing of TPO examination materials from our Group to the Retained New Oriental Group	16.2	14.5
2.	Provision of educational materials from the Retained New Oriental Group to our Group	5.8	5.4
3.	Provision of educational resources:		
	— from our Group to the Retained New Oriental Group (online resources)	1.8	0.3
	— from the Retained New Oriental Group to our Group (online resources)	16	3.0

New Oriental is our Controlling Shareholder and a substantial shareholder (under the Listing Rules) and is a connected person of our Company at the issuer level, and its subsidiaries are associates and, as such, also connected persons of our Company.

Tencent Framework Agreement

On 13 March 2019, our Company (for itself and on behalf of other members of our Group) and Shenzhen Tencent Computer entered into the Tencent Framework Agreement, pursuant to which, among others, Tencent would provide to our Group, the following non-exempt continuing connected transactions for our Company: (i) cloud and technical services, and (ii) payment services. The Tencent Framework Agreement is for a period of three years from the Listing Date to the date immediately before the third anniversary of the Listing Date (being 27 March 2022, both dates inclusive), and the terms of which were entered into on normal commercial terms. On 23 May 2019, we revised our annual caps for the payment services under the Tencent Framework Agreement.

The annual cap (as revised) and actual transaction amounts for the above non-exempted continuing connected transactions for FY 2019 are:

No.	Transaction	Annual cap for FY 2019 (RMB million)	Annual transaction amount for FY 2019 (RMB million)
1.	Cloud and technical services from Tencent to our Group	10.7	4.2
2.	Payment services from Tencent to our Group	1.9	1.8

Shenzhen Tencent Computer is a subsidiary of Tencent, both of which are core connected persons of our Company.

Tigerstep Framework Agreement

On 13 March 2019, our Company (for itself and on behalf of other members of our Group) and Tigerstep (for itself and on behalf of its subsidiaries) entered into the Tigerstep Framework Agreement, pursuant to which Tigerstep (and its subsidiaries) would lease certain property locations to our Group to be used as, among other purposes, office space, recording studios and administration premises. The Tigerstep Framework Agreement is for a period of three years from the Listing Date to the date immediately before the third anniversary of the Listing Date (being 27 March 2022, both dates inclusive), and the terms of which were entered into on normal commercial terms.

The annual cap and actual transaction amounts for the above non-exempted continuing connected transaction for FY 2019 are:

No.	Transaction	Annual cap for FY 2019 (RMB million)	Annual transaction amount for FY 2019 (RMB million)
1.	Property leasing from Tigerstep (and its subsidiaries) to our Group	11.3	10.5

Tigerstep and its subsidiaries are associates of Mr. Yu, one of our Directors, and as such, are connected persons of our Company.

Confirmations in respect of our continuing connected transactions

Confirmations from our independent non-executive Directors

Our independent non-executive Directors have reviewed our Contractual Arrangements and each of our framework agreements (collectively, the "**CCT Agreements**") and confirmed that:

With respect to our Contractual Arrangements:

(a) the transactions carried out during FY 2019 have been entered into in accordance with the relevant provisions of our CCT Arrangements;

(b) no dividends or other distributions have been made by our Relevant VIE Entities to the holders of its equity interests that are not otherwise subsequently assigned or transferred to our Group during FY 2019; and

With respect to all CCT Agreements:

(c) the transactions underlying the CCT Agreements are in the ordinary and usual course of the Group's business, and terms of the CCT agreements and their underlying transactions are on normal commercial terms or better, fair and reasonable and in the interest of our Company and our Shareholders as a whole.

Confirmations from our Company's independent external auditors

Our independent external auditors has confirmed in a letter to our Board that, with respect to the continuing connected transactions of our Company (including our Contractual Arrangements):

(a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by our board of directors.

(b) for transactions involving the provision of goods or services by our Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of our Company.

(c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(d) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by our Company.

Contracts with our Controlling Shareholder or management contracts

Save as disclosed in this annual report and the Prospectus, no other contracts of significance or contract of significance for the provision of services had been entered into among our Group and our Controlling Shareholder during FY 2019.

No contract, concerning the management and administration of the whole or any substantial part of our Company's business was entered into or existed during FY 2019.

Save as disclosed in this annual report, and in particular the " — Continuing connected transactions" above and Note 11 to the consolidated financial statements, none of our Directors (or any entity connected with our Directors) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which our Company was a party and which subsisted during FY 2019.

Pre-emptive rights

There are no provisions for pre-emptive rights under our Articles of Association or Cayman Islands Laws that would oblige our Company to offer new Shares on a pro-rata basis to existing Shareholders.

Tax relief and exemption

Our Directors are not aware of any tax relief and exemption available to our Shareholders by reason of them holding our Company's securities.

Auditor

Our Group's consolidated financial statements have been audited by Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for re-appointment at our upcoming AGM. There was no change in our Company's independent external auditors since the Listing Date.

Events after the Reporting Period

On 16 August 2019, Beijing Xuncheng entered into an agreement to acquire the remaining 49% equity interest in Dongfang Youbo from its remaining shareholder, Tianjin Qiancheng Xiangyu Technology Limited Partnership (天津前程翔宇科技合夥企業（有限合夥）). Please refer to our announcement of the same date, and supplemental announcement of 2 September 2019, on "Discloseable and connected transaction for the acquisition of 49% of Dongfang Youbo" for details of this transaction.

We established Zhuhai Chongsheng Heli Network Technology Co., Ltd. (珠海崇勝合力網絡科技有限公司, "**Zhuhai Chongsheng**"), a wholly-owned foreign entity of Xuncheng HK, on 23 July 2019, which apart from preparing to provide services under the Contractual Arrangements, as at the Latest Practicable Date, conducted no other business. As at the Latest Practicable Date, Zhuhai Chongsheng and Dexin Dongfang, on the one hand, and Beijing Xuncheng and its Registered Shareholders, on the other hand, proposed to enter into a supplemental agreement to the Contractual Arrangements ("**Supplemental Agreement**"), pursuant to which, Zhuhai Chongsheng would be joined as a party to the Contractual Arrangements and would receive all the rights and assume all the obligations of Dexin Dongfang under the main Contractual Arrangements, together with and severally from Dexin Dongfang (as appropriate), effective from the date of the Supplemental Agreement.

On 16 August 2019, Beijing Xuncheng entered into a purchase agreement with Tianjin Qiancheng Xiangyu Technology Limited Partnership (天津前程翔宇科技合夥企業（有限合夥）) ("**Tianjin Qiancheng**"), pursuant to which Tianjin Qiancheng agreed to sell to Beijing Xuncheng the remaining 49% equity interest in Dongfang Youbo. Upon completion of this acquisition, Dongfang Youbo will become a wholly-owned subsidiary of Beijing Xuncheng. Pursuant to the Exclusive Management Consultancy and Business Cooperation Agreement (being part of the Contractual Arrangements), Dongfang Youbo is expected to execute a letter of assumption (承受函) under which Dongfang Youbo will: (i) become a party to the Exclusive Management Consultancy and Business Cooperation Agreement; and (ii) enjoy all rights and assume all obligations under the agreement.

Environmental policies and performance

We are committed to fulfilling our social responsibility, promoting employee benefits and development, protecting the environment and giving back to our community and achieving sustainable growth. Further details of our environmental and social performance as set out in the "Environmental, social and governance report" included in this annual report.

Public float

Based on the information publically available to our Company, and to the best knowledge of our Directors, as at the Latest Practicable Date, our Company maintained the prescribed percentage of public float under the Listing Rules.

Compliance with relevant Laws

Save as otherwise disclosed in this annual report and our Prospectus, we have complied with all relevant Laws that have a material and significant impact on our Group.

Closure of register of members

Our Company's annual general meeting will be held on 5 November 2019. Our register of members will be closed from 31 October 2019 to 5 November 2019 (both days inclusive) in order to determine the identity of our Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 30 October 2019.

For and on behalf of the Board
YU Minhong
Chairman

Hong Kong
17 September 2019

OTHER INFORMATION

Disclosure of interests

Directors and chief executives

As at the end of FY 2019, the interests and short positions of our Company's directors and chief executives (being those as at the end of FY 2019) in our Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by our Company pursuant to Section 352 of the SFO, or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code are set out below. All interests disclosed represent long positions in shares. Our Directors and company's chief executives do not hold any short positions in shares.

Interest in our Shares

Name of Director or chief executive	Nature of interest	Relevant entity	Number of Shares interested	Approximate percentage of shareholding in our Company(1)
Mr. Sun(2)	Beneficial owner		8,000,000	0.85%
Ms. Sun(3)	Interest in a controlled corporation	First Bravo	14,742,640	1.57%
Mr. Yu(4)	Beneficial owner		16,695,285	1.78%
	Beneficiary of a trust	Tigerstep	13,858,832	1.48%
Mr. Yin(5)	Beneficial owner		2,100,000	0.22%
	Interest in a controlled corporation	Perfect Go	3,371,196	0.36%
Mr. Pan(6)	Interest in a controlled corporation	Nova Max	9,355,935	1.00%
Mr. Wu(7)	Beneficial owner		1,350,000	0.14%

Notes:

(1) The percentages are calculated based on our Company's total number of issued shares, being 936,335,602 Shares, as at the end of FY 2019.

(2) These interests represent the 8,000,000 Shares that may be issued pursuant to an exercise of options granted to Mr. Sun under the Pre-IPO ESOP.

(3) First Bravo is wholly-owned by Ms. Sun. Under the SFO, Ms. Sun is deemed to be interested in all of First Bravo's interests in our Company.

(4) These interests comprise: (i) 16,695,285 Shares that may be issued pursuant to an exercise of options granted to Mr. Yu under the Pre-IPO ESOP; and (ii) 13,858,832 Shares held through Tigerstep. Mr. Yu is a beneficiary of a family trust that controls Tigerstep through a trust arrangement, and as such, under the SFO, Mr. Yu is deemed to be interested in all of Tigerstep's interests in our Company.

(5) These interests comprise: (i) 2,100,000 Shares that may be issued pursuant to an exercise of options granted to Mr. Yin under the Pre-IPO ESOP; and (ii) 3,371,196 Shares held through Perfect Go, which is wholly-owned by Mr. Yin, and as such, under the SFO, Mr. Yin is deemed to be interested in all of Perfect Go's interests in our Company.

(6) Nova Max is wholly-owned by Mr. Pan. Under the SFO, Mr. Pan is deemed to be interested in all of Nova Max's interests in our Company.

(7) These interests represent the 1,350,000 Shares that may be issued pursuant to an exercise of options granted to Mr. Wu under the Pre-IPO ESOP.

Interest in New Oriental

Name of Director or chief executive	Nature of interest	Total number of shares	Percentage of shareholding in New Oriental[(1)]
Mr. Yu[(1)]	Interest in a controlled corporation; beneficiary of a trust	21,199,600	13.4%

Note:

(1) According to the best knowledge of our Directors. New Oriental is held by Tigerstep as to approximately 13.4% while Mr. Yu is a beneficiary of a family trust that controls Tigerstep through a trust arrangement. Under the SFO, Mr. Yu is deemed to be interested in all of Tigerstep's interests in New Oriental.

Interest in our associated corporations (other than New Oriental)

Name of director	Nature of interest	Associated corporation	Amount of registered capital (RMB)	Approximate percentage of shareholding in the associated corporation
Mr. Yu	Nominee shareholder whose shareholder's rights are subject to contractual arrangements	Beijing Xuncheng[(1)]	122,351,229	74.49%
	Beneficial owner	Century Friendship[(1)]	8,000,000	80%
	Interest in a controlled corporation	New Oriental China[(1)]	10,000,000	100%
	Interest of controlled limited partnership	New Venture[(2)]	5,000	50%
Mr. Pan	Interest of controlled limited partnership	Zhishang[(3)]	626,775	80%

Notes:

(1) Century Friendship and New Oriental China are controlled through a series of contractual arrangements by, and are therefore treated as subsidiaries of. New Oriental. Mr. Yu holds a 80% equity interest in Century Friendship, which in turn, holds the enquire equity interests in New Oriental China. New Oriental China holds a 74.49% equity interest in, and has entered into our Contractual Arrangements with (as defined and detailed in "Contractual Arrangements" in the Prospectus), Beijing Xuncheng. Under the SFO, Mr. Yu is deemed to be interested in all of Century Friendship's interests in New Oriental China, and all of New Oriental China's interests in Beijing Xuncheng.

(2) New Venture is held by our Company as to more than 20%, and is held by New Oriental China as to 50%. Mr. Yu controls New Oriental China and, under the SFO, is deemed to be interested in all of New Oriental China's interests in New Venture.

(3) Zhishang is held by our Company as to more than 20%, and is held by Tianjin Zhishang Education Technology Limited Partnership (天津職尚教育科技合夥企業 (有限合夥), "**Tianjin Zhishang**") as to 30%. Mr. Pan holds more than one-third interest in Tianjin Zhishang and, under the SFO, is deemed to be interested in all of Tianjin Zhishang's interests in Zhishang.

Substantial shareholders

As at the end of FY 2019, as far as our Directors are aware, the following persons (other than our Directors and chief executives of our Company) had interests or short positions in our Shares or underlying Shares of our Company as recorded in the register required to be kept by our Company pursuant to Section 336 of the SFO. All of the interests below represent long positions in shares. As for as our Directors are aware, none of the person below held any short positions in shares.

Name of Shareholder	Nature of interest	Number of ordinary shares	Approximate percentage of shareholding in our Company[1]
New Oriental	Beneficial interest	500,000,000	53.40%
Image Frame[2]	Beneficial interest	90,416,181	9.66%
Tencent	Interest in a controlled corporation	90,416,181	9.66%
Auspicious	Beneficial interest	53,305,067	5.69%
Dragon Cloud	Beneficial interest	51,491,108	5.50%
TANG Hua[3]	Interest in a controlled corporation	51,491,108	5.50%

Notes:

(1) The percentages are calculated based on our Company's total number of issued shares, being 936,335,602 Shares, as at Latest Practicable Date.

(2) Image Frame is a subsidiary of Tencent. Under the SFO, Tencent is deemed to be interested in all of Image Frame's interests in our Company.

(3) Dragon Cloud is wholly-owned by Ms. TANG Hua. Under the SFO, Ms. TANG Hua is deemed to be interested in all of Dragon Cloud's interests in our Company.

Share Option Schemes

Our Company adopted the pre-IPO share option scheme ("**Pre-IPO ESOP**") rules on 13 July 2018 (and subsequently amended on 29 September 2019) and the post-IPO share option scheme ("**Post-IPO ESOP**") rules on 30 January 2019 (collectively, the "**Share Option Schemes**"). See "Statutory and general information" as Appendix IV to the Prospectus for further details of our Share Option Schemes.

The purpose of our Share Option Schemes is to provide respective eligible participants with an opportunity to acquire proprietary interest in our Company and to encourage the eligible participants to work towards enhancing the value of our Company and our Shares for the benefit of our Company and our Shareholders as a whole. The Share Option Schemes are further intended to provide our Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to their respective eligible participants.

The eligible participants of each of the Share Option Schemes include, among others, any director, employee or contractor or affiliate of our Group (including nominees and/or trustees of any employee benefit trust(s) established for them) who our Board considers, in its sole discretion, to have contributed or will contribute to our Group.

Pre-IPO ESOP

Maximum number of Shares

The overall limit in the number of options under the Pre-IPO ESOP represents 47,836,985 underlying Shares, subject to possible adjustments under the Pre-IPO ESOP, all of which were granted to eligible participants by the end of FY 2019. As at the Latest Practicable Date, none of the options under the Pre-IPO ESOP had been exercised, and options to subscribe for an aggregate of 44,740,485 underlying Shares remained outstanding, representing approximately 4.78% of our total issued share capital as at the Latest Practicable Date.

No further options were granted following our Global Offering and no further options may be granted under the Pre-IPO ESOP.

Limit for each participant

There is no specified limit on the maximum number of underlying Shares for which any particular grantee may subscribe under the Pre-IPO ESOP.

Remaining life of the Pre-IPO ESOP and option period

The Pre-IPO ESOP is valid for six years from the Listing Date (being from 28 March 2019 to 27 March 2025), which is also the maximum option period, following which any outstanding options shall expire and may not be exercised. The remaining life of the scheme is approximately five and a half years.

Each grantee gave an undertaking at the date of accepting their respective grant to hold the vested options for a minimum period of six months (from the vesting date of the respective options) before exercising ("**Minimum Period**"). On 16 August 2019, our Board resolved to waive this Minimum Period for the grantees.

Consideration and subscription price

Each grantee paid a consideration of RMB1.00 for the grant of options under the Pre-IPO ESOP. The subscription price under the Pre-IPO ESOP is HK$8.88 per Share.

Details of option grants

As at the end of FY 2019, (a) our Directors held unexercised options under the Pre-IPO ESOP to subscribe for a total of 28,145,285 Shares, representing 3.01% of the issued share capital of our Company, and (b) other 119 grantees held unexercised options under the Pre-IPO ESOP to subscribe for a total of 16,595,200 Shares, representing approximately 1.77% of the issued share capital of our Company, details of which are as follows:

					Number of options			
Name or category of grantee	Date of grant	Vesting period	Maximum period during which options are exercisable	Exercise price	Outstanding as at the Listing Date	Exercised during the Relevant Period	Cancelled/ lapsed during the Relevant Period	Outstanding as at end of FY 2019
YIN Qiang	6 March 2019	Three years from Listing Date	From the commencement of the first vesting period to the day prior to the sixth anniversary of the Listing Date	HK$8.88 per Share	2,100,000	Nil	Nil	2,100,000
WU Qiang	6 March 2019	Three years from Listing Date	From the commencement of the first vesting period to the day prior to the sixth anniversary of the Listing Date	HK$8.88 per Share	1,350,000	Nil	Nil	1,350,000
YU Minhong	6 March 2019	Three years from Listing Date	From the commencement of the first vesting period to the day prior to the sixth anniversary of the Listing Date	HK$8.88 per Share	16,695,285	Nil	Nil	16,695,285
SUN Dongxu	6 March 2019	Three years from Listing Date	From the commencement of the first vesting period to the day prior to the sixth anniversary of the Listing Date	HK$8.88 per Share	8,000,000	Nil	Nil	8,000,000
Other grantees (in aggregate)	6 March 2019	Three years from Listing Date	From the commencement of the first vesting period to the day prior to the sixth anniversary of the Listing Date	HK$8.88 per Share	19,691,700	Nil	3,096,500	16,595,200
Total					47,836,985	Nil	3,096,500	44,740,485

Further details of movements in the Pre-IPO ESOP is set out in Note 30 to the consolidated financial statements.

Post-IPO ESOP

Maximum number of Shares

The maximum number of Shares that may be allotted and issued:

(a) upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO ESOP and any other share option schemes of our Group (collectively, the "**All Share Option Schemes**") must not exceed 30% of our Company's total issued share capital from time to time ("**Scheme Limit**"). No options may be granted if such options results in the Scheme Limit being exceeded;

(b) upon exercise of all options granted under All Share Option Schemes must not exceed 10% (being 91,395,910 Shares) of the total number of Shares in issue on the Listing Date (being 913,959,102 Shares); and

(c) the limit in (b) above may be refreshed at any time with our Shareholders' approval, provided that the total number of Shares that may be issued upon exercise of all options granted under All Share Option Schemes do not exceed 10% of our Company's total issued share capital at the date of approval. Options previously granted (including those outstanding, cancelled, lapsed or exercised under All Share Option Schemes) will not be counted in the 10% refresher limit.

Limit for each participant

Unless specifically approved by our Shareholders, each eligible participant under the Post-IPO ESOP may only be granted options (including both exercised and outstanding options) within any 12-month period that represent underlying Shares that aggregate to 1% of our Company's total issued share capital at that particular time.

Remaining life of the Post-IPO ESOP and option period

The Post-IPO ESOP is valid for ten years from the Listing Date (being from 28 March 2019 to 27 March 2029), which is also the maximum option period, following which any outstanding options shall expire and may not be exercised. The remaining life of the scheme is approximately nine and a half years. Under the Post-IPO ESOP rules, there is no minimum period for which an option must be held before it can be exercised.

Consideration and subscription price

Each grantee shall pay a consideration of RMB1.00 for the grant of options under the Post-IPO ESOP. The subscription price per Share under the Post-IPO ESOP shall be determined by our Board in its absolute discretion and notified to the participant, but shall be no less than the higher of:

(a) the closing price of our Shares as stated in the daily quotations sheet issued by the Stock Exchange ("**Daily Quotations Sheet**") on the grant date;

(b) the average closing price of our Shares as stated in the Daily Quotations Sheet for the five business days immediately preceding the grant date; and the nominal value of each Share on the grant date.

Details of option grants

During FY 2019, our Company did not grant any options under the Post-IPO ESOP.

CORPORATE GOVERNANCE REPORT

Corporate governance practices

We are committed to maintaining and promoting stringent corporate governance standards. Our Company's corporate governance principles are to promote effective internal control measures and to enhance the transparency and accountability of our Board to all our Shareholders.

Our Company was incorporated in the Cayman Islands on 7 February 2018, and our Shares have been listed on the Stock Exchange since 28 March 2019 (being the Listing Date). Since the Listing Date, we have applied the principles and code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules as the basis of our corporate governance practices.

Our Board will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest development.

Save for code provision A.1.1 of the Corporate Governance Code, we have complied with all code provisions set out in the Corporate Governance Code during the Relevant Period (being the period from the Listing Date to the end of FY 2019, both dates inclusive). We set out in this report a summary of our Company's key corporate governance principles and practices.

Provision A.1.1 of the Code provides that board meetings should be held at least four times a year at approximately quarterly intervals. Our Company was listed on 28 March 2019, and since then until the end of the FY 2019 (being 31 May 2019, both dates inclusive), our Board had held 3 meetings.

Our Directors' compliance with the Model Code

We have adopted the Model Code contained in Appendix 10 to the Listing Rules as our Company's code of conduct regarding our Directors' dealing in our Company's securities. Having made specific enquiry of all our Directors, all Directors confirmed that they have complied with the provisions of the Model Code throughout the Relevant Period.

Our Board

During the Relevant Period, our Board consisted of nine members, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors, namely:

Board of Directors

Executive Directors	Ms. SUN Chang *(since 7 February 2018)* Mr. YIN Qiang *(since 23 May 2018)* Mr. PAN Xin *(from 23 May 2018 to 16 August 2019)*	*Co-chief executive officer*
Non-executive Directors	Mr. YU Minhong *(since 23 May 2018)* Mr. WU Qiang *(since 23 May 2018)* Ms. LEUNG Yu Hua Catherine *(since 13 July 2018)*	*Chairman*
Independent non-executive Directors	Mr. CHI Yufeng *(from 15 March 2019)* Mr. TONG Sui Bau *(from 15 March 2019)* Mr. KWONG Wai Sun Wilson *(from 15 March 2019)*	

Board committees

Audit Committee	Mr. TONG Sui Bau Mr. WU Qiang Mr. KWONG Wai Sun Wilson	*Committee chairman*
Remuneration Committee	Mr. CHI Yufeng Ms. SUN Chang Mr. TONG Sui Bau	*Committee chairman*
Nomination Committee	Mr. YU Minhong Mr. CHI Yufeng Mr. TONG Sui Bau	*Committee chairman*

See "Directors and senior management" at pages 20 to 23 for the biographical information of our Directors.

During the Relevant Period, our Company met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and representing at least one-third of our Board, with at least one of whom possessing the appropriate professional qualifications or accounting or related financial management expertise (being Mr. TONG Sui Bau and Mr. KWONG Wai Sun Wilson). Mr. Tong is an independent non-executive Director who possesses the appropriate qualifications to act as chairman of our Audit Committee.

None of our Board members are related to one another.

Following the Relevant Period, on 16 August 2019, our Company appointed Mr. Sun Dongxu to our Board, effective from the same date. See our annual results announcement of 16 August 2019 for more information.

Responsibilities and delegation

Our Board assumes responsibility for the leadership and control of our Company, and is responsible for directing and supervising our Company's affairs in the best interests of our Company and our Shareholders.

Our Chairman and co-chief executive officers are: Mr. Yu (Chairman) and Mr. Sun (co-chief executive officer) and Ms. Sun (co-chief executive officer). Our Chairman provides leadership and is responsible for the effective functioning and leadership of, and providing advice to, our Board. Our co-chief executive officers focus on our Company's overall strategic planning, overall management and business direction, with Mr. Sun focusing more on our K-12 business.

Our Board directly, and indirectly through our three board committees (being the audit committee, remuneration committee and nomination committee, collectively, the "**Board Committees**"), leads and provides to management strategies and overseeing the implementation of these strategies, as well as supervising our Company's internal control and risk management systems. Our Board makes the final decision on policy matters, strategies and budgets, internal control and risk management, material transactions, financial information, directorship appointment, and other significant operational matters of our Company. Our Board may delegate certain of its responsibilities, including implementing its decisions, directing and coordinating the daily operations of our Company and management to our chief executive officers, other senior managers and management. These delegated functions and responsibilities are periodically reviewed by our Board.

Each of our Directors bring a wide variety of business and industry experience, knowledge and professionalism to our Board for its efficient and effective functioning. Our Directors have full and timely access to all information of our Company, and may upon request, seek independent professional advice in appropriate circumstances at our Company's expense for discharging their duties to our Company. Our Directors will disclose to our Company details of other offices held by them.

Appointment and re-election of Directors

According to our Articles of Association, at each annual general meeting of our Company, one-third of our Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. A Director appointed by our Board or by ordinary resolutions of our Company, either to fill a casual vacancy or as an addition to our Board, will hold office only until our Company's next general meeting. All retiring Directors will be eligible for re-election.

Each Director (including our non-executive Directors and independent non-executive Directors) is engaged for a term of three years and are subject to retirement and re-election in accordance with our Articles of Association.

Continuous professional development of Directors

Our Company and each of our Directors understand the importance of our Directors participating in appropriate continuous professional development to allow them to keep on top of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to our Board remains informed and relevant. Our Directors are encouraged to attend relevant training at our Company's expense.

During FY 2019, each of our Directors have received professional training, which include, among others: (a) participating in continuous professional training seminar(s), conference(s), course(s) and/or meeting(s); (b) reading materials provided by external parties, or prepared by our Company, and provided from time to time to Directors, regarding legal and regulatory changes and matters relevant to directors' duties and responsibilities and our Group's business; and/or (c) news, journals, magazines or other reading materials that touch on legal and regulatory changes and matters relevant to our Directors discharging their directors' duties and responsibilities or that concern our Group's business.

Attendance records of Directors

We were listed on 28 March 2019, being approximately two months prior to the end of FY 2019. During this time (being the Relevant Period), our Directors attended the following meetings:

Director	Board meetings	Audit committee[1]	Nomination committee[1]	Remuneration committee[1]
Ms. SUN Chang	3/3	—	—	—
Mr. YIN Qiang	3/3	—	—	—
Mr. PAN Xin *(resigned on 16 August 2019)*	3/3	—	—	—
Mr. YU Minhong	3/3	—	—	—
Mr. WU Qiang	3/3	1/1	—	—
Ms. LEUNG Yu Hua Catherine	3/3	—	—	—
Mr. CHI Yufeng	3/3	—	—	—
Mr. TONG Sui Bau	3/3	1/1	—	—
Mr. KWONG Wai Sun Wilson	3/3	1/1	—	—

Note:

(1) The Audit Committee held one meeting during the Relevant Period, during which all committee members were in attendance. No meeting of the Nomination Committee, or the Remuneration Committee was held during the Relevant Period. Following the end of the Relevant Period and as at the Latest Practicable Date, each of the Audit Committee, the Nomination Committee, and the Rumination Committee held one meeting on 16 August 2019, and all members of the respective committees were in attendance.

As our Listing occurred approximately two months prior to the end of FY 2019, during the Relevant Period, our Company held no annual general meeting, and no meeting among our Chairman with the non-executive Directors (including the independent non-executive Directors) was held. A meeting among our Chairman with the non-executive Directors (including the independent non-executive Directors) was held on 16 August 2019.

Our Company will hold an annual general meeting on 5 November 2019, and a circular containing details of the AGM and information on the resolutions to be proposed at the AGM, will be separately circulated to all Shareholders.

Our Board will meet at least four times a year, at approximately quarterly intervals, and our Chairman will hold at least one meeting a year with our independent non-executive Directors without the executive Directors present. Schedules for regular Board meetings are normally agreed with Directors in advance to facilitate their attendance. At least 14 days' notice for all regular Board meetings will be given to all Directors and all Directors are given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice will be given. Relevant agenda and accompanying meeting papers will be sent to all Directors in a timely manner and at least three days in advance of every regular Board meeting.

Board committees

We have established three Board committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees are established with specific written terms of reference which deal clearly with their authority and duties, and are posted on the Company's website and the Stock Exchange's website.

Audit Committee

We have established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system (including risk management) of our Group, review and approve connected transactions and provide advice and comments to the Board. See "Our Board" at page 45 for members of our Audit Committee.

None of the members of the Audit Committee is a former partner of the Company's existing external auditor, Deloitte Touche Tohmatsu ("**Auditor**").

The Audit Committee has performed the following major tasks during the Relevant Period:

- discussing and making recommendation on the re-appointment of the Auditor;
- reviewing and monitoring the independence and objectivity of the Auditor and the effectiveness of the audit process for our Group's annual audit for FY 2019;
- reviewing the annual results of our Group for FY 2019;
- reviewing our Company's financial controls, risk management and internal control systems;
- discussing the effectiveness of the risk management and internal control systems of our Company with the management;

- reviewing the effectiveness and resources of our Company's internal auditors and ensuring its co-ordination with the Auditor;
- reviewing our Company's and its subsidiaries' operating, financial and accounting policies and practice;
- reviewing any management letter and material queries from the Auditor and the management's response, and ensuring timely response to the issues raised by the Auditor's management letter was provided by our Board;
- reviewing arrangements employees of our Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- reviewing the continuing connected transactions of the Group carried out during the Relevant Period.

Nomination Committee

We have established the Nomination Committee with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. See "Our Board" at page 45 for members of our Nomination Committee.

The Nomination Committee has performed the following major tasks during the Relevant Period:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board;
- developing the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship;
- assessing the independence of all the independent non-executive Directors;
- making recommendations to the Board on the selection of individuals nominated for directorships; and
- making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors of our Company.

We have adopted a Board diversity policy to enhance greater diversity of members on our Board. See " — Board diversity policy" at page 54.

We have also adopted a director nomination policy to guide our Nomination Committee in identifying and recommending candidates for directorship positions and to make recommendations to our Board on the succession planning of directors. See "Director nomination policy" at page 53.

Remuneration Committee

We have established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The primary duties of the Remuneration Committee are to review and make recommendations to our Board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior managers. See "Our Board" at page 45 for members of our Remuneration Committee.

During the Relevant Period, the Remuneration Committee reviewed and made recommendations on the remuneration packages of our Directors and our Company's senior managers.

We set out below the remuneration of our Company's senior managers (including our executive Directors) by band for FY 2019:

Annual remuneration	Number of individuals
HK$1,000,001 to HK$2,000,000	1
HK$2,000,001 to HK$3,000,000	1
HK$3,000,001 to HK$4,000,000	1
HK$10,000,001 to HK$20,000,000	1

Further details of the remuneration for FY 2019 are set out in Note 10 to the consolidated financial statements.

Corporate governance functions

Our Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code.

Our Board shall review our Company's corporate governance policies and practices, our Directors' and senior managers' training and continuous professional development, our Company's policies and practices on compliance with legal and regulatory requirements, our Company's compliance with the Corporate Governance Code, and the disclosure in this Corporate Governance Report. Our Board has performed the above duties during the Relevant Period.

Risk management and internal controls

Our Board acknowledges that it is overall responsible for our Company's risk management and internal control systems and for reviewing their effectiveness. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Nevertheless, our Board is committed to minimising and managing these risks. Our Audit Committee, internal audit department and senior management together monitor the implementation of our internal control and risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.

Risk management and internal control systems and policies

Our Group has adopted a "three line of defense model" in designing its risk management and internal control systems:

- *The first line of defense — Business and operations*: our Group's management and operational departments, collectively, form the "first line of defense." They are responsible for implementing risk management and internal control policies in their day-to-day operations and identifying and managing the risks arising from their areas of work.

- *The second line of defense — Risk management and internal control function*: our internal audit department forms the "second line of defense." The internal audit department is responsible for formulating internal control and risk management policies and managing the implementation of these policies. It supervises the work of participants who form the "first line of defense" and reports any major issues to our Audit Committee and, where necessary, our Board. The internal audit department maintains a high degree of independence to ensure the effectiveness and fairness of its work.

- *The third line of defense — Internal review and continuous improvement*: the "third line of defense" mainly consists of the Audit Committee, which is responsible for reviewing the effectiveness and adequacy of our Company's risk management and internal control policies and systems on a regular basis and ensuring such policies and systems are improved and updated over time. The Audit Committee reports its work and findings and any major issues to our Board.

Given that our Company listed on the Stock Exchange approximately two months prior to the end of the Relevant Period, our Audit Committee held one meeting during the Relevant Period, and as at the date of this report, our Audit Committee also conducted one review of our risk management and internal controls systems and policies and has reported its findings to our Board. Our Board is satisfied that our Company's risk management and internal control systems and policies are effective and adequate.

Our Group has established a whistle-blowing procedure. The internal audit department is responsible for receiving any alleged anti-fraud, anti-bribery or other whistle-blowing incidents. It then performs a preliminary assessment to determine whether the case warrants further investigation. If the case is determined to have sufficient basis for further investigation, it will be reported to our Audit Committee. Our Audit Committee is responsible for investigating all cases referred to it and will report its findings and recommendations to our Board and our Company's management where necessary. For confirmed cases of breach, our Board or our Company's management may take disciplinary action according to our Audit Committee's recommendation and the relevant policies, and where the case involves a violation of relevant Laws, the case will be reported to the relevant regulatory authority.

Our Group has also adopted an information disclosure policy which sets out comprehensive guidelines on handling and disseminating inside information. Our Board is entrusted with the responsibility of monitoring and implementing the procedural requirements set out in the information disclosure policy.

Significant risks of the Company

During the Relevant Period, our Company identified several significant risks through its risk management system and has formulated and implemented measures for managing these risks accordingly.

1. *Market competition and innovation risk*

   The private education sector in China is highly fragmented, competitive and evolving rapidly. We face significant competition from other online education companies and we also compete with traditional offline education companies; new businesses and some traditional education companies are also entering the online education market. To enhance and maintain our competitive advantage, we need to continuously innovate and improve our online course offerings and services.

   Our Company's management monitors and analyses the market trends and our Company's competitors, researches students' demands and translates these findings into improved product features or new product offerings.

2. *Product and service quality risk*

   Our revenue is primarily driven by the number of students enrolled in and the amount of course fees they are prepared to pay for our online courses on our *Koolearn, Koo, DFUB* and *Donut* platforms. The key to our ability to attract students is that we consistently deliver high quality teaching and education content. If we fail to maintain the quality of our products and services as we innovate and expand, we risk losing our attractiveness to students and, in turn, our revenue.

   We have established an internal review system to review the performance of our teaching staff and channel the feedback to our teachers on a regular basis. We have also placed a strong emphasis on our technological capabilities and user experience across our platforms and we strive to continuously upgrade and improve our systems and platforms according to feedback and reviews.

3. *Regulatory and compliance risk*

   The internet industry and the education industry, including foreign ownership and licensing and filing requirements for companies in these two industries, are heavily regulated in China. Furthermore, the Laws relating to online education businesses and companies, where the two industries cross paths, are relatively new and evolving, and their interpretation and enforcement remain subject to significant uncertainty. As a result, in certain circumstances, it may be difficult to determine what actions or omission may be deemed to be in violation of applicable Laws, which may pose a significant risk when conducting our online education businesses.

   We have set up a specialised working group to closely watch and analyse relevant developments in the legal and regulatory landscape of China's online education industry and to continuously review our compliance status. We have also employed external compliance consultants to monitor the compliance of our daily operations.

4. *Information security risk*

   In the course of conducting our online education business, we have collected, and are in possession of, a large amount of user data. Any leakage or unauthorised use of our user data, whether the result of cyber-attacks, system failures or other causes, could significantly damage our brand and reputation, and in turn, our student enrolment and revenue, as well as expose us to potential legal liability under relevant personal data Laws.

   We have adopted internal rules on the handling of user data as well as emergency measures. We conduct internal reviews on our cyber security systems and measures regularly and keep these up-to-date.

5. *Crisis management and reputation risk*

   "New Oriental" is a household brand in the private education industry in China. We continuously develop and promote our business under the "New Oriental" name to benefit from its market recognition. Market recognition, on the other hand, also means increased public scrutiny, especially after our Listing on the Stock Exchange.

   We have set up a specialised public relations department and formulated internal rules on crisis management to manage our brand, communicate to our customers and stakeholders and to ensure we are capable of responding to public relations crisis in a professional and prompt manner.

Directors' responsibilities in respect of the financial statements

Our Directors acknowledge their responsibility for preparing our Company's consolidated financial statements for FY 2019. Our Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon our Company's ability to continue as a going concern.

Deloitte's reporting responsibilities for the financial statements is summarised in the "Independent auditor's report" prepared by them and set out at pages 97 to 100.

Director nomination policy

Our Company has adopted a director nomination policy ("**Director Nomination Policy**") that sets out the considerations and procedures for selecting and nominating directors on our Board, and for succession planning of our Company's directors. In assessing a candidate's suitability and the potential contribution to our Board, our Nomination Committee would consider a number of aspects, including the candidate's reputation for integrity, his/her professional qualifications and skills, accomplishments and experience and Board diversity considerations (see Diversity Policy below). Our Nomination Committee will identify, consider and recommend suitable individuals to act as directors on our Board, and make recommendations to our Board on the appointment or re-appointment of directors and their succession planning.

Notwithstanding, the ultimate responsibility for selecting and appointing directors rests with our entire Board.

Board diversity policy

Our Company has adopted a board diversity policy ("**Diversity Policy**") that sets out our approach to achieving diversity of members on our Board. We embrace the benefits of having a diverse Board and view diversity at the Board level, including gender diversity, as an essential element in maintaining our competitive edge and enhancing our ability to attract, retain and motivate employees. In identifying and selecting suitable candidates to serve on our Board as Directors, our Nomination Committee would consider a number of aspects, including gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience.

The Nomination Committee will discuss periodically and when necessary, agree on measurable objectives for achieving diversity, including gender diversity, among our Board members as recommendations proposed to our Board for adoption. At present, our Board has not set any measurable objectives.

The Nomination Committee will review our Diversity Policy as appropriate from time to time to ensure its effectiveness.

Dividend policy

Our Company has adopted a dividend policy ("**Dividend Policy**"), which aims to increase or maintain the value of dividends per Share, to provide reasonable return in investment to investors, and to allow Shareholders to assess its dividend pay-out trend and intention.

Pursuant to our Dividend Policy, a dividend may only be declared and paid out of our Company's profits and reserves that are lawfully available for distribution (including share premium), and may not be declared and paid out if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. Our Board has absolute discretion as to whether to pay a dividend, and alternatively, Shareholders may by way of ordinary resolution declare dividends provided that no dividend declared is in excess of the amount recommended by our Board.

The form, frequency, and amount of dividends declared and paid will depend on, among others, our Company's: (a) future operations and business prospects; (b) cash flow, general financial condition, and capital adequacy ratio; and (c) the availability of dividends received from subsidiaries, taking into account applicable statutory and regulatory restrictions (if any) and other factors that our Board considers relevant. At present, our Company does not have a fixed dividend payout ratio.

Our Board will continue to review and amend our Dividend Policy as appropriate from time to time.

Auditor's remuneration

We have appointed Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong ("**Deloitte**") as our Company's external auditor for FY 2019. Deloitte's reporting responsibilities for the financial statements is summarised in the "Independent auditor's report" prepared by them and set out at pages 97 to 100.

We set out below details of fees paid or payable to Deloitte for Deloitte providing audit and non-audit services to us during FY 2019:

Services provided by Deloitte	**Fees paid or payable (RMB '000)**
Audit services	5,604
Non-audit services	1,699
Total	7,303

Company secretary

Our Company Secretary is Mr. CHEUNG Kai Cheong Willie ("**Mr. Cheung**"), a manager of SWCS Corporate Services Group (Hong Kong) Limited. Mr. Cheung's primary contact persons at our Company are the head of investor relations (Ms. Helen SONG) and our chief financial officer (Mr. YIN Qiang). During FY 2019, Mr. Cheung has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Shareholders' rights

Pursuant to Article 58 of the Articles of Association, our Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Articles of Association. However, Shareholders who wish to propose resolutions may follow Article 58 of the Articles of Association for requisitioning an extraordinary general meeting and including a resolution at such meeting. The requirements and procedures of Article 58 are set out above.

Communication with Shareholders and investors

Shareholders may send enquiries to the following:

Address:	Level 18, South Wing 2 Haidian East Third Road Haidian District Beijing, China
Attention:	Head of Investor Relations The Board of Directors/Ms. Helen SONG
Email:	songjie@koolearn.com

For shareholding matters, or transfer of Shares, change of name or address, replacement of Share certificates, please write to our Hong Kong Share Registrar below:

Address:	*For change of name or address, replacement of Share certificates, or other enquiries* Level 17M, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong *For Share transfers* Shops 1712–1716, Level 17, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Attention:	Computershare Hong Kong Investor Services Limited
Telephone:	+852 2862 8555
Email:	hkinfo@computershare.com.hk

To requisition a general meeting:

Address:	Level 40, Sunlight Tower 248 Queen's Road East Wanchai, Hong Kong
Attention:	The Board of Directors/Mr. CHEUNG Kai Cheong Willie **Koolearn Technology Holding Limited**
Other:	The requisition must be duly signed by Shareholders who hold at least one-tenth of our Company's paid up capital that carries voting rights at our Company's general meetings. The requisition must include notice or statement, or enquiry (as the case may be), and Shareholders are to provide their full name, contact details and identification in order to give effect to the requisition. Shareholders' information may be disclosed as required by law.

We believe that effective communication with Shareholders is essential to maintaining our relationship with investors and enhancing investors' understanding of our business performance and direction. We endeavour to maintain an on-going dialogue with Shareholders, and in particular, through annual general meetings and extraordinary general meetings.

During the Relevant Period and up to the date of this annual report, we have not made any changes to our Articles of Association. The current version of our Articles of Association is available for viewing on our website (www.koolearn.hk) and the Stock Exchange's website (www.hkexnews.hk).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CONTENTS

ESG Management

ESG governance structure

Given its emphasis on environmental, social and governance ("**ESG**") works, our Group has established a top-down ESG Governance structure.

The board of directors (the "Board") of our Group is responsible for managing and deciding on ESG issues as well as reviewing and approving information disclosed in the Environmental, Social and Governance Report. The report is published upon review by the Board.

Our Group has established an ESG working group led by the Investor Relations Department, members of which include the senior management and person-in-charge of ESG issues in each department. The ESG working group is responsible for performing and facilitating ESG works, including establishment of the ESG indicator system, evaluation and determination of our Group's exposure to environmental, social and governance risks, etc.

For more details about our Group's corporate governance, please refer to the Corporate Governance Report.

ESG reporting principles

1. **Materiality:** The materiality of our ESG issues is determined by the Board. The process of stakeholder communication and identification of material issues and the materiality matrix are all disclosed in this report.

2. **Quantitative:** Statistical standards, methods, assumptions and/or calculation tools for qualitative key performance indicators herein and source of conversion factors are all explained in the definitions of the report.

3. **Balance:** This report shall provide an unbiased picture of the environmental, social, and governance performance of our Group during the reporting period. It should avoid selections, omissions, or presentation formats that may inappropriately influence the decision or judgment by the report readers.

4. **Consistency:** The statistical methodologies applied to the data disclosed in this report shall be consistent.

ESG reporting scope

This report covers Koolearn Technology Holding Limited and its subsidiaries.

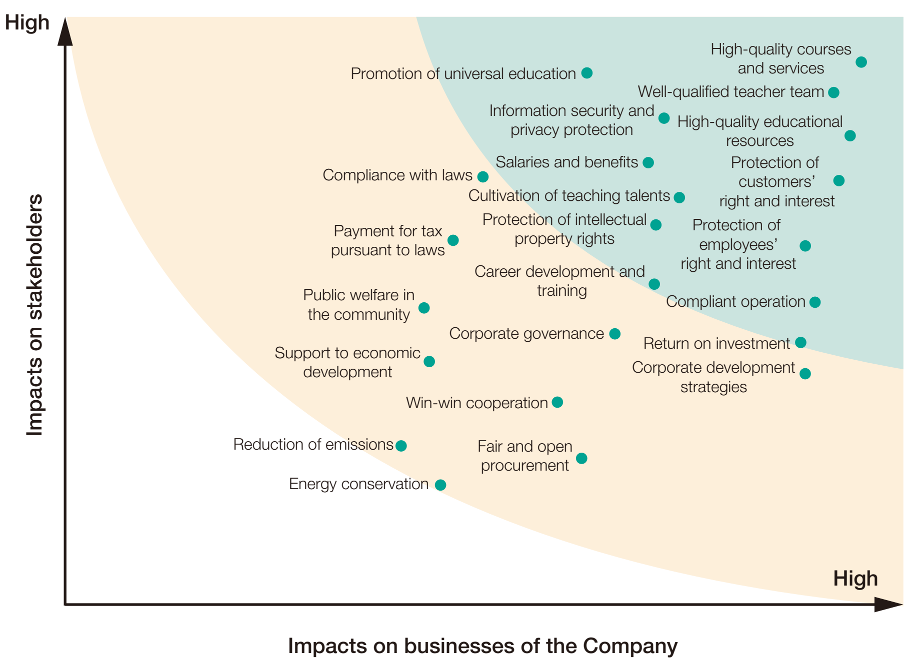
Stakeholder communication

Our Group has maintained constant communication with stakeholders. Diversified communication channels have been established for the purposes of listening to stakeholders' expectations and demands and providing timely response to stakeholders' opinions. We have prepared a stakeholder communication chart from the perspective of sustainable development to provide a basis for identification of material issues of our Group.

Stakeholders	Communication channels	Topics of concern
Government and regulatory authorities	• Regular communication • Regular report and information disclosure	• Compliance with laws • Payment for tax pursuant to laws • Support to economic development • Cultivation of teaching talents • Protection of intellectual property rights
Shareholders	• Regular report and information disclosure • Investor meeting • Results press conference • Results roadshow • Official website • Teleconference	• Compliant operation • Return on investment • Corporate governance • Corporate development strategies
Customers	• Communication during daily service provision • Customer satisfaction survey • Official website • Customer service hotline and platform	• Information security and privacy protection • Well-qualified teacher team • High-quality courses and services • Protection of customers' right and interest
Suppliers and business partners	• Public tender • Satisfaction survey • Supplier meeting • Routine communication	• Fair and open procurement • Win-win cooperation
Employees	• Regular meeting • Staff training • Employee care event • Web portal, WeChat official account, etc.	• Protection of employees' right and interest • Salaries and benefits • Career development and training
Community and media	• Public media • New media platform • Press conference • Public welfare and charitable event	• Quality education resources • Promotion of universal education • Public welfare in the community
Environment	• Green office • Environmental information disclosure • Environmental promotion event	• Energy conservation • Reduction of emissions

Identification of material issues

With regard to the environmental, social and governance issues, from the two perspectives of importance to stakeholders and significance of the issues to the environment and society, our Group has evaluated and selected material environmental, social and governance issues related to our businesses in accordance with the *Environmental, Social and Governance Reporting Guide* in *Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* and international standard. A materiality matrix is then formed as a basis for our Group's concern for and disclosure of ESG issues.



A Environmental

A1. Emissions

Even as an enterprise operating online education business which causes relatively few environmental impacts, our Group still attaches great importance to reducing the environmental impacts of its operations. Our major emissions include greenhouse gas emissions arising from energy consumption by offices, wastewater discharge from water use, obsolete electronic equipment and waste paper produced by offices, etc. our Group is dedicated to building a green office environment in strict compliance with the *Environmental Protection Law of the People's Republic of China,* the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* and other national laws, regulations and policies. It has formulated the *Regulations on Management of Office Environment* to manage the treatment and disposal of various emissions and reduce the generation and emission of greenhouse gases, wastewater, hazardous and non-hazardous wastes so as to reduce the environmental impacts of emissions generated by our Group's operations.

During the reporting period, our Group was not involved in any incidents of violation against laws and regulations in connection with environmental issues.

Management of greenhouse gas emissions	Our greenhouse gas emissions mainly come from daily use of electricity by offices, outsourced heat used for office heating and indirect greenhouse gas emissions generated during business travel. Our Group does not own or control any direct emission sources such as vehicles, generators and gas cookers, and neither does it use fuels such as coal, gasoline, diesel, natural gas, etc. Hence, there is no direct greenhouse gas emissions. We have taken multiple measures to reduce generation of greenhouse gases in the course of our operations: ➢ We promote the use of video conferences and teleconferences to enable fewer business trips taken by employees, therefore reducing greenhouse gas emissions generated by transportation of employees during business travel; ➢ We encourage employees to take public transport.
Management of wastewater discharge	Our wastewater discharge only involves domestic sewage produced from day-to-day office operation, which we are not authorised to directly deal with and are under centralise management of the municipal governments. At the same time, we have actively implemented water-saving measures to reduce the generation and discharge of sewage.

Management of hazardous wastes	The hazardous wastes generated in the course of our operations mainly include all kinds of obsolete electronic equipment arising from day-to-day office operation, including servers, computer mainframes, monitors and laptops as well as toner cartridges and ink cartridges used for printers. When we deliver hazardous wastes to a qualified third-party professional company for processing, we will pick out those with recycling value for secondary use in order to reduce waste generation: ➢ Obsolete electronic products that do not contain confidential information and cannot be recycled are delivered to a third party for processing; ➢ Usable old computer monitors, memory banks, and hard drives that do not contain confidential information are recycled and reused; ➢ Scrapped laptop hard disks and server hard disks containing confidential information are delivered to a professional third party for destruction by means of special processing and the whole process is monitored and recorded to avoid data leakage.
Management of non-hazardous wastes	The non-hazardous waste we generate is mainly the office waste paper produced from day-to-day office operation, which is delivered to the property company for centralised processing. We have taken various measures to reduce office waste paper and save more paper: ➢ We actively promote paperless office, build online management systems and platforms, and reduce paper used during the approval process; ➢ We promote paper saving, advise employees to use double-sided printing and use secondary paper when printing internal communication documents, and require employees to place printer paper neatly and separate reusable paper from white paper to avoid damaged and waste paper caused by disorderly placement.

Table of key performance indicators — Emissions:

Indicators	Unit	2019 Data
Office sewage discharge	(m^3)	**1,348.95**
Total greenhouse gas emission	(tCO_2e)	**1,440.55**
Greenhouse gas emission per capita	(tCO_2e/person)	**0.23**
Hazardous waste generation	(kg)	**6,906**
Disposal of obsolete microcomputer (mainframe)	(quantity)	**265**
Disposal of obsolete monitors	(quantity)	**348**
Disposal of obsolete laptops	(quantity)	**84**
Disposal of obsolete servers	(quantity)	**78**
Disposal of obsolete printers	(quantity)	**6**
Disposal of obsolete toner cartridges	(quantity)	**450**
Disposal of other obsolete electronic equipment	(quantity)	**146**
Hazardous waste generated per capita	(kg/person)	**1.11**
Use of office paper	(tonne)	**21.06**
Use of office paper per capita	(kg/person)	**3.38**

Notes:

(1) Greenhouse gas measurement is based on the *2006 IPCC Guidelines for National Greenhouse Gas Inventories* and *Fifth Assessment Report 2013* of Intergovernmental Panel on Climate Change (IPCC), etc. Electricity emission factor take reference from the *2017 Emission Factors for Purchased Electricity within Mainland China* as published by the Department of Climate Change under the Ministry of Ecology and Environment of the People's Republic of China.

(2) The volume of sewage discharge is calculated according to the amount of water used. The sewage discharge coefficient is based on GB50318-2017 *National Standard for Urban Drainage Works Planning Specification of the People's Republic of China* and relevant documents of the National Bureau of Statistics of the People's Republic of China.

A2. Use of Resources

We accentuate reasonable use of energy and resources, and strictly abide by the *Environmental Protection Law of* the *People's Republic of China,* the *Energy Conservation Law of the People's Republic of China* and other national laws, regulations and policies. During the reporting period, our Group was not involved in any incidents of violation against laws during use of energy and water resources.

The resources we use are mainly electricity used in day-to-day office operations, outsourced heat for office heating, and water supplied by municipal water sources. As required by the *Regulations on Management of Office Environment* and given our insistence on starting from the little things around, we have implemented a variety of measures to save resources and improve efficiency of resource use. Energy conservation and emission reduction are made possible as we embed the energy conservation and environmental protection principles into our everyday works.

Energy conservation	➢	We advocate electricity saving and put up electricity saving signs to raise employees' awareness of environmental protection;
	➢	Energy-efficient cooling equipment and other technological means are used in our own data centre to reduce energy consumption. Its energy consumption is lower than the average level of general data centres in the PRC;
	➢	We widely use energy-efficient equipment, like LED energy saving lamps and air-conditioners;
	➢	We avoid energy waste by asking employees to turn off the power and not to keep lights on before leaving the office, and to switch off electronic equipment or turn on the power saving mode in time to reduce standby power consumption during non-office hours.
Water conservation	➢	We put up water conservation slogans in office area and toilets to enhance water saving awareness of employees;
	➢	We check the faucets and water pipes regularly to prevent water waste caused by equipment damage.

Table of key performance indicators—Use of resources:

Indicators	Unit	2019 Data
Total electricity consumption	(kWh)	1,859,668.60
Consumption of outsourced heat	(million kJ)	1,093.56
Comprehensive energy consumption	(tce)	265.90
Comprehensive energy consumption per capita	(kgce/person)	42.65
Total water consumption	(tonne)	1587
Water consumption per capita	(tonne/person)	0.25

Note:

Comprehensive energy consumption is calculated by using the energy statistics calculation method of the National Bureau of Statistics of the People's Republic of China.

A3. Environment and Natural Resources

As an online education service supplier, given our business nature, we have lower requirements on teaching venues and educational resources, which reduces the impacts on environment and natural resources as compared to traditional offline education business. During the reporting period, our Group rolled out a series of measures to enhance management of emissions and reduce consumption of energy and resources with an aim to lessen the environmental impacts of its operations. Going forward, while leveraging its advantages in online education services as always, our Group will continue to fulfil environmental protection responsibilities, strengthen promotion of environmental protection and mitigate the impacts of its operation on the environment and natural resources on an ongoing basis.

B Social

B1. Employment

We uphold the principle of equal employment. In strict compliance with the requirements under the *Labour Law of the People's Republic of China,* the *Labour Contract Law of the People's Republic of China*, the *Social Insurance Law of the People's Republic of China* and other national laws and regulations, we have formulated comprehensive employment management measures and a sound salaries and benefits system to protect employees in the areas of recruitment, dismissal, working hours, leaves and other rights and interests. We value a diversified employee composition where all employees are offered equal employment opportunities without being discriminated based on factors such as gender and age.

(1) Employee recruitment

We have formulated the *Recruitment Management System* to standardise the employee recruitment process which covers job announcement by a department, recruitment and selection, background investigation, employment approval and so on. To achieve a better recruitment result and attract outstanding talents, we carry out recruitment on a fair basis. We treat every candidate equally in the recruitment process without setting discriminatory conditions on gender, age and other factors.

- We attach great importance to the qualifications of our teachers. High standards are set for the qualifications, background and competence of our teachers. During open recruitments in the society, we give priority to teachers with outstanding and professional capability and extensive teaching experience. In campus recruitment, we require applicants to have a bachelor's degree or above who, if employed, will have to receive trainings on moral conduct, teaching contents and teaching ability.

- We strive to develop a product specialist team, for the purpose of which we have employed product specialists and teaching specialists with rich experience in pedagogical R&D and pedagogical approaches to oversee our products and teaching quality.

(2) Salaries and benefits

In accordance with the requirements of national laws and regulations, we have formulated the *Remuneration Administrative Measures, Attendance Management System and Administrative Measures for Annual Leaves and Rest Days* to reasonably standardise the salaries and working hours of employees and various welfare policies. We have established a comprehensive salary and welfare system to protect the legal rights and interests of employees, improve their productivity, and promote the co-development of both employees and our Group.

Remuneration system	➢ We have established a remuneration structure covering basic salary, performance bonus, etc., and set up a multi-layered pay scale. A broadband salary system has also been implemented for all salary ranks, under which the position of an employee in a salary range is determined based on his/her capability, experience and other factors.
Management of working hours	➢ The standard working hours policy has been implemented. Based on the needs of employees, we have also set up a flexible working hours policy as well as a comprehensive working hours policy, under which employees may apply for replacement leaves or overtime pays if they work overtime; ➢ We provide paid annual leave, marital leave, bereavement leave, sick leave, casual leave, maternity leave and medical leave for employees in accordance with laws. We have also made up special holidays, such as providing additional Spring Festival holidays for non-local employees.
Employee benefits	➢ We maintain social insurance and house fund for employees that have entered into labour contracts with us in accordance with laws and provide supplementary medical insurance to protect the labour rights and interests of employees, who may also enjoy a discounted rate when purchasing insurance for their children; ➢ We provide transport subsidies, meal allowances and communication fee subsidies for employees; ➢ We actively enter into cooperation with catering companies in the proximity of the company to provide benefits for employees such as meal discounts.

(3) Care for employees

Given our people-oriented principle, we always value employee communication and care about their work and life. We have conducted a wide range of employee care activities to build an enthusiastic and harmonious working environment where employees become united and all dedicated to strive for better career development, which in turn strengthens the cohesiveness of the company and the sense of belonging of employees.

Employee engagement	➤	We have set up an employee feedback collection mailbox, employee satisfaction surveys, employee chat rooms and other channels to collect opinions from employees on the management, systems and policies of our Group with an aim to promote mutual communication and solve employees' difficulties in an effective and timely manner;
	➤	We build communication channels between leaders and employees by conducting annual symposiums, debriefing meetings, management communication meetings, etc.
Care for employee	➤	We have formulated the *Interim Measures for Administration of the Employee Care and Mutual Aid Fund* to provide active assistance to employees with serious illness and their families and support to employees with family financial difficulties;
	➤	As we care female employees, we introduce menstrual leave for female employees and provide facilities such as breastfeeding rooms and refrigerators for the convenience of breastfeeding employees.
Celebration of festivals	➤	We prepare holiday gifts for employees at traditional Chinese festivals such as the Spring Festival, Dragon Boat Festival and Mid-Autumn Festival;
	➤	Featured events are held at special festivals, such as the WeChat platform message campaign of "Today, I confess to you" on Valentine's Day and celebration activities for the Children's Day, Mid-Autumn Festival, International Women's Day, etc.
Cultural and sports activities	➤	Every year, we regularly organise travel activities for all teachers and staff and provide them with certain subsidies;
	➤	We regularly organise team building activities for employees, such as murder mystery games and afternoon tea, and receive favourable feedbacks from employees;
	➤	We organise sports events such as badminton competitions and Xuncheng Sports Festival to encourage employees to strike a proper balance between work and rest. We seek to ensure that employees are physically and mentally happy and therefore have higher working efficiency.

Case: Boxing class

In order to protect employees' health and safety and enhance their physical fitness, our Group provides employees with a variety of interesting exercise activities. In December 2018, our Group organised a "boxing class" for some employees to learn basic skills of modern combat. Each of the employees participated enthusiastically in the training and earnestly practised the skills under the guidance of the coach. After the preliminary study, under the guidance of the coach, everyone paired up for a battle exercise to put what they had learned in the training into practice. They made use of the boxing skills to protect themselves in a simulated situation which they may unexpectedly encounter in daily lives. The combat class not only helped employees to enhance their physical fitness, but also allowed them to learn self-defence techniques that are useful in real life. This activity was widely acclaimed by the participating employees.

Case: Xuncheng Sports Festival

In order to improve the physical fitness of employees and fully motivate them to do physical exercises, our Group convened the second "Xuncheng Sports Festival" in June 2018. All employees were called on to participate in various competitions, such as marathon, basketball carnival, "Blossoming Youth" swimming gala and badminton competition. Each employee actively took part in individual and team competitions according to their own interest and strength. In each of the competition, not only did they give full play to their advantages, but also cooperated well with their partners to fight for the best result, which fully demonstrated their sportsmanship and cooperation. We encourage our employees to strengthen their solidarity and cooperation while improving their physical fitness as a way to further enhance the team's cohesiveness and centripetal force.

Table of key performance indicators-Employment:

Indicators		Unit	2019 Data
Total number of employees		(person)	**6,235**
Number of employees by type of employment	Full-time	(person)	**1,690**
	Part-time	(person)	**4,545**
Number of employees by age group	Below 30	(person)	**4,882**
	30–50	(person)	**1,320**
	Above 50	(person)	**33**
Number of employees by gender	Male	(person)	**2,868**
	Female	(person)	**3,367**
Number of employees by province	Beijing	(person)	**6,192**
	Shanghai	(person)	**3**
	Other than Beijing and Shanghai	(person)	**40**
Number and percentage of employees by rank	Staff	(person)	**5,787**
	Supervisor and manager	(person)	**422**
	Controller or above	(person)	**26**
Number of new employee		(person)	**830**

B2. Health and Safety

As we attach great importance to the safety and health of employees, we have formulated the *Safety Management System* to specify the departments responsible for safety management and supervision, various facility safety management matters, fire safety management matters, safety education and training, safety accident handling and reward and punishment mechanisms, etc.

Safety management and supervision system	➢ A safety working group has been established under all departments to implement the accountability system. The department heads are the first person in charge of the safety works in their respective department; ➢ An emergency coordination working group and a safety work supervision team have been established to take charge of the coordination works for handling major safety incidents and emergencies, and shoulder the responsibility for guiding and supervising safety management; ➢ The Human Resources and Administration Department is the competent department for supervising our Group's safety works. It is responsible for conducting safety management promotions and trainings, guiding and supervising the implementation of safety management and preparation of safety management plans of all departments, and assisting in handling all safety accidents.

Safety management works mechanism	➢ We have enforced goal-driven management for safety education and management works, which are included in the position-based goal-oriented responsibility system; ➢ A reward and punishment mechanism has been established in respect of the safety responsibility works in order to link the fulfilment of safety responsibility to merit assessment, bonuses and year-end performance appraisal; ➢ Fire safety inspections and property safety inspections are regularly conducted to detect and eliminate potential safety hazards in a timely manner.
Safety education training	➢ We regularly organise safety management trainings, such as fire safety drills and safety equipment operation courses to help employees become familiar with the safety management systems, master first aid knowledge, and learn methods and means in relation to prevention, self-rescue, rescue assistance, escape, and emergency evacuation.

As we care about the physical and mental health of our employees, we provide them with a safe and healthy working environment and adopt a number of measures to safeguard their health in strict compliance with the *Law of the People's Republic of China on Prevention and Control of Occupational Diseases* and relevant laws and regulations.

Care about employees' occupational health	➢ We place green plants and instal air purifiers in the office, and the newly renovated offices are put into operation only after being confirmed safe upon inspection of hazard factors with an aim to provide employees with a healthy working environment; ➢ We regularly arrange medical examinations for employees and provide them with professional medical and health services. 100% of our employees received medical examinations during the reporting period; ➢ We organise lectures with the theme of professional health to enhance employees' occupational health awareness; ➢ We provide employees with activities and facilities such as boxing classes, neck and shoulder pain classes, free gymnasium, etc. so that they will not suffer from lack of exercise due to prolonged sitting.

During the reporting period, our Group was not involved in any work-related accidents and work-related fatalities and did not have any litigations or disputes about health and safety with employees.

Table of key performance indicators-Health and safety:

Indicators		Unit	2019 data
Number of people suffered from work-related injuries and fatalities	2017	(person)	0
	2018	(person)	0
	2019	(person)	0
Number of days lost due to work-related injuries		(days lost per 200,000 hours worked)	0

B3. Development and Training

(1) Staff training

We see employees as an important drive of corporate development. We have developed policies like *Training Management System* and *Administrative Measures for New Employee Training* to specify the employee training system, training process management and evaluation system for training effectiveness. Apart from strengthening their working capability in the existing position, employees are also encouraged to make plans for enriching their knowledge and skills and unleashing their potential, which will in turn improve our core competitiveness on an ongoing basis and contribute to the co-development of both the Company and employees.

Comprehensive hierarchical training system	We are committed to providing our employees with a wealth of learning resources, and have established a comprehensive hierarchical training system featuring clear targets, detailed plans, diversified contents and follow-ups for all employees. From the management to junior staff, they are all provided with a full range of trainings including pre-employment, on-the-job, internal transfer and promotion trainings. ➢ **Trainings for the management** We provide the management with trainings in the areas of management skills enhancement, personal improvement and leadership and CEIBS courses through dispatch, visits, study tours, and book lending, for example, leadership training and time management training. This enhance the sustainability of each business segment and facilitate our Group's formation of an excellent team of leaders and an echelon of back up cadres. ➢ **Trainings for the teachers** New teachers are required to undergo teaching qualification certification training, teaching skills training, content development training, demo course training and mandatory course training on our online teacher training academy; we provide senior teachers with various specially-designed training programmes to transform their roles from teaching to the training and development of new teachers; tutors learn how to effectively manage classes via the training programmes on our online teacher training academy. ➢ **Regular trainings** On the one hand, we provide regular practical trainings for all employees in the areas of professional skills and knowledge, general skills and knowledge, and licencing qualification by means of both internal and external teaching, such as office software use training, to allow employees to quickly understand all products and businesses of our Group and to improve their productivity; on the other hand, we conduct continuing education courses for individuals. We offer MBA, professional qualification certification and other trainings through qualification certification, professional examinations, industry conferences and seminars.

	➢	**Trainings for new employees** We have established a mentor training system. New teachers are provided with induction training, on-the-job training, vocational training and job-related training by means of face-to-face teaching, outward bound activities and online courses in order to help them adapt to the new working environment and blend into the corporate culture.
Tailor-made employee training schemes		We have formulated target-oriented training schemes based on strategic development needs and job-specific ability requirements. We have conducted an assessment survey on training needs by giving out the Departmental Training Needs Forms. We devise annual training schemes with reference to our Group's annual strategic goals and development plans, staff functions and training needs in order to provide various trainings that meet the needs of employees and our Group's growth.
Evaluation of regular training effectiveness		We organise assessments regularly after the trainings to evaluate the training effectiveness. We have also implemented reward and punishment measures, so that we can encourage employees to improve their professional quality while obtaining feedbacks about the training effectiveness for the purposes of further optimising our training content and enhancing the training effectiveness. In respect of the teacher team, we have in place a general assessment system for reviewing teacher performance and rewarding excellent performance with incentives. The assessment indicators include student feedbacks, professional ethics, total class hours, contribution to content development and contributions to teacher training.

(2) Employee development

We are devoted to providing employees with a smooth career path. Based on the principles of legality, fairness, competition, incentive and cost, we continue to improve the employee appraisal system.

Dual career ladder system	➢	We have established a dual career ladder system focusing on two major categories, namely management and professional. Management refers to positions that specialise in administrative and managerial duties, while professional refers to positions that specialise in professional and technical duties;
	➢	In order to help employees find the right career advancement direction, we have established a staff rotation mechanism to enhance employees' comprehensive capabilities and facilitate their development.
Performance appraisal system	➢	An employee performance appraisal is conducted annually, in which we assess employees' completion of performance targets set for their positions. We specify different key appraisal points for positions such as teachers and technicians based on their respective job types.

Table of key performance indicators—Development and training:

Indicators		Unit	2019 Data
Percentage of employees trained		(%)	**82**
Percentage of employees trained by gender	Male	(%)	**84**
	Female	(%)	**80**
Percentage of employees trained by rank	Staff	(%)	**81**
	Supervisor and manager	(%)	**87**
	Controller or above	(%)	**77**
Total number of employee training sessions		(session)	**90**
Total number of employees trained		(person-time)	**7,240**
Average training hours of employees		(hour/person)	**4**
Average training hours of employees by gender	Male	(hour/person)	**4**
	Female	(hour/person)	**4**
Average training hours of employees by rank	Staff	(hour/person)	**3**
	Supervisor and manager	(hour/person)	**13**
	Controller or above	(hour/person)	**16**

B4. Labour Standards

We strictly abide by the *Labour Law of the People's Republic of China, Provisions on the Prohibition of Using Child Labour of the People's Republic of China,* the *Law of the People's Republic of China on the Protection of Minors,* the *Trade Union Law of the People's Republic of China* and other laws and regulations, and have established a series of measures to prohibit and prevent employment of child labour and forced labour, for example:

- Establish recruitment information collection and approval procedures and require candidates to produce true and valid identification. Employment of minors is forbidden.

- Set up the *Attendance Management System* to reasonably stipulate the working hours of employees, and provide compensation for overtime employees such as overtime pays or replacement leaves. Forced labour is forbidden.

During the reporting period, our Group was not involved in any incidents of violation against the codes, rules and regulations related to child labour and forced labour of any countries or places where it operates.

B5. Supply Chain Management

We continue to optimise supplier management. *The Supplier Management Implementation Rules* has been formulated and a scientific and stringent supplier selection and evaluation system has been established to protect the selection, daily monitoring, review and approval, and performance evaluation of suppliers.

Continuous optimisation of the supplier management system	➢ **Supplier entrance** With regard to new suppliers, we have established an inspection team which conducts pre-review, on-site inspection and evaluation of suppliers in respect of their qualifications and operational capabilities so as to strictly ensure the quality of suppliers. ➢ **Construction of supplier database** We have established a supplier database subject to dynamic updates and regularly adjust the supplier list according to the supplier evaluation; in addition, we have established a supplier blacklist, pursuant to which we will terminate cooperation with suppliers that have major problems within a specified period. ➢ **Supplier evaluation** We evaluate suppliers in areas of quality of goods supplied and services, financial management, safety, environmental protection, etc. through daily evaluations and regular evaluations. Unqualified suppliers will be required to make rectifications within a specified period.
Procuring suppliers to perform environmental and social responsibilities	➢ Upon commencement of cooperation, suppliers are required to sign a social responsibility commitment letter for ensuring that they will comply with the environmental protection policies and various national laws and regulations.
Supplier communication and capacity development	➢ We regularly convene supplier meetings to commend outstanding suppliers; ➢ We regularly carry out technology and management exchange activities to facilitate the establishment of long-term cooperative relationship.

Table of key performance indicators- Supply chain management:

Indicators		Unit	2019 Data
Total number of suppliers		(quantity)	**41**
Number of suppliers by geographical region	Beijing	(quantity)	**35**
	Shanghai	(quantity)	**4**
	Fujian	(quantity)	**1**
	Hebei	(quantity)	**1**
Number of suppliers where the practices are being implemented		(quantity)	**41**
Annual evaluation ratio of suppliers where the practices are being implemented		(%)	**100**

B6. Product Responsibility

(1) Quality management of our products and services

As a leading online education service supplier in China, we primarily offer online education courses to students covering a full spectrum of ages in three core segments — college education, K-12 education and pre-school education. In addition, using our online education modules, we also provide educational content packages to schools and institutional customers such as universities, public libraries, telecom operators and online video streaming providers. By virtue of our strong content development capabilities, well-qualified teacher team and outstanding technology platform, we provide high-quality courses and satisfying services to users.

In strict compliance with the *Law for Promoting Private Education of the People's Republic of China,* the *Opinion on Supervising After-school Tutoring Institutions of the General Office of the State Council* and other laws and regulations, our Group has systematically streamlined, integrated and consolidated the product and service quality management system, which is fully applied in curriculum development and preparation, teaching, sales service, etc. in order to effectively ensure the reliability of the product and service quality.

- *Quality control of system platforms*

  The servers of our Group are currently hosted at three different internet data centres in Beijing with five video connection hubs in various cities in China. Our live online courses are delivered using bandwidth we purchase for our exclusive use. Our Group has formulated the *Comprehensive System & Procedures for KOOLEARN Platform Quality Management* to strictly monitor its platform operations as well as controlling product R&D and preparation process and iteration process with a focus on user experience. As such, hardware and software problems related to the platform can be solved in a timely manner to ensure its stability, and users are able to enjoy smooth and complete learning experience.

Monitoring of platform operations	➢ We adopt ISO9001 quality system standards as the quality assurance basis for our platform development. Full-process quality management involving all staff is implemented during platform development. The management and surveillance backstage included in the platform enables operation and maintenance staff and developers to access a wide range of monitoring services, which effectively reduces the risk of failures and speeds up our handling of incidents; ➢ The platform adopts a distributed architecture, which ensures that the platform maintains strong stability and load capacity during peak access times.
Quality control during product development process	➢ On the basis of full investigation and analysis of user needs, we actively cooperate with various departments to carry out product design and development, and perform multiple product tests, operation simulations and AB tests to obtain feedbacks and solve the problems in a timely manner. As such, smooth and friendly user experience is ensured.
Courses and user experience enhancement	➢ We have developed and applied the WeChat English Intelligent Learning System, Interactive English Enlightenment Learning System, Smart Course and Class Arrangement Technology, IM Class Group, Smart Oral Correction and other technologies. Through these cutting-edge and effective technologies, we provide students with quality services that incite their learning interests and improve user experience about our services.

- *Quality control of our courses and teaching*

  Substantially all of our Group's courses and products are developed in-house. We continue to improve existing courses and develop new courses to guarantee the quality of our courses and to capture the demands of the evolving online education market. Meanwhile, our Group is committed to building a large teaching talent pool and accumulating rich experience in online teaching and training so as to ensure our teaching quality.

Quality control of our courses	➢	**Course content** We standardise course content planning, teaching, complementary services and other processes in accordance with the *Quality Control Manual* in order to provide users with quality products and services. While each business department seeks to fully understand the market demand through market research and user communication, the content development team collaborates closely with teaching staff to ensure they keep abreast of the changes in the academic environment. Utilising their deep understanding of our products and student needs, the content development team devises plans for our course content and complementary services in order to constantly upgrade existing courses and develop new courses.
	➢	**Course preparation** — For live courses, teachers will practice several times before their lessons to ensure smooth and mistake-free teaching. The product team will monitor the whole teaching process to ensure the course is running smoothly; — For topic-specific pre-recorded courses, we will conduct test recording and make adjustments prior to the actual recording and monitor the whole recording process. The tapes will be subject to review upon completion of the recording and will only be uploaded online after testing.
Quality control of our teaching	➢	**A seasoned teacher team** We engage conscientious and responsible teachers with extensive teaching experience and sophisticated teaching skills through external recruitment or internal recommendation to teach our courses. In addition to conveying knowledge, they can also motivate students to learn proactively.
	➢	**Ever-improving course evaluation system** We have formulated the *Koolearn Teaching Quality Inspection Management System* and formed a teaching quality inspection team to supervise live teaching of teachers. Grades are given and remedial recommendations are provided in respect of their courseware, teaching attitude, teaching methods, etc. We will promptly communicate with teachers with serious issues and help them rectify. Such teachers will be subject to course reduction, course suspension or dismissal in case of no improvement.
	➢	**Real-time teaching assistance** We arrange tutors to assist teachers in answering students' questions during and after class, communicating with parents, monitoring student performance and grading assignments. We actively conduct trainings for part-time tutors, and require tutors to maintain a positive, conscientious and responsible attitude. The performance appraisal on tutors is linked to their quality of work.

- *Quality control of marketing services*

  We recruit our students primarily through direct online sales. Students can purchase our courses and products directly on the official website of Koolearn, as well as through our flagship stores on Tmall.com and JD.com. Besides, we also acquire students from channels such as brand and in-feed online advertising, traffic conversion from entry courses, word-of-mouth referrals, marketing on new media and offline experience centres.

  We strictly regulate marketing behaviours by actively conducting professional ethics trainings and imposing penalties on illegal sales behaviours to ensure that our sales services comply with laws and regulations. We set up product pricing procedures in accordance with relevant national standards and unify all concession policies and discount criteria to ensure uniform and transparent pricing of our products. In strict compliance with the *Advertising Law of the People's Republic of China* and other laws and regulations, we uniformly design various promotional materials of our Group and reasonably regulate advertisements and promotions to prevent false publicity.

Case: Koolearn was named the 2018 Powerful China Brand — Online Education Institution (2018中國品牌實力在綫教育機構)

Given its remarkable results and contributions in the education industry, our Group was named the "2018 Powerful China Brand - Online Education Institution" in the "11th Sina Education Ceremony" (第十一屆教育盛典) held by Sina and Sina Education on November 28, 2018. Through our advanced Internet tools and strong content research and development capabilities, we provide a wide range of high-quality online learning courses and personalised online learning experience for students of all ages. An ecological chain of education industry covering all ages has been developed to help students access high-quality teaching resources.

(2) Information security and protection of consumer rights and interests

In strict compliance with the *Law on the Protection of Consumer Rights and Interests of the People's Republic of China,* the *Decision of the Standing Committee of the National People's Congress on Strengthening Information Protection on Networks,* the *Order for the Protection of Telecommunication and Internet User Personal Information,* the *Advertising Law of the People's Republic of China* and other laws and regulations, our Group has formulated the *Customer Complaint Handling Mechanism, Data Security System, Information Security Management and Protection Measures* and other internal policies to protect consumers' legitimate rights and interests. We continue to collect and handle opinions and complaints of customers while stringently protecting customer information security and customer privacy. During the reporting period, our Group was not involved in any litigation case in connection with infringement of customer privacy.

Multi-dimensional customer communication	➢ The complaints and suggestions we uniformly receive from users about our courses, teaching and platforms through the official platform are passed to relevant departments for timely handling and follow-up; ➢ We maintain active communications with users and students, and acquire students' feedbacks on our courses and services through personal interviews, course discussions, telephone, WeChat group, official account, course evaluation system, satisfaction questionnaire and other means. The business departments will response to and handle the issues raised in a timely manner and get back to the students regularly; ➢ We actively carry out user satisfaction surveys, market user surveys, etc., to collect customer feedbacks in all aspects. Based on customers' demands, we continue to improve the quality of our products and services.
Customer privacy protection	➢ We put in place an information security accountability system by establishing and optimising the information security and confidentiality management system; ➢ We ensure the network security by utilising a variety of technological means; ➢ We strictly review and manage the granting of access authorization, deregistration and other processes in relation to user information so as to control data export. Key information of users is encrypted; ➢ Collection of user information during service provision is subject to prior authorization by the user; ➢ We have established a dedicated department for personal information protection, and set up a complaint and whistleblowing mailbox, to which any complaints regarding private information leakage may be sent at any time; ➢ We regularly conduct trainings and assessments on network information security for relevant personnel so that they can fully recognise the importance of network security and strictly abide by the corresponding rules and policies.

Case: Koolearn was recognised as one of the "Top Ten Brand in China Online Education Industry — Student Satisfaction"(2018年國內在綫教育行業學員滿意度十大品牌)

Based on our high-quality courses and well-established teaching services, we have not only been widely recognised by the industry and students, but also earned a good market reputation. In October 2018, given our excellent performance in website system, courseware quality, teaching effectiveness, teaching management, student experience, price and brand awareness, we were recognised as one of the "Top Ten Brand in China Online Education Industry — Student Satisfaction" jointly presented by iTrust Internet Credit Evaluation Centre and 12315.com Satisfaction Evaluation Centre. This award served as a recognition of our lifelong online learning platform which focuses on providing teaching services supported by a pool of well-qualified teaching staff and remarkable pedagogical researches under our unwavering development strategy of "research-based, technology-driven" education.

(3) Innovation and research and development

With product innovation as our focus, we push forward innovation and research and development (R&D) works from the perspectives of product and technology. At the same time, our Group actively organises incentivised innovation activities to encourage employees to brainstorm new ideas together for the purpose of upgrading our products and technological services.

Encouraging technological innovation	➤ We have formulated the *Intellectual Property Right Reward and Punishment System*. An employee whose invention at work is patented will be granted an inventor or designer reward. Some relatively creative and practical patents will be selected out of the authorised products every year, to which an "Inventive Creation Award" will be granted respectively; ➤ We organise internal innovation competitions such as "1024 Programmers Festival" to encourage employees to engage in innovation; ➤ We set up the Most Responsible Award and Responsible Innovation Award to provide encouragement to the teams with outstanding contributions on innovation; ➤ We actively encourage employees to conduct innovative research and experimentation to the extent where cost and risk are controllable. Developers are given sufficient autonomy to organise seminars and formulate research and development plans, etc. on their own.

Case: The innovative activity of "1024 Programmers Festival"

An innovative programming competition of "1024 Programmers Festival" was held by Koolearn on 24 October 2018. There were 364 participants, including programmers, product staff and designing staff. They teamed up freely to develop a product that can be demonstrated, operated and used within a limited period of time.

Upon review and selection, "Online Assignment Correction" (在綫批改作業), "Koolearn Electronic Library" (Koolearn電子圖書館) and "Ai Jiu Yin" (愛糾音) came out as the three winners. This event fully demonstrated our product developers' creativity, collaboration, and ability to solve problems efficiently in a stressful environment.

(4) Protection of intellectual property rights

Our Group pays great attention to protection of intellectual property rights. It has strictly abided by the *Copyright Law of the People's Republic of China* and the *Patent Law of the People's Republic of China,* and set up internal policies such as the *Intellectual Property Rights Management System,* the *Administrative Measures for Copyright* and the *Administrative Measures for Patent* to fully protect all intellectual property rights of our Group and those of the business partners.

Protection of intellectual property rights of our products	➢ We have entered into employment or service agreements with our teachers, which confirm that we own the intellectual property rights developed by the teachers in connection with their employment with or services for us; ➢ Our live and pre-recorded videos, textbooks and teaching materials are all embedded with the watermarks of "Koolearn" and "新東方在綫", which, together with our proprietary DRM system, protects our copyrights and educational resources; ➢ We prohibit download of our pre-recorded or live videos by technological means; ➢ We implant a hidden watermark in our course videos to combat infringement. If a video is illegally copied, we can extract the invisible watermark from the illegal video; ➢ We have engaged a qualified external service provider to monitor any infringement or misappropriation of our intellectual property rights. We will take actions such as complaints, administrative measures and/or judicial measures, depending on the level of infringement.
Protection of the intellectual property rights of our business partners	➢ We only use pictures from the photo gallery of our partners or those created in-house to avoid infringement of intellectual property rights.

Table of key performance indicators — Product responsibility:

Indicators	Unit	2019 Data
Number of customer complaints	(case)	**435**
Percentage of customer complaints being handled	(%)	**100**
Service satisfaction	(%)	**96**
Number of members of the R&D team	(person)	**437**
R&D expense	(RMB million)	**147.52**
Percentage of R&D expense over operating income	(%)	**16.10**
Number of patent application	(case)	**2**

B7. Anti-corruption

Our Group strictly abides by the *Company Law of the People's Republic of China,* the *Anti-Money Laundering Law of the People's Republic of China* and other national laws and regulations. It has also formulated internal policies such as the *Anti-fraud and Anti-corruption Management System,* the *Implementation Rules on Whistleblowing,* the *Internal Control Management System* and the *Risk Management System — Comprehensive Risk Management Implementation Guidelines* to set out provisions on the monitoring mechanism, investigation procedures and steps, punishment methods and remedial measures in connection with employees' corruption behaviours with an aim to cracking down on fraud and corruption.

We have established a sound supervision, whistleblowing and inspection mechanism and actively carried out promotional activities about integrity in order to put an end to all kinds of bribery, extortion, fraud and money laundering.

During the reporting period, our Group was not aware of any major incidents of violation against laws and regulations in connection with corruption, bribery, fraud and money laundering.

Whistleblowing channels and protection of information security of whistleblowers	➢	We have set up various whistleblowing channels such as whistleblowing hotline, whistleblowing post box, whistleblowing email box, WeChat Whistleblowing App, face-to-face whistleblowing or proxy whistleblower;
	➢	We protect the information security of whistleblowers by requiring responsible staff to strictly keep confidential the personal information of the whistleblowers and the whistleblowing contents in compliance with their professional ethics.
Conducting specific anti-corruption inspection	➢	All departments regularly conduct spot checks on the results of sales to ensure timely identification and handling of corruption behaviours and malpractices;
	➢	We arrange internal auditor or engage a third party to conduct special audits for inspecting violations of laws and disciplinary offences.
Promotion of a culture of integrity	➢	We regularly share information of internal control as well as risk control and management to enhance employees' awareness of anti-corruption and anti-malpractice;
	➢	We issue and update our Group's management system and code of conduct in a timely manner so that employees can keep abreast of and comply with our Group's policies to avoid any non-compliance.

B8. Community Investment

Our Group has never forgotten its initial intentions and actively assumed social responsibilities. In response to the calls of the government for "Good attitude in poverty alleviation" and "Good education in poverty alleviation", our Group leverages its advantages in educational services to improve accessibility of educational resources and carry out various public welfare campaigns. In strict compliance with the *Charity Law of the People's Republic of China* and other laws and regulations, we have established a clear public welfare campaign system, which covers project planning and announcement, employee application and selection, volunteer training, etc., to ensure that the public welfare campaigns are held in a standardised, orderly and effective manner. A corporate image characterised by cohesion and influence is thus shaped up.

Case: Koolearn charity courses in the poor mountain areas of Yunnan — Guizhou Plateau

We have cooperated with New Oriental Group and Beijing Qingxi Yuanshan Public Welfare Foundation (北京情繫遠山公益基金會) (hereinafter referred to as "Qingxi Yuanshan") to provide free and high-quality video courses to primary and secondary schools in Yunnan - Guizhou Plateau through the internet-aided online and offline teaching methods supported by a two-teacher policy, the purpose of which was to enable wider access to high-quality educational resources.

By virtue of the "Two-Teacher Classroom" model featuring a combination of online video courses and offline inquiry to teachers, coupled with the "Class-to-Class" education system installed in the classrooms in Yunnan and Guizhou mountain areas, the shortcoming of inadequacy of quality education resources in the mountain areas was effectively solved. Besides, the internet online teaching system was able to record the frequency and duration of the learning courses taken by students and provide timely feedbacks on the learning progress and status of students, which in turn supported and guaranteed the improvement of our teaching quality.

As of the end of May 2019, the "Two-Teacher Classroom" project of Qingxi Yuanshan had already benefited 43,350 students in 863 classes of 123 schools throughout 42 poverty regions in China. In the future, we plan to proceed on with this campaign to help students in the Yunnan-Guizhou Plateau to access more high-quality education resources.

Case: Koolearn's cooperation with Sowers Action in regard to education of the underprivileged children

We have provided free educational assistance to three public services centres in Yunnan Province funded by Hong Kong Sowers Action. By utilising our foundational technologies in internet education, we were able to provide teachers and students in the mountain areas with quality teaching and research resources as well as online learning services, which was conducive to alleviate the current problem of unevenly distributed education resources.

We have established the "Two-Teacher Classroom" model by working together with the guidance teachers in the welfare institutions, which combined both online video courses by star lecturers and offline inquiry responses by guidance teachers to help each student fully understand what they had learned. At the same time, considering that children in the public services centres had a relatively weak learning foundation, our pedagogical research team cherry-picked courseware in line with the children's actual circumstance. There were 343 course hours in total, covering the beginner phonetic alphabet course, beginner vocabulary course, elementary grammar course and a full set of Cool Learn New Concept (酷學新概念) advanced courseware. The courses we donated also included a wide range of beginner language courses, including Russian, German, French, Italian, etc. as we aimed to enhance children's interest in learning diverse languages.

Case: Koolearn TEM-4 and TEM-8 Pre-examination Study Guide Lecture Tour

In February 2019, we jointly organised the month-long "Star Lecturer Campus Tour — 2019 TEM 4 and TEM-8 Pre-examination Study Guide Lecture Tour" campaign with some secondary schools. Six of our lecturers took turn to visit 33 secondary schools across 21 cities in China to meet face-to-face with nearly 10,000 candidates.

Our Lecture Tour and online platform complemented with each other to promote our excellent teaching experience across the whole country. While schools were offered with diversified teaching methods and tools, students were able to gain more effective learning ideas and the latest information outside school, which helped them pass the TEM-4 and TEM-8 and stand up to all kinds of learning and career challenges. Our Lecture Tour and online platform have been widely recognised by numerous secondary schools and students.

Table of key performance indicators — Community Investment:

Indicators	Unit	2019 Data
Number of public welfare campaigns	(session)	294
Number of participants of public welfare campaigns	(person-time)	1,620
Hours of public welfare campaigns	(hour)	384

ESG Index

No.	Indicator Description	Page
A1 Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.	P62–P64
A1 Emissions	A1.1 The types of emissions and respective emissions data.	P62–P64
A1 Emissions	A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P64
A1 Emissions	A1.3 Total hazardous waste produced (in weight or volume) and, where appropriate, intensity (e.g. per unit of production volume, per facility, per official employee).	P64
A1 Emissions	A1.4 Total non-hazardous waste produced (in weight or volume) and, where appropriate, intensity (e.g. per unit of production volume, per facility, per official employee).	P64
A1 Emissions	A1.5 Description of measures to mitigate emissions and results achieved.	P62–P64
A1 Emissions	A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	P62–P64

No.	Indicator Description	Page
A2 Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	P64–P65
A2 Use of Resources	A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	P65
A2 Use of Resources	A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	P65
A2 Use of Resources	A2.3 Description of energy use efficiency initiatives and results achieved.	P64–P65
A2 Use of Resources	A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	P64
A2 Use of Resources	A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable *Our Group mainly provides online education services which involve no finished products and packaging material
A3 The Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.	P66
A3 The Environment and Natural Resources	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	P66

No.	Indicator Description	Page
B1 Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	P66–P71
B1 Employment	B1.1 Total workforce by gender, employment type, age group and geographical region.	P71
B1 Employment	B1.2 Employee turnover rate by gender, age group and geographical region.	Not disclosed
B2 Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	P71–P73
B2 Health and Safety	B2.1 Number and rate of work-related fatalities.	P73
B2 Health and Safety	B2.2 Lost days due to work injury.	P73
B2 Health and Safety	B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	P71–P72

No.	Indicator Description	Page
B3 Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.	P73–P76
B3 Development and Training	B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	P76
B3 Development and Training	B3.2 The average training hours completed per employee by gender and employee category.	P76
B4 Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	P76
B4 Labour Standards	B4.1 Description of measures to review employment practices to avoid child and forced labour.	P76
B4 Labour Standards	B4.2 Description of steps taken to eliminate such practices when discovered.	P76
B5 Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	P77–P78
B5 Supply Chain Management	B5.1 Number of suppliers by geographical region.	P78

No.	Indicator Description	Page
B5 Supply Chain Management	B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	P77–P78
B6 Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	P78–P86
B6 Product Responsibility	B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable *Our Group mainly provides online education services which involve no recall for safety and health reasons
B6 Product Responsibility	B6.2 Number of products and service related complaints received and how they are dealt with.	P82–P86
B6 Product Responsibility	B6.3 Description of practices relating to observing and protecting intellectual property rights.	P85–P86
B6 Product Responsibility	B6.4 Description of quality assurance process and recall procedures.	P78–P81
B6 Product Responsibility	B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	P82–P83

No.	Indicator Description	Page
B7 Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	P86–P87
B7 Anti-corruption	B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	P86
B7 Anti-corruption	B7.2 Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	P86–P87
B8 Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	P87
B8 Community Investment	B8.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	P87–P90
B8 Community Investment	B8.2 Resources contributed (e.g. money or time) to the focus area.	P90

Deloitte. 德勤

To the Shareholders of Koolearn Technology Holding Limited
(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Koolearn Technology Holding Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 101 to 190, which comprise the consolidated statement of financial position as at 31 May 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 May 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**") issued by the International Auditing and Assurance Standards Board ("**IAASB**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of investment in unlisted equity securities at fair value through profit and loss	
We identified the measurement of fair value of investment in unlisted equity securities classified as financial assets at fair value through profit or loss and categorised as level 3 under the fair value hierarchy ("**FV Level 3**") as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, and the significant judgements and estimates made by management for the fair value measurement of such financial assets at fair value through profit or loss. As at 31 May 2019, the unlisted equity securities classified as financial assets at fair value through profit or loss and categorised as FV Level 3 amounted to RMB146,855,000 as set out in Note 18 to the consolidated financial statements. Details of the key estimation uncertainty and the valuation techniques and unobservable inputs of FV Level 3 unlisted equity securities are set out in Notes 4 and 39 to the consolidated financial statements, respectively.	Our procedures in relation to fair value measurement of investment in unlisted equity securities at fair value through profit or loss which are categorised as FV Level 3 included: • Obtaining and understanding the Group's process regarding the determination of fair value of the unlisted equity securities at fair value through profit or loss which are categorised at FV Level 3; • Evaluating design, implementation and operating effectiveness of internal controls over the preparation of the valuation; • Assessing the qualification and experience of the independent valuer who performs the valuation; • Evaluating the appropriateness of the valuation methodologies and techniques used in determining the fair value of the investment, with the assistance of our internal valuation specialist; and • Evaluating the appropriateness of the judgements and estimates of key inputs used in determining the fair value of the investment including revenue growth rate and weighted average cost of capital.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chung Chin Cheung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 May 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	5	**918,911**	650,457
Cost of revenue		**(412,502)**	(252,531)
Gross profit		**506,409**	397,926
Other income, gains and losses	7	**142,728**	72,739
(Impairment losses, net of reversal) reversal of impairment losses, net of impairment on trade receivables		**(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
Share of result of a joint venture		**—**	(271)
(Loss) profit before tax		**(74,980)**	92,679
Income tax credit (expense)	8	**10,871**	(10,653)
(Loss) profit for the year	9	**(64,109)**	82,026
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(39,773)**	91,375
Non-controlling interests		**(24,336)**	(9,349)
		(64,109)	82,026
(Loss) earnings per share			
— Basic and diluted (RMB)	13	**(0.06)**	0.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 May 2019

	Notes	As at 31 May 2019 RMB'000	2018 RMB'000
Non-current Assets			
Property and equipment	15	**29,548**	20,713
Interests in associates	16	**84,025**	66,855
Long-term investments designated as fair value through profit or loss	18	**—**	124,929
Financial assets at fair value through profit or loss	18	**146,855**	—
Deferred tax assets	29	**27,591**	5,224
Deposits for acquisition of property and equipment		**5,757**	3,113
		293,776	220,834
Current Assets			
Trade and other receivables	19	**35,478**	33,426
Prepayments	21	**81,870**	69,214
Available-for-sale investments	18	**—**	380,000
Financial assets at fair value through profit or loss	18	**352,943**	—
Income tax recoverable		**6,905**	7,648
Bank balances and cash	22	**2,497,621**	709,448
		2,974,817	1,199,736
Current Liabilities			
Contract liabilities	23	**400,928**	333,421
Refund liabilities	24	**19,414**	9,272
Trade payables	25	**41,541**	29,067
Accrued expenses and other payables	26	**219,645**	158,730
Income tax payables		**428**	846
		681,956	531,336
Net current assets		**2,292,861**	668,400
Total assets less current liabilities		**2,586,637**	889,234
Non-current Liabilities			
Deferred tax liabilities	29	**16,530**	11,049
Net assets		**2,570,107**	878,185

	Notes	As at 31 May 2019 RMB'000	2018 RMB'000
Capital and Reserves			
Share capital	28	**120**	73
Reserves		**2,601,466**	885,255
Equity attributable to owners of the Company		**2,601,586**	885,328
Non-controlling interests	41	**(31,479)**	(7,143)
Total Equity		**2,570,107**	878,185

The consolidated financial statements on pages 101 to 190 were approved and authorised for issue by the Board of Directors on 16 August 2019 and are signed on its behalf by:

Sun Chang
Director

Yin Qiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2019

	Attributable to owners of the Company									
	Paid-in capital/ Share capital	Share premium	Preferred shares	Statutory reserve	Share option reserve	Other reserve	Retained profits	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 June 2017	60,000	598,384	—	13,813	—	946	116,396	789,539	2,206	791,745
Profit (loss) and total comprehensive income (expense) for the year	—	—	—	—	—	—	91,375	91,375	(9,349)	82,026
Transfer to statutory reserve (i)	—	—	—	10,165	—	—	(10,165)	—	—	—
Transfer from share premium to paid-in capital (ii)	120,000	(120,000)	—	—	—	—	—	—	—	—
Reduction of paid-in capital (iii)	(15,758)	(478,384)	—	—	—	—	(91,547)	(585,689)	—	(585,689)
Issuance of ordinary shares upon reorganisation (Note 28)	314	—	—	—	—	—	—	314	—	314
Effect of the reorganisation	(164,242)	164,242	—	—	—	—	—	—	—	—
Repurchase of ordinary shares (Note 28)	(251)	—	—	—	—	—	—	(251)	—	(251)
Issuance of ordinary shares (Note 28)	10	—	—	—	—	—	—	10	—	10
Issuance of series A and series B preferred shares (iv) (Note 27)	—	—	590,030	—	—	—	—	590,030	—	590,030
Changes in equity for the year	(59,927)	(434,142)	590,030	10,165	—	—	(101,712)	4,414	—	4,414
At 31 May 2018	73	164,242	590,030	23,978	—	946	106,059	885,328	(7,143)	878,185
Effect arising from initial application of IFRS 9 (Note 2)	—	—	—	—	—	—	(186)	(186)	—	(186)
Adjusted balance at 1 June 2018	73	164,242	590,030	23,978	—	946	105,873	885,142	(7,143)	877,999

	Attributable to owners of the Company									
	Paid-in capital/ Share capital	Share premium	Preferred shares	Statutory reserve	Share option reserve	Other reserve	Retained profits	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(39,773)	(39,773)	(24,336)	(64,109)
Issuance of ordinary shares (v) (Note 28)	2	132,199	–	–	–	–	–	132,201	–	132,201
Issue of new shares upon listing (Note 28)	25	1,633,792	–	–	–	–	–	1,633,817	–	1,633,817
Share issuance costs (vi) (Note 28)	–	(64,022)	–	–	–	–	–	(64,022)	–	(64,022)
Conversion of convertible redeemable preferred shares to ordinary shares (Note 27)	20	590,010	(590,030)	–	–	–	–	–	–	–
Recognition of equity-settled share-based payments (Note 30)	–	–	–	–	54,221	–	–	54,221	–	54,221
Forfeiture and cancellation of share options	–	–	–	–	(2,708)	–	2,708	–	–	–
Changes in equity for the year	47	2,291,979	(590,030)	–	51,513	–	2,708	1,756,217	–	1,756,217
At 31 May 2019	120	2,456,221	–	23,978	51,513	946	68,808	2,601,586	(31,479)	2,570,107

(i) In accordance with relevant laws in the People's Republic of China (the "PRC"), the Company's subsidiaries in the PRC, it is required to make annual appropriations to statutory reserve of 10% of after-tax profits as determined in accordance with the PRC accounting standards for each calendar year until the balance reaches 50% of the relevant PRC entity's registered capital. Transfer to this reserve must be made before distributing dividends to equity owners of the subsidiaries.

(ii) In June 2017, to increase its registered capital, Beijing New Oriental Xuncheng Network Technology Inc. ("Beijing Xuncheng") transferred Renminbi ("RMB") 120,000,000 from share premium to paid-in capital.

(iii) In February 2018, Beijing Xuncheng repurchased shares totalling approximately RMB585,689,000, following which the repurchased shares were cancelled. The repurchase price was based on market share prices and arm's length negotiations with selling shareholders. The difference between the par value of the shares repurchased and total cash consideration paid is deducted from share premium and, after share premium is reduced to nil, the remaining is deducted from retained profits.

(iv) In May and April 2018, the Company issued 90,416,181 series A preferred shares and 64,396,251 series B preferred shares, respectively, and received United States dollar ("US$") 92,700,000 (RMB591,184,000) net of the issue costs of US$174,000 (RMB1,154,000) in 2018.

(v) In June 2018, the Company issued 13,858,832 ordinary shares to Tigerstep Development Limited ("Tigerstep"), a company controlled by Mr. Yu, Minhong, the chairman of the board of directors of the Company, for a total cash consideration of US$20,668,712 (RMB132,201,000).

(vi) The share issuance costs mainly included share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, which are incremental costs directly attributable to the issuance of the new shares upon listing. Upon the completion of initial public offering (the "**IPO**"), these costs amounting to RMB64,022,000 were treated as a deduction against the share premium arising from the issuance.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 May 2019

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(74,980)**	92,679
Adjustments for:		
Depreciation of property and equipment	**9,050**	5,949
Loss on disposal of property and equipment	**264**	161
Impairment losses, net of reversal (reversal of impairment losses, net of impairment) on trade receivables	**880**	(566)
Share-based compensation expenses	**54,221**	—
Interest income from wealth management products	**—**	(44,469)
Interest income from bank balances	**(5,574)**	(713)
Net foreign exchange gain	**(94,628)**	(3,352)
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 fair value through profit or loss	**(41,924)**	—
Share of result of a joint venture	**—**	271
Share of result of associates	**(3,111)**	(2,008)
Gain on disposal of a joint venture	**—**	(469)
Operating cash flows before movements in working capital	**(155,802)**	24,057
Increase in trade and other receivables	**(3,393)**	(7,021)
Increase in prepayments	**(14,471)**	(29,691)
Increase in contract liabilities	**67,507**	108,251
Increase in refund liabilities	**10,142**	5,925
Increase (decrease) in trade payables	**12,540**	(2,644)
Increase in accrued expenses and other payables	**62,300**	65,189
Cash (used in) generated from operating activities	**(21,177)**	164,066
Income tax paid	**(5,690)**	(15,330)
Interest received	**2,156**	713
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	**(24,711)**	149,449

	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES		
Proceeds from disposal of		
— financial assets at fair value through profit or loss	**1,000,732**	—
— available-for-sale investments	**—**	2,655,596
Purchases of		
— financial assets at fair value through profit or loss	**(950,000)**	—
— long-term investments designated as fair value through profit or loss	**—**	(9,600)
— available-for-sale investments	**—**	(2,070,000)
Proceeds on disposal of property and equipment	**37**	17
Purchase of property and equipment	**(20,830)**	(19,053)
Payments for investments in associates	**(14,059)**	(49,490)
Proceeds from disposal of a joint venture	**—**	1,254
NET CASH GENERATED FROM INVESTING ACTIVITIES	**15,880**	508,724
FINANCING ACTIVITIES		
Payment due to reduction of paid-in capital	**—**	(585,689)
Proceeds from issuance of ordinary shares	**132,211**	63
Proceeds from issuance of ordinary shares upon listing	**1,633,817**	—
Proceeds from issuance of series A and series B preferred shares	**12**	591,173
Share issuance costs	**(63,592)**	—
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, REPRESENTED BY BANK BALANCES AND CASH	**2,497,621**	709,448

NOTES TO THE FINANCIAL STATEMENTS

1 General, Group Reorganisation and Basis of Presentation of Consolidated Financial Statements

Koolearn Technology Holding Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 7 February 2018 under the Companies law, Cap 22 (law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business of the Company and its subsidiaries (collectively referred to as the "Group") are disclosed in the section headed "Corporate Information" in the annual report. New Oriental Education & Technology Group Inc. ("New Oriental Group"), which was in corporated in the Cayman Islands, is the ultimate controlling shareholder of the Company.

The Company is an investment holding company. The principle activities of the Group are providing on-line education service to pre-school children, primary and middle school students, college students and other occupational people. The Group also operates a business to business platform using online education modules to provide software-as-a-service online education service to institutional customers such as public libraries and universities.

The shares of the Company have been listed on the Stock Exchange with effect from 28 March 2019 (the "Listing" and "Listing Date").

The consolidated financial statements is presented in RMB, which is also the functional currency of the Company.

In preparation for the listing of the Company's shares on the Stock Exchange (the "Listing"), the entities comprising the Group underwent a group reorganisation by interspersing the Company, New Oriental Xuncheng Technology (HK) Limited ("Xuncheng HK") and Beijing Dexin Dongfang Network Technology Co., Inc. ("Dexin Dongfang"), and reflected the same shareholding interest in Beijing Xuncheng to the Company immediately prior to the reorganisation (collectively referred to as the "Reorganisation") during the year ended 31 May 2018.

Reorganisation and basis of preparation and presentation of the consolidated financial statements

The consolidated financial statements have been prepared based on the accounting policies set out in Note 3 which conform International Financial Reporting Standards ("IFRSs"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "Companies Ordinance").

In preparation for the Listing, the entities in the Group underwent a group reorganisation (the "Reorganisation") which involves interspersing the Company, New Oriental Xuncheng Technology (HK) Limited ("Xuncheng HK") and Beijing Dexin Dongfang Network Technology Co., Inc. ("Dexin Dongfang") and reflects the same shareholding interest in Beijing Xuncheng to the Company immediately prior to the Reorganisation.

1 General, Group Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

Reorganisation and basis of preparation and presentation of the consolidated financial statements (Continued)

The principle steps of the Reorganisation are as follows:

(i) On 7 February 2018, the Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands with an authorised share capital of US$50,000 divided into 50,000 shares at par value of US$1.00 each. On the same day, the Company issued and allotted 50,000 ordinary shares to New Oriental Group as fully-paid at par value.

(ii) On 2 March 2018, Xuncheng HK was incorporated as a limited liability company under the laws of Hong Kong, with a share capital of Hong Kong Dollar ("HK$") 1.00 divided into 1 share of HK$1.00, of which was issued and allotted fully paid at par to the Company upon incorporation.

(iii) On 21 March 2018, Dexin Dongfang was incorporated as a limited liability company under the laws of the PRC, with a registered capital of RMB10,000,000 which was all subscribed by Xuncheng HK.

(iv) On 12 April 2018, the Company (i) repurchased 40,000 ordinary shares from New Oriental Group at par value, and (ii) changed its authorised share capital to US$50,000 divided into 2,500,000,000 shares at par value of US$0.00002 each.

(v) On 12 April 2018, the Company issued and allotted 80,774,838 ordinary shares as fully paid at par to four companies owned by employees of the Group.

(vi) On 24 April 2018, the Company and the series B preferred shareholders entered into a series B share purchase agreement while the shareholders are independent investors, pursuant to which:

  (a) Dragon Cloud Holdings Limited agreed to subscribe for a total of 51,491,108 series B preferred shares (the "Series B Preferred Shares") at a price of US$1.4265 per share for a total consideration of US$73,453,236 (RMB468,433,000);

  (b) ChinaCity EDU Fund I L.P. agreed to subscribe for a total of 12,905,143 Series B Preferred Shares at a price of US$1.4914 per share for a total consideration of US$19,246,405 (RMB122,740,000).

(vii) On 10 May 2018, Dexin Dongfang, Beijing Xuncheng and the shareholders of Beijing Xuncheng entered into a series of agreements, which enables the Company to obtain control over Beijing Xuncheng, Beijing Kuxue Huisi Network Technology Co., Ltd. ("Kuxue Huisi") and Beijing Dongfang Youbo Network Technology Co., Ltd. ("Dongfang Youbo") (together the "Consolidated Affiliated Entities"). See the section below headed "Contractual Arrangements" below for further details.

(viii) On 17 May 2018, the Company issued and allotted 90,416,181 series A preferred shares (the "Series A Preferred Shares") to the series A preferred shareholder, a subsidiary of Tencent Holdings Limited ("Tencent" and with its subsidiaries the "Tencent Group").

1 General, Group Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

Reorganisation and basis of preparation and presentation of the consolidated financial statements (Continued)

Prior to obtaining control of Beijing Xuncheng by the Company, Beijing Xuncheng was held in majority and controlled by New Oriental Group. After the Company obtaining control of Beijing Xuncheng, Beijing Xuncheng was also ultimately controlled by New Oriental Group because the Company has been held in majority and controlled by New Oriental Group since its incorporation. Therefore, the companies now comprising the Group (the "Consolidated Entities"), including Beijing Xuncheng and its subsidiaries, have been under the common control of New Oriental Group since the beginning of the financial year ended 31 May 2018 or if the Company was incorporated afterwards, since its incorporation.

Upon the completion of the above steps, the Company became the holding company of the companies now comprising the Group on 10 May 2018. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. As the Reorganisation only involved interspersing investment holding companies (including the Company, Xuncheng HK and Dexin Dongfang) and has not resulted in any change of economic substance, accordingly, the consolidated financial statements have been prepared on the basis as if the Company had always been the holding company of the Group. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the year ended 31 May 2018 have been prepared as if the current group structure had been in existence throughout the year ended 31 May 2018, or since the respective dates of incorporation/establishment of the Consolidated Entities where there is a shorter period. The net assets of the Consolidated Entities are consolidated using the existing book values from the controlling party's perspective and no amount is recognised in respect of goodwill or bargain purchase gain upon completion of the Reorganisation.

Contractual Arrangements

Due to the restrictions imposed by the relevant laws and regulatory regime of the PRC on foreign ownership of companies engaged in the value-added telecommunications services carried out by the Group, the Group conducts a substantial portion of the business through Beijing Xuncheng, Kuxue Huisi and Dongfang Youbo in the PRC. On 10 May 2018, the wholly-owned subsidiary of the Company, Dexin Dongfang has entered into the contractual arrangements (the "Contractual Arrangements") with the Consolidated Affiliated Entities and their respective equity holders, which enable Dexin Dongfang and the Company to:

- expose, or has rights, to variable returns from its involvement with the investee and has ability to affect those returns through its power over the Consolidated Affiliated Entities;

- exercise equity holders' controlling voting rights of the Consolidated Affiliated Entities;

- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the business support, technical and consulting services provided by Dexin Dongfang;

1 General, Group Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

Contractual Arrangements (Continued)

- obtain an irrevocable and exclusive right to purchase all or part of equity interests in the Consolidated Affiliated Entities from the respective equity holders at nil consideration or a minimum purchase price permitted under PRC Laws ("PRC Laws"). Dexin Dongfang may exercise such options at any time until it has acquired all equity interests and/or all assets of the Consolidated Affiliated Entities. In addition, the Consolidated Affiliated Entities are not allowed to sell, transfer, or dispose any assets, or make any distributions to their equity holders without prior consent of Dexin Dongfang; and

- obtain a pledge over the entire equity interest of the Beijing Xuncheng from their equity holders as collateral security for all of Beijing Xuncheng's and Kuxue Huisi's payments due to Dexin Dongfang and to secure performance of Beijing Xuncheng's and Kuxue Huisi's obligations under the Contractual Arrangements.

The Group does not have any equity interest in the Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Group has power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is considered to have control over the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries for accounting purpose. The Company consolidates the assets, liabilities, revenue, income and expenses of the Consolidated Affiliated Entities upon the completion of the Reorganisation.

2 Application of New and Amendments to International Financial Reporting Standards

The Group has consistently applied IFRSs, amendments to IFRSs and the related interpretations issued by the International Accounting Standards Board ("IASB") that are effective for the accounting period beginning on 1 June 2018, for the years ended 31 May 2019 and 2018, except that the Group adopted IFRS 9 *Financial Instruments* on 1 June 2018 and IAS 39 *Financial Instruments: Recognition and Measurement* during the year ended 31 May 2018. Specifically, the Group has adopted IFRS 15 *Revenue from contracts with customers* on a consistent basis throughout the years ended 31 May 2019 and 2018. The accounting policies for financial instruments which conform with IFRS 9 that are applicable from 1 June 2018 onwards and IAS 39 which are applicable for the year ended 31 May 2018 and revenue recognition under IFRS 15, are set out in Note 3 below.

On 1 June 2018, the Group has applied IFRS 9 and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets) and 3) general hedge accounting.

2 Application of New and Amendments to International Financial Reporting Standards (Continued)

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 June 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 June 2018. The difference between carrying amounts as at 31 May 2018 and the carrying amounts as at 1 June 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39.

Accounting policies resulting from application of IFRS 9 are disclosed in Note 3.

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items under IFRS 9 and IAS 39 at the date of initial application of IFRS 9, 1 June 2018.

		Available for-sale ("AFS") investments RMB'000	Long-term investments designated as fair value through profit or loss ("FVTPL") RMB'000	Financial assets at FVTPL as new measurement category under IFRS 9 RMB'000	Trade receivables RMB'000	Retained profits RMB'000
Closing balance at 31 May 2018 — IAS 39		380,000	124,929	—	6,348	106,059
Effect arising from initial application of IFRS 9:						
Reclassification						
From AFS investments	(a)	(380,000)	—	380,000	—	—
From long-term investments designated at FVTPL	(b)	—	(124,929)	124,929	—	—
Remeasurement						
Impairment under ECL model	(c)	—	—	—	(186)	(186)
Opening balance at 1 June 2018 — IFRS 9		—	—	504,929	6,162	105,873

2 Application of New and Amendments to International Financial Reporting Standards (Continued)

(a) AFS investments

At the date of initial application of IFRS 9, the Group's investments in wealth management products of RMB380,000,000 previously carried at fair value were reclassified from AFS investments to financial assets at FVTPL. There is no fair value gains or losses relating to those investments previously recorded at AFS reserve and therefore no adjustment were made to retained profits upon initial application of IFRS 9.

(b) Long-term investments designated as FVTPL

At the date of initial application of IFRS 9, the Group measured the unlisted equity investments at FVTPL. As a result, such investments were reclassified from financial assets designated as FVTPL to financial assets at FVTPL.

(c) Impairment under ECL model

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. Except for those which had been determined as credit impaired under IFRS 9, trade receivables are grouped based on risk characteristic disclosed in Note 20.

ECL for other financial assets at amortised cost, including bank balances and other receivables, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 June 2018, additional credit loss allowance of RMB186,000 has been recognised against retained profits. Loss allowance was charged against the trade receivables.

Details of the ECL assessment are stated in Note 20.

2 Application of New and Amendments to International Financial Reporting Standards (Continued)

New and amendments to IFRSs and the interpretation in issue but not yet effective

At the date of this report, the IASB has issued the following new and amendments to IFRSs and the interpretation that are not yet effective. The Group has not early applied the following new and amendments to IFRSs and the interpretation that have been issued but are not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new IFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs and IFRIC will have no material impact on the consolidated financial information in the foreseeable future.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted for as a sale. IFRS 16 includes requirements relating to subleases and lease modifications.

2 Application of New and Amendments to International Financial Reporting Standards (Continued)

New and amendments to IFRSs and the interpretation in issue but not yet effective (Continued)

IFRS 16 *Leases* (Continued)

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group and upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature as appropriate.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 May 2019, the Group has non-cancellable operating lease commitments of RMB175,540,000 as disclosed in Note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB8,276,000 as at 31 May 2019 as rights and obligations under leases to which IAS 17 applies as disclosed in Note 19. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group would elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group would elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3 Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting policies which conform with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3 Significant Accounting Policies (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Investments in associates and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

3 Significant Accounting Policies (Continued)

Investments in associates and a joint venture (Continued)

The results and assets and liabilities of associates and a joint venture are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates and a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9/IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

3 Significant Accounting Policies (Continued)

Investments in associates and a joint venture (Continued)

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

3 Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

Contracts with multiple performance obligations

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The Group measures the progress towards complete satisfaction of a performance obligation based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depicts the Group's performance in transferring control of goods or services.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

The Group primarily offers pre-recorded or live online education courses to individual students. The Group also provides pre-recorded online education packages to institutional customers:

Pre-recorded online course services provided to students (revenue recognised over time)

For pre-recorded online course services, the Group earns revenue by providing the pre-recorded online course services to customers (individual students) during the service period for a fixed fee, customers can access the pre-recorded online courses at any time during the service period. The service period is determined from the date of the purchase till the due date of the course as specified in the course order; for other courses without a due date the service period is specified in the course order.

During the service period, the Group also provides a range of other complementary services to enhance the customers' satisfaction of the service provided, which may include lecture notes, homework correction, online study groups, online mock exams, and online question and answer section. The directors of the Group have assessed that the other complementary services provided are not distinct and are combined with the pre-recorded online course as single performance obligation. This is because customers cannot benefit from the other complementary services on its own.

3 Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

Refund liabilities (Continued)

Pre-recorded online course services provided to students (revenue recognised over time) (Continued)

The directors of the Company have determined that the performance obligation of providing pre-recorded online courses is satisfied over time as customers simultaneously receive and consume the benefits of the prerecorded online courses throughout the service period.

Output method is used when determine progress towards complete satisfaction of the performance obligation of the pre-recorded online courses and revenue is recognised on a straight line basis during the service period.

Under the Group's standard contract terms for pre-recorded online course services, customers have a right to full refund within 7 days. The Group estimates the refund liabilities by considered the historical experience. Revenue is recognised for the amount of consideration to which the Group expects to be entitled. A contract liability is recognised for sales in which revenue has yet been recognised.

Live online course services provided to students (revenue recognised over time)

For live online course services, the Group earns revenue by providing the live online courses to customers (individual students) according to a predetermined live schedule during the service period for a fixed fee. The service period is determined from the date of the purchase till the due date of the course as specified in the course order.

During the service period, the Group also provides a range of other complementary services to enhance the customers' satisfaction of the service provided, which may include lecture notes, homework correction, online study groups, online mock exams, and online question and answer section. The directors of the Company have assessed that other complementary services provided are not distinct and are combined with the live online courses as one performance obligation. This is because customers cannot benefit from the other complementary services on its own.

During the service period, the Group also provides playback function on some of the live online courses to enhance customers' experience of the service provided. The directors of the Company have assessed that the playback function of the live online courses is a separate performance obligation as customers can benefit from the playback function on its own and the playback function is separately identifiable from other obligations in the contract.

The directors of the Company estimate the stand-alone selling price of each of the performance obligation based on the expected cost of satisfying each of the performance obligation to the Group and add an estimated margin for each of the performance obligation, as the stand-alone selling price is not observable directly.

The directors of the Company have determined that the performance obligation of both the live online courses and the playback function is satisfied over time as customers simultaneously receive and consume the benefits of both performance obligations.

3 Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

Refund liabilities (Continued)

Live online course services provided to students (revenue recognised over time) (Continued)

Output method is used when determine progress towards complete satisfaction of both performance obligations. For live online courses, it is recognised proportionally when each scheduled live is performed. For the playback function, it is recognised on a straight line basis during the service period.

Under the Group's standard contract terms for live online course services, customers have a right to full refund before the start of the second scheduled live broadcasting. The Group estimates the refund liabilities by considered the historical experience. Revenue is recognised for the amount of consideration to which the Group expects to be entitled. A contract liability is recognised for sales in which revenue has yet been recognised.

Pre-recorded online education package services to institutional customers (revenue recognised over time)

For pre-recorded online education package provided services, the Group provides customised pre-recorded online education packages to customers (institutional customers) during the service period for a fixed fee.

During the service period, the Group also provides annual updates on the packages to make the content of the packages update. The directors of the Company have assessed that the annual updates provided are not distinct and are combined with the pre-recorded online education packages as single performance obligation. This is because the customers cannot benefit from the annual updates on its own.

The directors of the Company have determined that the performance obligation of the pre-recorded online education packages is satisfied over time as customers simultaneously receive and consume the benefits of the pre-recorded online education packages throughout the effective course period.

Output method is used when determine progress towards complete satisfaction of the performance obligation of the pre-recorded online education packages and revenue is recognised on a straight line basis during the effective course period.

Sales of pre-recorded online education packages to institutional customers are not refundable once the package is purchased by the customer.

Revenue from sales of online testing package (revenue recognised at a point in time)

The Group purchases online testing package from third party and then sells this package to customers. The Group recognises revenue from sales of online testing package at a point in time when the password of the online testing package is passed to customers. The Group purchases a fixed number of the online testing package before the online testing package is sold to customers, therefore the Group controls the online testing package before it is sold. The Group considers that the Group is acting as principle in the transaction and recognises revenue from sales of online testing package on a gross basis.

Sales of online testing package are not refundable once it is purchased by the customer.

3 Significant Accounting Policies (Continued)

Other income

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

When no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in items of historical cost in foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

3 Significant Accounting Policies (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Short-term employee benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other postretirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

3 Significant Accounting Policies (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3 Significant Accounting Policies (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property and equipment

Property and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

3 Significant Accounting Policies (Continued)

Impairment on tangible assets (Continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other income, gains and losses" line item.

Impairment of financial assets (upon application of IFRS 9 in accordance with transitions Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2) (Continued)

Lifetime ECL represents ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed collectively using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast of future conditions at the reporting date, including time value of money where appropriate.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2) (Continued)

(i) Significant increase in credit risk (Continued)

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event; and

(c) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings when available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 June 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 June 2018) (Continued)

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the other income, gains and losses line item. Fair value is determined in the manner described in Note 39.

(ii) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 June 2018) (Continued)

(ii) AFS financial assets (continued)

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of IFRS 9 on 1 June 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 June 2018) (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets (Continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities at amortised cost

Financial liabilities including trade payables and accrued expenses and other payables and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Preferred Shares

Preferred Shares issued by the Company can be converted into the ordinary shares of the Company as detailed in Note 27. The Series A Preferred Shares and the Series B Preferred Shares are redeemable against New Oriental Group upon occurrence of certain events as detailed in Note 27. Preferred Shares are classified as an equity instrument because Preferred Shares will be exchanged for a fixed number of the Company's own equity instruments. Preferred Shares are initially recognised at the amount of proceeds received with directly attributable transaction costs deducted from the proceeds received. Subsequent to initial recognition, Preferred Shares are carried at cost.

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Contractual Arrangements

The Group conducts a substantial portion of the business through the Consolidated Affiliated Entities in the PRC due to regulatory restrictions on foreign ownership of companies engaged in the online education business carried out by the Group. The Group does not have any equity interest in the Consolidated Affiliated Entities. The directors of the Company assessed whether or not the Group has control over the Consolidated Affiliated Entities based on whether the Group has the power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities. After assessment, the directors of the Company concluded that the Group has control over the Consolidated Affiliated Entities as a result of the Contractual Arrangements and other measures and accordingly, the Group has consolidated the financial information of the Consolidated Affiliated Entities during the two years ended 31 May 2018 and 2019.

Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Dexin Dongfang, the Consolidated Affiliated Entities and their equity holders are in compliance with the relevant PRC Laws and are legally enforceable.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty (Continued)

Fair value of financial assets at FVTPL

Investments in unlisted equity securities are classified as financial assets at FVTPL. The fair value of these unlisted equity securities are determined using the valuation techniques. Valuation techniques are certified by independent and recognised international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by valuers make the maximum use of market inputs and rely as little as possible on the Group's specific data. The model mainly involves estimates on revenue growth rate, gross margin and weighted average cost of capital ("WACC"). As at 31 May 2019, the carrying amounts of the investments in unlisted equity securities classified as financial assets at FVTPL (classified as long-term investments designated as FVTPL at 31 May 2018) are RMB146,855,000 (2018: RMB124,929,000). Should any of the estimates be revised, it may lead to a material change to the fair value of the financial assets at FVTPL.

5 Revenue

Disaggregation of revenue from contracts with customers

	Year ended 31 May	
	2019	2018
	RMB'000	RMB'000
Timing of revenue recognition		
Over time	**891,510**	617,816
At a point in time	**27,401**	32,641
Total	**918,911**	650,457
Type of customer		
Students	**823,969**	561,456
Institutional customers	**94,942**	89,001
Total	**918,911**	650,457
Type of service		
Pre-recorded online course services provided to students	**577,268**	493,604
Pre-recorded online education package services to institutional customers	**85,705**	77,721
Live online course services provided to students	**228,537**	46,491
Sales of online testing package	**14,434**	15,426
Others	**12,967**	17,215
Total	**918,911**	650,457

5 Revenue (Continued)

Disaggregation of revenue from contracts with customers (Continued)

During the years ended 31 May 2019 and 2018, all revenue of the Group are generated from online education services and other related services, and all revenue of the Group are generated from external customers in the PRC.

There were no adjustments or eliminations between the revenue from contracts with customers and the amount disclosed in the segment information.

6 Segment Information

Information reported to the executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

Specifically, the Group's reportable segments under IFRS 8 are as follows:

1. College Education — online education service targeted to college and above students and adults.

2. K12 Education — online education service targeted to primary school, middle school and high school students.

3. Pre-school Education — online education service targeted to pre-school children.

4. Institutional customers — online education service provided to institutional customers.

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 May 2019

	College Education RMB'000	K12 Education RMB'000	Pre-school Education RMB'000	Institutional customer RMB'000	Total RMB'000
Revenue	631,361	159,213	33,395	94,942	918,911
Cost of revenue	(216,904)	(143,355)	(33,696)	(18,547)	(412,502)
Segment gross profit (loss)	414,457	15,858	(301)	76,395	506,409
Unallocated income and expenses:					
Other income, gains and losses					142,728
Impairment losses, net of reversal on trade receivables					(880)
Selling and marketing expenses					(443,930)
Research and development expenses					(147,520)
Administrative expenses					(103,373)
Listing expenses					(31,525)
Share of result of associates					3,111
Loss before tax					(74,980)

6 Segment Information (Continued)

For the year ended 31 May 2018

	College Education RMB'000	K12 Education RMB'000	Pre-school Education RMB'000	Institutional customer RMB'000	Total RMB'000
Revenue	462,465	88,070	10,921	89,001	650,457
Cost of revenue	(168,692)	(53,506)	(14,564)	(15,769)	(252,531)
Segment gross profit (loss)	293,773	34,564	(3,643)	73,232	397,926
Unallocated income and expenses:					
Other income, gains and losses					72,739
Net reversal of impairment losses on trade receivables					566
Selling and marketing expenses					(223,978)
Research and development expenses					(100,392)
Administrative expenses					(40,466)
Listing expenses					(15,453)
Share of result of associates					2,008
Share of result of a joint venture					(271)
Profit before tax					92,679

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment gross profit is the measure reported to the CODM for the purposes of resource allocation and performance assessment. Segment gross profit (loss) is gross profit earned (gross loss incurred) by each segment and other income, gains and losses, (impairment losses), net of reversal on trade receivables, net reversal of impairment losses on trade receivables, selling and marketing expenses, research and development expenses, administrative expenses, listing expenses, share of result of associates and share of result of a joint venture are excluded from segment result.

Information of segment assets and liabilities and other segment information that are available for reportable and operating segments are not provided to the CODM for their review. Therefore, no analysis of the Group's assets and liabilities and other segment information by reportable and operating segment are presented.

The Company is domiciled in the PRC and all of the Group's revenue were generated from external customers in the PRC during the years ended 31 May 2019 and 2018. The Group's non-current assets are all located in the PRC.

No service provided to a single customer exceeds 10% or more of the total revenue of the Group for the year ended 31 May 2019 (2018: nil).

7 Other Income, Gains and Losses

	Year ended 31 May	
	2019 RMB'000	2018 RMB'000
Exchange gain, net	**94,628**	3,352
Gain on fair value changes of financial assets at FVTPL	**41,924**	—
Gain on fair value changes of long-term investments designated as FVTPL	**—**	23,426
Interest income from wealth management products	**—**	44,469
Interest income from bank balances	**5,574**	713
Gain on disposal of a joint venture (Note 17)	**—**	469
Government grants (Note 32)	**302**	471
Loss on disposal of property and equipment	**(264)**	(161)
Others	**564**	—
	142,728	72,739

8 Income Tax (Credit) Expense

	Year ended 31 May	
	2019 RMB'000	2018 RMB'000
Current tax:		
PRC enterprise income tax	**6,015**	7,673
Deferred tax (Note 29)	**(16,886)**	2,980
	(10,871)	10,653

The Company and Dong Fund Co., Ltd ("Dong Fund") were incorporated in the Cayman Islands. Both are tax exempted under the tax laws of the Cayman Islands.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% during the year ended 31 May 2019 (2018: 16.5%).

8 Income Tax (Credit) Expense (Continued)

Under the law of the PRC on enterprise income tax (the "EIT Law") and implementation regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the year ended 31 May 2019 (2018: 25%).

The Group's subsidiaries operating in the PRC are eligible for certain tax concessions for the years ended/ending 31 December 2018 and 2019. In 2015, Beijing Xuncheng obtained the "high and new technology enterprise" (the "HNTE") status and enjoy the preferential tax rate of 15% from 2015 to 2017. Under the EIT Law effective on 1 January 2008, the HNTE status is valid for three years and qualifying entities can re-apply for an additional three years provided their business operations continue to qualify for the new HNTE status. In 2017, Beijing Xuncheng renewed its HNTE status and enjoy the preferential tax rate of 15% from 2018 to 2020. In 2018, Kuxue Huisi obtained the HNTE status and enjoy the preferential tax rate of 15% from 2018 to 2020. During the subsequent years, the tax authority will make reassessment on the Group's HNTE status. According to the EIT Law, qualified research and development expenses can be deducted at 175% of such expenses for income tax deduction purpose upon approval from the relevant tax authority for the year ending 31 December 2019 (2018: 150%).

The income tax (credit)expense for the year can be reconciled to the (loss)profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 May	
	2019 **RMB'000**	2018 RMB'000
(Loss) profit before tax	**(74,980)**	92,679
Tax at applicable income tax rate of 15%	**(11,247)**	13,902
Tax effect of income not taxable for tax purpose	**—**	(818)
Tax effect of expenses that are not deductible for tax purpose	**7,223**	374
Tax effect of 175%/150% deduction rate on certain research and development expenses	**(7,925)**	(7,612)
Tax effect of tax losses and deductible temporary differences not recognised	**9,133**	2,728
Utilisation of tax losses previously not recognised	**(117)**	(1,231)
Effect of different tax rate of PRC subsidiaries	**(21)**	2,327
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(7,917)**	983
Income tax (credit) expense for the year	**(10,871)**	10,653

9 (Loss) Profit for the Year

(Loss) profit for the year has been arrived at after charging the following items:

	Year ended 31 May	
	2019	2018
	RMB'000	RMB'000
Staff cost, including directors' remuneration		
— Salaries and benefits	**324,490**	213,202
— Retirement benefit scheme contributions	**34,567**	20,356
— Share-based compensation expenses	**54,221**	—
Total staff cost	**413,278**	233,558
Depreciation of property and equipment	**9,050**	5,949
Minimum lease payments under operating leases	**32,614**	18,624
Auditor's remuneration	**3,475**	3,022

10 Directors' and Chief Executives' Emoluments

The emoluments paid or payable to directors and chief executives during the years ended 31 May 2019 and 2018 were as follows:

For the year ended 31 May 2019:

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses[c] RMB'000	Equity-settled share option expense RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive Directors and Chief Executives					
Ms. Sun Chang (vi)	972	900	—	57	1,929
Mr. Yin Qiang	414	—	2,672	57	3,143
Mr. Pan Xin	832	—	—	57	889
Mr. Sun Dongxu (vii)	205	248	10,179	19	10,651
Subtotal	2,423	1,148	12,851	190	16,612
Non-Executive Directors					
Mr. Yu Minhong (i)	—	—	21,243	—	21,243
Mr. Tong Taosang (ii)[b]	—	—	—	—	—
Mr. Wu Qiang[a]	—	—	1,718	—	1,718
Ms. Leung Yu Hua Catherine (iii)[b]	—	—	—	—	—
Subtotal	—	—	22,961	—	22,961
Independent Non-Executive Directors					
Mr. Zhong Yingwu (ii)[d]	—	—	—	—	—
Ms. Guo Hailan (ii)[d]	—	—	—	—	—
Mr. Tong Sui Bau	86	—	—	—	86
Mr. Chi Yufeng (iv)	26	—	—	—	26
Mr. Kwong Wai Sun Wilson (iv)	26	—	—	—	26
Subtotal	138	—	—	—	138
Total	2,561	1,148	35,812	190	39,711

10 Directors' and Chief Executives' Emoluments (Continued)

For the year ended 31 May 2018:

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses[c] RMB'000	Retirement benefits RMB'000	Total RMB'000
Directors				
Mr. Yu Minhong (i)[a]	—	—	—	—
Mr. Zhou Chenggang (v)[a]	—	—	—	—
Ms. Sun Chang (vi)	879	910	52	1,841
Mr. Yin Qiang	408	—	52	460
Mr. Pan Xin	781	770	52	1,603
Mr. Tong Taosang (ii)[b]	—	—	—	—
Mr. Wu Qiang[a]	—	—	—	—
Subtotal	2,068	1,680	156	3,904
Independent Non-Executive Directors				
Mr. Zhong Yingwu (ii)	90	—	—	90
Ms. Guo Hailan (ii)	90	—	—	90
Mr. Tong Sui Bau	120	—	—	120
Subtotal	300	—	—	300
Total	2,368	1,680	156	4,204

(i) Mr. Yu Minhong serves as the chairman of the board of directors of the Company during the years ended 31 May 2019 and 2018. He serves as the non-executive director of the Company during the year ended 31 May 2019 while he served as the director during the year ended 31 May 2018.

(ii) Mr. Tong Taosang, Mr. Zhong Yingwu and Ms. Guo Hailan resigned in July 2018.

(a) Excluding the equity-settled share option expenses, the directors' emoluments were paid by New Oriental Group during the years ended 31 May 2019 and 2018.

(b) The emoluments of Mr. Tong Taosang and Ms. Leung Yu Hua Catherine was paid by the Tencent Group during the years ended 31 May 2019 and 2018.

(c) Performance related bonuses were determined based on certain financial and non-financial measures including: revenue, operating profit, employee turnover rate etc.

(d) No emoluments were paid or payable to Mr. Zhong Yingwu and Ms. Guo Hailan during the year ended 31 May 2019, as they have resigned in July 2018.

10 Directors' and Chief Executives' Emoluments (Continued)

(iii) Ms. Leung Yu Hua Catherine was appointed as the director of the Company in July 2018.

(iv) Mr. Chi Yufeng and Mr. Kwong Wai Sun Wilson were appointed as the independent non-executive directors of the Company in July 2018.

(v) Mr. Zhou Chenggang resigned in April 2018.

(vi) Ms. Sun Chang serves as the executive director during the years ended 31 May 2018 and 2019 and co-chief executive officer of the Company during the year ended 31 May 2019.

(vii) Mr. Sun Dongxu was appointed as the co-chief executive officer of the Company in January 2019.

The emoluments of the executive directors and chief executives (2018: directors) shown above were mainly for their management services rendered to the Company and the Group and were determined by the shareholders of the Group having regard to the performance of individuals and market trends.

The non-executive directors' emoluments shown above were for their services as directors of the Company and its subsidiaries. The independent non-executive directors' emoluments were for their services as independent directors of the Company.

There was no arrangement under which a director or chief executive waived or agreed to waive any remuneration during the years ended 31 May 2019 and 2018.

During the year, certain directors were granted with share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in Note 30.

11 Transactions, Arrangements or Contracts in Which Directors of the Company have Material Interests

The Group has entered several lease agreements with Metropolis Holding (Tianjin) Co., Ltd., ("Metropolis Holding"), a company controlled by Mr. Yu Minhong, the chairman of the board of directors of the Company. The terms and conditions, including rental rates of the lease agreements are generally the same as other tenants in the same building. The lease agreements are typically of three years term and can be renewed at the end of the lease term. The lease arrangements were approved by the directors of the Company. During the year ended 31 May 2019, the Group recorded rental expenses of RMB10,467,000 (2018: RMB8,570,000) in relation to such leases. As at 31 May 2019, amount due from Metropolis Holding was RMB989,000 (2018: RMB839,000), which represents prepaid rent and rental deposit.

12 Five Highest Paid Employees

The five highest paid employees of the Group during the years ended 31 May 2019 include three directors (2018: two directors), details of whose remuneration are set out in Note 10. Details of the remuneration for the year ended 31 May 2019 of the remaining two highest paid employees (2018: three) who are neither a director nor a chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	886	1,370
Performance related bonuses	785	1,349
Equity-settled share option expense	1,862	—
Retirement benefits	109	156
Total	3,642	2,875

The number of the highest paid employees who are neither a director nor a chief executive of the Company whose remuneration fell within the following bands:

	2019 No. of employees	2018 No. of employees
HK $1,000,001 to HK $1,500,000	—	3
HK $2,000,001 to HK $2,500,000	2	—
Total	2	3

During the years ended 31 May 2019 and 2018, no emoluments were paid by the Group to any of the director and employees of the Company or the five highest paid individuals as an inducement to join or upon joining of the Group or as compensation for loss of office. None of the directors and employees has waived any emoluments during the years ended 31 May 2019 and 2018.

13 (Loss) Earnings Per Share

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2019 RMB'000	2018 RMB'000
(Loss) earnings:		
(Loss) profit for the year attributable to owners of the Company for the purpose of calculating diluted (loss) earnings per share	**(39,773)**	91,375
Less:		
Profit attributable to series A preferred shareholders	–	(11,232)
Profit attributable to series B preferred shareholders	–	(7,999)
(Loss) earnings for the purpose of calculating basic (loss) earnings per share	**(39,773)**	72,144
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	**653,236,574**	729,474,077

The calculation of basic earnings per share for the year ended 31 May 2018 was based on the profit for the year attributable to the ordinary shareholders, which has been adjusted for earnings attributable to series A preferred shareholders and series B preferred shareholders as these preferred shares are considered as participating securities for the purpose of calculating basic earnings per share. No adjustments was made for the calculation of basic loss per share for the year ended 31 May 2019 as the series A preferred shares and series B preferred shares have been converted into ordinary shares of the Company upon the Listing during the year.

The calculation of the number of shares for the purpose of basic and diluted (loss) earnings per shares for the year ended 31 May 2019 and 2018 has been taken into account the weighted average number of ordinary shares outstanding with regard to the issue and repurchase of shares, and assuming that the Group Reorganisation, share split and bonus issue of shares upon capitalisation of reserves have been in effective on 1 June 2017.

The computation of diluted (loss) earnings per share for the year ended 31 May 2019 and 2018 does not assume the conversion of series A preferred shares and/or series B preferred shares since their assumed conversion would result in a decrease in loss per share or an increase in earnings per share.

The computation of diluted loss per share for the year ended 31 May 2019 does not assume the exercise of the Company's share options and over-allotment option since the assumed exercise of share options and over-allotment option would result in a decrease in loss per share. For the year ended 31 May 2018, there were no share options issued or outstanding.

14 Dividends

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 May 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

15 Property and Equipment

	Electronic equipment RMB'000	Leasehold improvement RMB'000	Furniture and fixtures RMB'000	Total RMB'000
COST				
At 1 June 2017	26,165	7,223	1,637	35,025
Additions	8,782	7,025	1,119	16,926
Disposals	(2,781)	(251)	(767)	(3,799)
At 31 May 2018	32,166	13,997	1,989	48,152
Additions	**12,062**	**4,767**	**1,357**	**18,186**
Disposals	**(5,460)**	**(3,122)**	**(19)**	**(8,601)**
At 31 May 2019	**38,768**	**15,642**	**3,327**	**57,737**
DEPRECIATION				
At 1 June 2017	19,266	4,808	1,037	25,111
Provided for the year	4,254	1,417	278	5,949
Eliminated on disposals	(2,641)	(251)	(729)	(3,621)
At 31 May 2018	20,879	5,974	586	27,439
Provided for the year	**5,927**	**2,596**	**527**	**9,050**
Eliminated on disposals	**(5,190)**	**(3,092)**	**(18)**	**(8,300)**
At 31 May 2019	**21,616**	**5,478**	**1,095**	**28,189**
CARRYING VALUES				
At 31 May 2019	**17,152**	**10,164**	**2,232**	**29,548**
At 31 May 2018	11,287	8,023	1,403	20,713

The above items of property and equipment, after taking into account their estimated residual value of 5% of the cost, except for the leasehold improvement of which the estimated residual value is nil, are depreciated on a straight-line basis with the following expected useful lives:

Electronic equipment	3–5 years
Leasehold improvement	5 years
Furniture and fixtures	5 years

Leasehold improvement of the Group is amortised over 5 years, which are longer than the Group's fixed lease term (in average of 2 years). Due to the fact that these lease agreements can be renewed at the option of the Group, management reasonably expect that these leases will be renewed at the end of the fixed lease term and 5 years represent the useful life of the leasehold improvement of the Group.

16 Interests in Associates

Details of the Group's investment in associates are as follows:

	2019 RMB'000	2018 RMB'000
Cost of investment in associates	**87,549**	73,490
Share of loss and other comprehensive expenses	**(3,524)**	(6,635)
	84,025	66,855

Details of the Group's associates at the end of the reporting period are as follow:

Name of entity	Country of incorporation	Principal place of business	Proportion of ownership interest held by the Group At 31 May		Proportion of voting rights held by the Group At 31 May		Principal activities
			2019	2018	**2019**	2018	
Beijing Shidai Yuntu Book Co., Ltd.[(a)] ("Shidai Yuntu") (北京時代雲圖圖書有限責任公司)	PRC	Beijing	**25%**	25%	**25%**	25%	Publisher of teaching materials
Beijing Zhishang Education Technology Co., Ltd.[(a)] ("Zhishang") (北京職尚教育科技有限公司)	PRC	Beijing	**40%**	40%	**40%**	40%	Provision of on-line education
Tianjin Xuncheng Shangyue Education and Technology Ltd.[(a)] ("Shangyue") (天津迅程尚悦教育科技有限公司)	PRC	Tianjin	**49%**	49%	**49%**	49%	Education consulting
Huoerguosi Oriental New Venture Equity Investment Partnership (L.P.)[(a)] ("New Venture") (霍爾果斯東方新創股權投資合夥企業（有限合夥）)	PRC	Huoerguosi	**49%**	49%	**49%**	49%	Equity investment fund
Hone KTHL SMA, L.P.[(b)] ("Hone")	USA	Delaware	**100%**	—	**(b)**	—	Equity investment fund

(a) The English name of the company is translated from its registered Chinese name for identification purpose only.

(b) Hone is a limited partnership which was established on 28 December 2018, of which the primary purpose is to invest in education industry related business. The Group is the sole limited partner of Hone and holds 100% of the partnership interest, and an independent third party is the sole general partner which also controls the investment committee of Hone. Under the limited partnership agreement, the Group has power to approve or refuse investment opportunities proposed by the investment committee, but does not have power over any other decision of Hone, including but not limited to, decision over disposal of investments held by Hone and power to remove the general partner. The directors of the Company considered that the Group has significant influence over Hone and it was therefore classified as an associate of the Group.

16 Interests in Associates (Continued)

Summarised financial information of Shidai Yuntu

	2019 RMB'000	2018 RMB'000
Current assets	**70,462**	52,252
Non-current assets	**2,398**	554
Current liabilities	**(22,945)**	(22,249)
	49,915	30,557

	2019 RMB'000	2018 RMB'000
Revenue	**105,440**	59,343
Profit and total comprehensive income for the year	**19,358**	10,145

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements is as below:

	2019 RMB'000	2018 RMB'000
Net assets of Shidai Yuntu	**49,915**	30,557
Proportion of the Group's ownership interest in Shidai Yuntu	**25%**	25%
The Group's share of net assets of Shidai Yuntu	**12,479**	7,639
Goodwill[(a)]	**8,161**	8,161
Carrying amount of the Group's interest in Shidai Yuntu	**20,640**	15,800

(a) For the investment in Shidai Yuntu, the excess of the cost of the investment over the Group's share of the fair value of the identifiable assets and liabilities of the investee was recognised as goodwill, which has been included within the carrying amount of the investment. The entire carrying amount of the investment (including goodwill) was tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. No impairment loss has been recognised during the year ended 31 May 2019 (2018: nil).

16 Interests in Associates (Continued)

Summarised financial information of Zhishang

	2019 RMB'000	2018 RMB'000
Current assets	**6,928**	7,577
Non-current assets	**524**	479
Current liabilities	**(10,462)**	(3,636)
	(3,010)	4,420

	2019 RMB'000	2018 RMB'000
Revenue	**16,864**	9,099
Loss and total comprehensive expense for the year attributable to owners of Zhishang	**(8,595)**	(2,331)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements is as below:

	2019 RMB'000	2018 RMB'000
Net (liabilities) assets of Zhishang	**(3,010)**	4,420
Less: non-controlling interests	**(1,000)**	(1,027)
Net (liabilities) assets attributable to owners of Zhishang	**(4,010)**	3,393
Proportion of the Group's ownership interest in Zhishang	**40%**	40%
The Group's share of net (liabilities) assets of Zhishang	**(1,604)**	1,357
Other adjustment[a]	**(130)**	—
Carrying amount of the Group's interest in Zhishang	—	1,357
Cumulative unrecognised share of loss of Zhishang	**(1,734)**	—

(a) Other adjustment of RMB130,000 represents the change in net assets of Zhishang due to partial disposal of equity interest in Zhishang's subsidiary without losing control of the subsidiary, which is not accounted for using equity method.

16 Interests in Associates (Continued)

Summarised financial information of Shangyue

	2019 RMB'000	2018 RMB'000
Current assets	—	1
Non-current assets	1,002	1,000
Current liabilities	(4)	(4)
	998	997

	2019 RMB'000	2018 RMB'000
Revenue	—	—
Profit (loss) and total comprehensive income (expense) for the year	1	(3)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements is as below:

	2019 RMB'000	2018 RMB'000
Net assets of Shangyue	998	997
Proportion of the Group's ownership interest in Shangyue	49%	49%
Carrying amount of the Group's interest in Shangyue	489	489

Summarised financial information of New Venture

	2019 RMB'000	2018 RMB'000
Current assets	84,630	92,968
Non-current assets	15,520	7,458
	100,150	100,426

	2019 RMB'000	2018 RMB'000
Revenue	—	—
(Loss) profit and total comprehensive (expense) income for the year	(276)	426

16 Interests in Associates (Continued)

Summarised financial information of New Venture (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements is as below:

	2019 **RMB'000**	2018 RMB'000
Net assets of New Venture	**100,150**	100,426
Proportion of the Group's ownership interest in New Venture	**49%**	49%
Carrying amount of the Group's interest in New Venture	**49,074**	49,209

Summarised financial information of Hone

	2019 **RMB'000**
Current assets	**85**
Non-current assets	**13,798**
Current liabilities	**(61)**
	13,822

	2019 **RMB'000**
Revenue	**2**
Loss and total comprehensive expense for the period from 28 December 2018 (date of establishment) to 31 May 2019	**(253)**

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements is as below:

	2019 **RMB'000**
Net assets of Hone	**13,822**
Proportion of the Group's ownership interest in Hone	**100%**
The Group's share of net assets of Hone	**13,822**
Carrying amount of the Group's interest in Hone	**13,822**

17 Interests in a Joint Venture

Movement of the Group's investment in a joint venture is as follows:

	2018 RMB'000
Interest in a joint venture at 1 June 2017	3,148
Share of losses and other comprehensive expenses	(271)
Disposal of 15% equity interests	(785)
Reclassification from a joint venture to an associate	(2,092)
Interest in a joint venture at 31 May 2018	—

The Group recognised share of loss of RMB271,000 from Zhishang as share of loss of a joint venture for June 2017. On 27 June 2017, the Group disposed 15% equity interest in Zhishang for a total cash consideration of RMB1,254,000 and a gain of RMB469,000 was recognised. Before the disposal, Zhishang was accounted for as a joint venture and the Group exercise joint control over Zhishang with an independent third party as the Group had 55% voting right on Zhishang and the resolution of Zhishang requires two-third approval. After the partial disposal, the memorandum and articles of Zhishang were updated, which requires simple majority vote in accordance with the percentage of ownership, the Group holds 40% of equity interest and can exercises significant influence over Zhishang and accounted it for as an associate.

18 Financial Assets at Fair Value Through Profit or Loss/Long-Term Investments Designated as Fair Value Through Profit or Loss/Available-for-Sale Investments

	2019 RMB'000	2018 RMB'000
Non-current assets		
Financial assets at FVTPL		
— Unlisted equity investments[(a)]	146,855	—
Long term investments designated as FVTPL		
— Unlisted equity investments[(a)]	—	124,929
	146,855	124,929
Current assets		
Financial assets at FVTPL		
— wealth management products[(b)]	352,943	—
AFS investments		
— wealth management products[(b)]	—	380,000
	352,943	380,000

(a) Included in the equity investments are the Group's investments in preferred shares of Beijing Edutainment World Education Technology Co., Ltd. ("Edutainment World") and EEO Education Technology Co., Ltd. ("EEO") incorporated in the PRC.

(b) Wealth management products are purchased from various banks with expected rate of return ranging from 2.6% to 5.5%, and maturity period ranging from 1 days to 184 days. The principles and returns of these wealth management products are not guaranteed.

During the year ended 31 May 2019, the Group did not make any sales to Edutainment World (2018: RMB1,607,000).

During the year ended 31 May 2019, the Group made purchases from Edutainment World amounting to RMB777,000 (2018: RMB681,000).

During the year ended 31 May 2019, the Group made purchases from EEO amounting to RMB15,932,000 (2018: RMB1,433,000).

19 Trade and Other Receivables

	2019 RMB'000	2018 RMB'000
Trade receivables	**9,974**	7,459
Less: allowance for credit losses/doubtful debts	**(2,177)**	(1,111)
	7,797	6,348
Other receivables		
Receivables from third-party payment platforms	**10,150**	14,341
Rental deposit	**8,276**	4,337
Institutional customer business deposit	**4,096**	2,963
Interest receivables	**3,418**	3,677
Advances to employees	**1,627**	1,721
Others	**114**	39
	27,681	27,078
Trade and other receivables	**35,478**	33,426

Settlement related to College Education, K12 Education and Pre-school Education

Customers of College Education, K12 Education and Pre-school Education usually settle the prepaid packages by cash or pay through third-party payment platforms. For payment through third-party payment platforms, the third-party payment platforms normally settle the amounts received, net of handling charges, within one month after the trade date. The receivables from third-party payment platforms include payments that are not yet settled by third-party payment platforms.

The directors of the Company are of the opinion that the credit risks of these receivables are minimal as these are from creditworthy third-party payment platforms with no history of defaults. No impairment is made for receivables from third-party payment platforms.

Trade receivables arising from institutional customers

The credit terms granted to the institutional customers entered into contracts are within 90 days from the date of invoice.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

19 Trade and Other Receivables (Continued)

Trade receivables arising from institutional customers (Continued)

The following is an analysis of trade receivables by age, presented based on the invoice date:

	2019 RMB'000	2018 RMB'000
1–90 days	**3,968**	4,863
91–180 days	**3,267**	71
181 days–1 year	**527**	418
1–2 years	**35**	996
	7,797	6,348

Before accepting new customers, the Group assesses the potential customers' credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by management of the Group regularly.

As at 31 May 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB5,976,000 which are past due. Out of the past due balance, RMB750,000 has been past due 90 days or more and is not considered as default as there has not been a significant change in the credit standing of the debtors. The Group did not hold any collateral over these receivables.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach for the year ended 31 May 2019:

	2019 RMB'000
As at 31 May 2018 under IAS 39	**1,111**
Adjustment upon application of IFRS 9	**186**
As at 1 June 2018 under IFRS 9	**1,297**
Impairment losses recognised	**880**
As at 31 May 2019	**2,177**

Details of impairment assessment of trade and other receivables for the year ended 31 May 2019 are set out in Note 20.

19 Trade and Other Receivables (Continued)

Trade receivables arising from institutional customers (Continued)

As at 31 May 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB2,446,000, which are past due for which the Group has not provided for impairment loss. Based on past experience, the directors of the Company are of the opinion that there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired, presented based on the invoice date, is as below:

	2018 RMB'000
1–180 days	1,718
181 days–1 year	416
1–2 years	312
	2,446

Included in trade receivables, RMB1,179,000 as at 31 May 2019 (2018: RMB408,000) were amounts due from related parties (details as set out in Note 40), which were aged 1–90 days based on the invoice date.

Movements of the allowance for doubtful debts are as below:

	2018 RMB'000
At beginning of the year	1,677
Impairment losses recognised	160
Impairment losses reversed	(726)
At end of the year	1,111

The allowance for doubtful debts of the Group for the year ended 31 May 2018 was based on the evaluation of collectability and aging analysis of individual trade receivable performed by the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

20 Overview of the Group's Exposure to Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of the reporting period, the Group's maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets measured at amortised cost as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. Management uses historical credit loss experience to rate its customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's internal credit risk grading assessment, which is applicable for financial assets at amortised cost excluding trade receivables, comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts or aged within 90 days	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition or aged over 90 days but less than 2 years	Lifetime ECL — not credit impaired
In default	There is evidence indicating the asset is credit-impaired or aged over 2 years	Lifetime ECL — credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

For trade receivables, the Group has applied the simplified approach under IFRS 9 to measure the loss allowance at lifetime ECL. The Group determined ECL on these items by using a provision matrix, estimated based on the financial quality of the debtors, historical credit loss experience based on the past due status of the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort at the reporting date.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs earlier. During the years ended 31 May 2019 and 2018, no trade receivables had been written off.

The following consideration details the risk portfolio of trade receivables arising from institutional customers, based on the Group's provision matrix. As the Group's historical credit loss experience showed significantly different loss patterns for different customer portfolio (including normal risk, low risk and credit-impaired type), the provision for loss allowance was further distinguished between the Group's customer portfolio of different risk type.

20 Overview of the Group's Exposure to Credit Risk (Continued)

Normal risk type customers	Represent private-owned online video streaming providers and agents
Low risk type customers	Represent the large state-owned enterprises in the PRC, universities, public libraries and related parties
Credit-impaired customers	Represent customers that have occurred defaults with lower collectability

At 31 May 2019

	Expected credit loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Normal risk type customers			
Trade receivables	**7.80**	**2,854**	**223**
Low risk type customers			
Trade receivables	**3.36**	**5,346**	**180**
Credit-impaired customers			
Trade receivables	**100.00**	**1,774**	**1,774**

At 1 June 2018

	Expected credit loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Normal risk type customers			
Trade receivables	11.12	3,044	338
Low risk type customers			
Trade receivables	4.09	3,603	147
Credit-impaired customers			
Trade receivables	100.00	812	812

20 Overview of the Group's Exposure to Credit Risk (Continued)

For the purpose of impairment assessments, other receivables are considered to have low credit risk as the counterparties to these financial assets have a high credit rating. Accordingly, the loss allowance is measured at an amount equal to 12m ECL. In determining ECL for other receivables, the directors of the Company have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of other receivables occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the ECL allowance is insignificant at 1 June 2018 and 31 May 2019.

There has been no change in the estimation technique or significant assumptions made throughout the year ended 31 May 2019.

21 Prepayments

	2019 **RMB'000**	2018 RMB'000
Prepaid teachers' commission fee and course fee	**41,585**	39,428
Prepaid courseware production costs	**12,624**	11,109
Prepaid marketing expenses	**5,830**	8,465
Prepaid rental expenses	**15,745**	5,592
Deferred issue costs	**—**	1,815
Others	**6,086**	2,805
	81,870	69,214

Included in prepayments, RMB2,161,000 (2018: RMB1,442,000) were amounts due from related parties (details as set out in Note 40).

22 Bank Balances and Cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less.

As at 31 May 2019, the Group's short-term bank deposits carried at market rate ranged from 0.00% to 2.65% (2018: 0.00% to 0.35%) per annum.

The Group's bank balances that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2019 RMB'000	2018 RMB'000
US$	1,603,887	594,677
HK$	736,610	—

23 Contract Liabilities

	2019 RMB'000	2018 RMB'000
Contract liabilities in relation to students	321,810	275,775
Contract liabilities in relation to institutional customers	79,118	57,646
	400,928	333,421

The following table shows how much of the revenue recognised during the years ended 31 May 2019 and 2018 relates to carried-forward contract liabilities.

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year		
Students	263,934	163,942
Institutional customers	46,040	40,772
Total	309,974	204,714

23 Contract Liabilities (Continued)

The following table shows the unsatisfied contracts at 31 May 2019 and 2018 and the expected timing of recognising revenue.

	2019 RMB'000	2018 RMB'000
Expected to be recognised within one year		
Students	293,940	263,934
Institutional customers	67,869	46,040
Expected to be recognised over one year		
Students	27,870	11,841
Institutional customers	11,249	11,606
Total	400,928	333,421

Included in contract liabilities, RMB212,000 as at 31 May 2019 (2018: RMB88,000) were amounts due to related parties (details as set out in Note 40).

24 Refund Liabilities

	2019 RMB'000	2018 RMB'000
Refund liabilities		
Arising from right of refund	19,414	9,272

25 Trade Payables

The following is an analysis of trade payable by age, presented based on the invoice date.

	2019 RMB'000	2018 RMB'000
1–90 days	32,263	16,282
91–180 days	5,423	10,888
181 days–1 year	2,064	603
1 year–2 years	720	782
>2 years	1,071	512
	41,541	29,067

Included in trade payables, RMB494,000 as at 31 May 2019 (2018: RMB222,000), were amounts due to related parties (details as set out in Note 40), which were aged 1–90 days based on the invoice date.

26 Accrued Expenses and Other Payables

	2019 RMB'000	2018 RMB'000
Accrued payroll and welfare	**63,337**	25,842
Accrued teachers' commission fees and course fees	**74,270**	64,131
Advance payments received from sales agents	**28,800**	13,461
Advance payments received from students	**12,420**	12,124
Other tax payables	**10,900**	8,376
Accrued office expenses	**8,196**	5,951
Accrued marketing expenses	**4,779**	5,471
Refundable business deposits received from sales agents	**4,642**	3,178
Accrued listing expenses	**4,963**	11,198
Accrued issue costs	**933**	2,318
Others	**6,405**	6,680
	219,645	158,730

Included in other payables, RMB2,615,000 as at 31 May 2019 (2018: RMB506,000) were amounts due to related parties (details as set out in Note 40). All accrued listing expenses and accrued issue costs are denominated in US$ and HK$.

27 Convertible Redeemable Preferred Shares

During the year ended 31 May 2018, the Company issued series A preferred shares ("Series A Preferred Shares") and the series B preferred shares ("Series B Preferred Shares"). Upon the Listing of the Company on 28 March 2019, these preferred share were converted into ordinary shares of the Company on a conversion ratio of 1:1. Details of the preferred shares as issued are set out on below:

	Date of Issuance	Issuance Price (US$/Share)	Number of Shares	Total Consideration US$	Total Consideration RMB
Series A Preferred Shares	17 May 2018	0.5627	90,416,181	50,878,639	326,682,000
Series B Preferred Shares	24 April 2018	1.4265	51,491,108	73,453,236	468,433,000
Series B Preferred Shares	24 April 2018	1.4914	12,905,143	19,246,405	122,740,000

The Series A Preferred Shares and the Series B Preferred Shares are classified as an equity instrument of the Company with the amount of consideration recorded as preferred shares in the consolidated statement of changes in equity.

27 Convertible Redeemable Preferred Shares (Continued)

(a) Conversion

Each Preferred Share shall automatically be converted into ordinary share of the Company based on the then-effective conversion ratio (the "Conversion Price") applicable to such Preferred Share (i) upon the approval of the series A preferred shareholders with respect to the conversion of the Series A Preferred Shares, (ii) upon the approval of the series B preferred shareholders with respect to the conversion of the Series B Preferred Shares, or (iii) immediately prior to the occurrence of a qualified IPO.

The Conversion Price of the Preferred Shares was initially the issuance price of the Preferred Shares at an initial conversion ratio of 1:1, and shall be adjusted from time to time for proportional adjustment (the "Proportional Adjustment"), which means the Conversion Price adjustment in the event that if at any time the number of outstanding ordinary shares proportionately changes.

(b) Liquidation preferences

Upon occurrence of the liquidation events (as defined in the articles of association of the Company), all assets and funds of the Company legally available for distribution to shareholders (the "Liquidation Proceeds") shall, by reason of shareholders' ownership of the shares on an as-converted basis, be distributed as follows:

- The series B preferred shareholders shall be entitled to receive for each outstanding Series B Preferred Shares held, prior and in preference to any distribution of any of the assets and funds of the Company to the series A preferred shareholders or the ordinary shareholders of the Company, the higher of the following: (i) an amount equal to 100% of the Series B Preferred Share issuance price, together with a 10% annual compound interest accrued thereon (calculated from the Series B Preferred Share issuance date to the date of the liquidation event), plus all declared but unpaid dividends; or (ii) the pro rata share of the Liquidation Proceeds of the series B preferred shareholders calculated on an as-converted basis (the "Series B Preference Amount").

- The series A preferred shareholder shall be entitled to receive, after distribution or payment in full of the Series B Preference Amount, the higher of the following; (i) an amount equal to 120% of the Series A Preferred Shares issue price of the Series A Preferred Shares, plus all declared but unpaid dividends; or (ii) the pro rata share of the Liquidation Proceeds of the series A preferred shareholders calculated on an as-converted basis.

(c) Redemption

To the extent permitted by applicable law and upon the occurrence of redemption events as defined in the articles of association of the Company, the New Oriental Group is contractually obligated to redeem all or part of the issued and outstanding Preferred Shares upon request.

27 Convertible Redeemable Preferred Shares (Continued)

(d) Dividends

Each holder of the Series A Preferred Shares and the Series B Preferred Shares shall be entitled to receive dividends and distributions from the Company on the Series A Preferred Shares and the Series B Preferred Shares held. Any dividend available for distribution shall be distributed ratably among the series A preferred shareholders, the series B preferred shareholders and ordinary shareholders of the Company, on an as converted basis.

(e) Voting rights

The series A preferred shareholders and the series B preferred shareholders shall have the rights to one vote for each ordinary share into which each outstanding Series A Preferred Shares or Series B Preferred Shares held could then be converted.

28 Share Capital

Details of the movements of share capital of the Company are as follows:

Authorised	Number of ordinary shares	Par value per ordinary share		Share capital	
		US$	RMB	US$	RMB
At 7 February 2018 (date of incorporation)[(a)]	50,000	1.00	6.28	50,000	314,000
Share split[(c)]	2,499,950,000				
At 31 May 2018 and 31 May 2019	2,500,000,000	0.00002	0.00013	50,000	314,000

28 Share Capital (Continued)

Issued	Number of ordinary shares	Par value per ordinary share US$	Par value per ordinary share RMB	Share capital US$	Share capital RMB
At 7 February 2018, issuance of ordinary shares (date of incorporation)[a]	50,000	1.00	6.28	50,000	314,000
Repurchase of ordinary shares[b]	(40,000)	1.00	6.28	(40,000)	(251,000)
Share split[c]	499,990,000				
Issuance of ordinary shares[d]	80,774,838	0.00002	0.00013	1,615	10,000
At 31 May 2018	**580,774,838**			**11,615**	**73,000**
Issuance of ordinary shares[e]	**13,858,832**	**0.00002**	**0.00013**	**277**	**2,000**
Issuance of new shares upon listing[f]	**186,889,500**	**0.00002**	**0.00013**	**3,738**	**25,000**
Conversion of convertible redeemable preferred shares to ordinary shares[g]	**154,812,432**	**0.00002**	**0.00013**	**3,096**	**20,000**
At 31 May 2019	**936,335,602**			**18,726**	**120,000**

(a) On 7 February 2018, the Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands with an authorised share capital of United States Dollar ("US$") 50,000 divided into 50,000 ordinary shares at a par value of US$1.00 each. On the same day, the Company issued and allotted 50,000 ordinary shares to New Oriental Group as fully-paid at par value.

(b) On 12 April 2018, the Company repurchased 40,000 ordinary shares from New Oriental Group at par value and retired.

(c) On 12 April 2018, the authorised share capital of the Company was sub-divided into 2,500,000,000 ordinary shares of a par value of US$0.00002 each by sub-dividing every share of a par value of US$1.00 each into 50,000 ordinary shares of a par value of US$0.00002 each.

(d) On 12 April 2018, the Company issued and allotted 80,774,838 ordinary shares as fully paid at par to four companies owned by the employees of the Group.

(e) On 15 June 2018, the Company issued 13,858,832 ordinary shares with par value US$0.00002 each at a price of US$1.4914 per share for a total cash consideration of US$20,668,712 (RMB132,201,000) to Tigerstep.

(f) Upon completion of the IPO, the Company issued 186,889,500 new shares (including shares issued on exercise of over-allotment option) with par value of US$0.00002 for consideration of HK$10.20 each. The proceeds of HK$29,000 (equivalent to RMB25,000) representing par value of the new ordinary shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$1,906,244,000 (equivalent to RMB1,633,792,000) were credited to the Company's share premium reserve.

(g) Upon completion of the IPO, the Series A Preferred Shares and the Series B Preferred Shares were converted into 154,812,432 ordinary shares of the Company at an conversion ratio of 1:1. Upon the conversion of the preferred shares, RMB20,000 and RMB590,010,000 were credited to share capital and share premium, respectively.

29 Deferred Tax Assets And Liabilities

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Deferred tax assets	27,591	5,224
Deferred tax liabilities	(16,530)	(11,049)
	11,061	(5,825)

The following is the major deferred tax assets and liabilities recognised and movements thereon during the current and prior year:

	Accrued expenses RMB'000	Deductible advertising expenses without expiry date RMB'000	Allowance for doubtful debts/ credit loss RMB'000	Change in fair value of financial assets at FVTPL/ long-term investments designated as FVTPL RMB'000	Total RMB'000
At 1 June 2017	1,998	—	349	(5,192)	(2,845)
Credited (charged) to profit or loss	1,905	1,057	(85)	(5,857)	(2,980)
At 31 May 2018	3,903	1,057	264	(11,049)	(5,825)
Credited (charged) to profit or loss	3,376	18,838	153	(5,481)	16,886
At 31 May 2019	7,279	19,895	417	(16,530)	11,061

As at 31 May 2019, the Group has deductible temporary differences of RMB7,922,000 (31 May 2018: nil). No deferred tax assets have been recognised in relation to such deductible temporary differences as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

As at 31 May 2019, the Group has unused tax losses of RMB72,806,000 (2018: RMB20,621,000), which are available for offset against future profits. No deferred tax asset has been recognised in relation to these unused tax losses due to the unpredictability of future profit streams. Certain tax losses will expire in the following years, which represent deductible tax losses determined for each of the financial year ended 31 May, and are different from tax loss filed with tax authority for each calendar year ended 31 December and the remaining tax losses would not have any expiry date.

29 Deferred Tax Assets and Liabilities (Continued)

	2019 RMB'000	2018 RMB'000
2022	**2,434**	2,434
2023	**70,372**	17,408
	72,806	19,842

During the year ended 31 May 2019, the Group has utilised tax losses accumulated from prior year amounting to RMB779,000.

30 Share-Based Payment Transactions

On 13 July 2018, the board of directors of the Company approved an employee's share option plan (the "Pre-IPO Share Option Scheme"). The details of the Pre-IPO Share Option Scheme are as follows:

Eligibility:

Any director, employee or contractor or affiliate of the Group (including nominees and/or trustees of any employee benefit trusts established for them) who the board of directors of the Company considers, in its sole discretion, to have contributed or will contribute to the Group.

Maximum number of Shares:

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme at any time must not exceed 47,836,985 (representing approximately 5.23% of the total number of shares in issue immediately before the date of the commencement of dealings in the shares on the Stock Exchange (without taking into account any shares that may be issued upon the Listing and any over-allotment option).

Grant of options

On and subject to the terms of the Pre-IPO Share Option Scheme, the board of directors of the Company shall be entitled (but shall not be bound) at any time within the scheme period to make an offer to any participant, as the board of directors of the Company may in its absolute discretion select, to take up an option pursuant to which such participant may, during the option period, subscribe for such number of shares as the board of directors of the Company may determine at the subscription price as defined in the scheme. The offer shall specify the terms on which the option is to be granted. Such terms may include, but are not limited to, any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the board of directors of the Company such other terms either on a case by case basis or generally.

On 7 March 2019, pursuant to the list of grantees and respective numbers of options approved by the board of directors of the Company, the Company granted a total of 47,836,985 options to 144 grantees, including the directors, senior management of the Company, contractors and other employees of the Group.

30 Share-Based Payment Transactions (Continued)

Grant of options (Continued)

Details of the outstanding share options as at 31 May 2019 under the Pre-IPO Share Option Scheme held by grantees are set out below:

Number of shares underlying the share options	Grant date	Exercise period	Exercise Price (HK$)	Grant date fair value (RMB)	Vesting date
47,836,985	7 March 2019	6 years from the listing date	8.88	3.50	25% vested on the Listing Date, 25% vested on the first anniversary of the Listing Date, 25% vested on the second anniversary of the Listing Date, 25% vested on the third anniversary of the Listing Date

The movements of share options under the Pre-IPO Share Option Scheme are summarised as follows:

	Number of stock options	Weighted average exercise price per option (HK$)
Granted on 7 March 2019	47,836,985	8.88
Forfeited during the period	3,065,500	8.88
Cancelled during the period	31,000	8.88
Outstanding as at 31 May 2019	44,740,485	8.88

On 7 March 2019, 47,836,985 share options were granted. The estimated fair value of the share options granted on that date was RMB169,656,000.

Fair value of share options under the Pre-IPO Share Option Scheme:

The Group has used the discounted cash flow method to determine the fair value of underlying ordinary shares of the Company with the assistance of a third party valuation firm. Based on the fair value of the underlying ordinary shares of the Company, the Group has used binomial option-pricing model to determine the fair value of the share option as of the grant date. Option valuation model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying shares, and changes in the subjective input assumptions can materially affect the fair value estimate of share options.

30 Share-Based Payment Transactions (Continued)

	7 March 2019 Pre-IPO Share Option Scheme
Weighted average share price	HK$9.34
Exercise price	HK$8.88
Expected volatility	46.8%
Expected life	6 years
Risk-free rate	2.49%
Expected dividend yield	0.00%

The Company recognised share-based compensation expenses of RMB54,221,000 in profit or loss during the year ended 31 May 2019, in relation to the share options issued under the Pre-IPO Share Option Scheme.

31 Retirement Benefits Plans

Employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefit scheme.

The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income of RMB34,567,000 for the year ended 31 May 2019 (2018: RMB20,356,000), represent contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 May 2019, contributions of RMB3,125,000 (2018: RMB2,073,000) were due in respect of the year then ended, which had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

32 Government Grants

Government grants amounted to RMB302,000 have been recognised for employment related government subsidies during the year ended 31 May 2019 (2018: RMB265,000). The amounts have been recognised as other income, gains and losses, and there was no unfulfilled condition attached to these government grants in the year in which they were recognised.

Government grants amounted to RMB206,000, which had been recognised for innovation incentive subsidies, to reward the Group technical innovation achievements, was recognised as other income, gains and losses for the year ended 31 May 2018, and there was no unfulfilled condition attached to these government grants in the year in which they were recognised. There was no such government grant recognised for the year ended 31 May 2019.

33 Operating Leases

The Group as leasee

	2019 RMB'000	2018 RMB'000
Minimum lease payments paid under operating leases during the year	**32,614**	18,624

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**48,796**	23,330
In the second to fifth years inclusive	**126,744**	59,234
	175,540	82,564

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 2 years and rentals are fixed for an average period of 2 years.

34 Capital Commitments

	2019 RMB'000	2018 RMB'000
Capital commitments in respect of the acquisition of property and equipment	**7,392**	4,261

35 Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising share capital and reserves in the consolidated statement of changes in equity.

36 Categories of Financial Instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	2,533,099	742,874
AFS investments	—	380,000
Long term investments designated as FVTPL	—	124,929
Financial assets at FVTPL — current	352,943	—
Financial assets at FVTPL — non-current	146,855	—
	3,032,897	1,247,803
Financial liabilities		
Trade payables	41,541	29,067
Accrued expenses and other payables	145,408	124,512
	186,949	153,579

37 Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Accrued issue costs RMB'000
At 31 May 2018	2,318
Financing cash flows	(63,592)
Share issue costs	62,207
At 31 May 2019	933

38 Financial Risk Management Objectives and Polices

The Group's major financial instruments include financial assets at FVTPL, long term investments designated as FVTPL and AFS investments (before the adoption of IFRS 9 on 1 June 2018), trade and other receivables and bank balances and cash, trade payables and accrued expenses and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include currency risk, interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group has foreign currency denominated accrued listing expenses, issue costs and bank balances which expose the Group to foreign currency risk. In addition, The Company has intra-group balances with several subsidiaries denominated in foreign currencies which also expose the Group to foreign currency risk.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities, as at 31 May 2019 and 2018 are set forth as follows:

	2019 **RMB'000**	2018 RMB'000
Assets		
US$	**1,619,993**	596,112
HK$	**737,744**	137
	2,357,737	596,249
Liabilities		
US$	**759**	10,707
HK$	**5,125**	2,124
	5,884	12,831

38 Financial Risk Management Objectives and Polices (Continued)

Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. The sensitivity analysis also includes intra-group balances where the denomination of the balances is in a currency other than the functional currency of the group entities. For the year ended 31 May 2019, a negative number below indicates an increase in post-tax loss and for the year ended 31 May 2018 a positive (negative) number indicates an increase (decrease) in post-tax profit, where RMB strengthens against the relevant foreign currency. For a weakening of RMB against the relevant foreign currency, there would be an equal and opposite impact on the profit or loss.

	2019 RMB'000	2018 RMB'000
US$	(78,765)	(29,270)
HK$	(36,631)	99

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the years ended 31 May 2019 and 2018.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate term deposits and cash flow interest rate risk in relation to variable-rate bank balances and wealth management products. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on wealth management products.

The Group currently does not have an interest rate hedging policy to mitigate interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease in wealth management products are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

38 Financial Risk Management Objectives and Polices (Continued)

Interest rate risk (Continued)

Sensitivity analysis (Continued)

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 May 2019 would decrease/increase by RMB1,488,000 whilst the Group's post-tax profit for the year ended 31 May 2018 would increase/decrease by RMB1,615,000. This is mainly attributable to the Group's exposure to interest rates on its wealth management products.

Other price risk

The Group is exposed to other price risk through its investments in wealth management products measured at FVTPL, which is attributable to the changes in estimated return and discount rate. The management considers the other price risk of the Group on its investments in the wealth management products is limited as the counterparties of these investments are those financial institutions with high credit ratings and the maturity periods of these investments are short.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to discount rate for wealth management products at the end of the reporting period. A 0.5% increase or decrease in the discount rate of wealth management products are used when reporting other price risk of wealth management products internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate of wealth management products.

If discount rate of wealth management products had been 0.5% higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 May 2019 would increase/decrease by RMB2,955,000 whilst the Group's post-tax profit for the year ended 31 May 2018 would decrease/increase by RMB3,980,000.

Credit risk and impairment assessment

At 31 May 2019, the Group's maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets measured at amortised cost as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade and other receivables.

In order to minimise the credit risk on trade and other receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at 31 May 2019 and 2018 and performs impairment assessment under the ECL model upon application of IFRS 9 since 1 June 2018 on trade and other receivables. Details of impairment assessment of trade and other receivables are set out in Note 19 and Note 20. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

38 Financial Risk Management Objectives and Polices (Continued)

Credit risk and impairment assessment (Continued)

The credit risk on bank balances and cash and wealth management products is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Trade and other receivables consist of a large number of customers, the Group does not have any significant concentration of credit risk on trade and other receivables.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of bank balances and cash deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

	Weighted average interest rate %	**On demand or less than 1 month RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying amount at 31 May 2019 RMB'000**
As at 31 May 2019:				
Non-derivative financial liabilities				
Trade payables	—	**41,541**	**41,541**	**41,541**
Accrued expenses and other payables	—	**145,408**	**145,408**	**145,408**
		186,949	**186,949**	**186,949**

	Weighted average interest rate %	On demand or less than 1 month RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 May 2018 RMB'000
As at 31 May 2018:				
Non-derivative financial liabilities				
Trade payables	—	29,067	29,067	29,067
Accrued expenses and other payables	—	124,512	124,512	124,512
		153,579	153,579	153,579

39 Fair Value Measurements of Financial Instruments

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at 31 May 2019 and 2018. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used) as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Fair value hierarchy as at 31 May 2019

	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL			
Unlisted equity securities	—	146,855	146,855
Financial assets at FVTPL			
Wealth management products	352,943	—	352,943
	352,943	146,855	499,798

Fair value hierarchy as at 31 May 2018

	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Long-term investments designated as FVTPL			
Unlisted equity securities	—	124,929	124,929
AFS investments			
Wealth management products	380,000	—	380,000
	380,000	124,929	504,929

39 Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

The fair values of the financial assets included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the WACC that reflects the credit risk of the counterparties.

	Fair value as at				
Financial assets	**31 May 2019**	**31 May 2018**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**
Wealth management products issued by banks classified as financial asset at FVTPL/AFS financial assets	Wealth management products issued by banks — RMB352,943,000	Wealth management products issued by banks — RMB380,000,000	Level 2	Discounted cash flow — future cash flows are estimated based on contractual terms of the wealth management products and discounted at a rate that reflects the credit risk of the counterparties.	N/A

39 Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at 31 May 2019	Fair value as at 31 May 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Private equity investments classified as financial assets at FVTPL/ long-term investments designated as FVTPL	25.02% equity investment in Edutainment World which engaged in education research, product development and education service — RMB62,659,000;	26.57% equity investment in Edutainment World which engaged in education research, product development and education service — RMB41,705,000;	Level 3	Income approach — in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate WACC.	Long-term revenue growth rates, taking into account management's experience and knowledge of market conditions of the specific industries of 3% (2018: 3%) (Note I). WACC determined using a Capital Asset Pricing Model is 22% (2018: 22%) (Note II). Discount for lack of marketability, determined by reference to the share price of listed entities in similar industries is 21% (2018: 23%) (Note III).

39 Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at 31 May 2019	Fair value as at 31 May 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Private equity investments classified as financial assets at FVTPL/ long-term investments designated as FVTPL	10% equity investment in EEO which engaged in development of computer platforms used in online education services — RMB84,196,000.	10% equity investment in EEO which engaged in development of computer platforms used in online education services — RMB83,224,000.	Level 3	Income approach — in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate WACC.	Long-term revenue growth rates, taking into account management's experience and knowledge of market conditions of the specific industries of 3% (2018: 3%) (Note IV). WACC determined using a Capital Asset Pricing Model is 25% (2018: 25%) (Note V). Discount for lack of marketability, determined by reference to the share price of listed entities in similar industries is 13% (2018: 16%) (Note VI).

39 Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Note I: An increase in the long-term revenue growth rates used in isolation would result in an increase in the fair value of the private equity investments, and vice versa. A 1% increase/decrease in the long term revenue growth rates holding all other variables constant would increase/decrease the carrying amount of the shares by RMB1,642,000 as at 31 May 2019 (2018: RMB1,264,000) .

Note II: An increase in the WACC used in isolation would result in a decrease in the fair value of the private equity investments, and vice versa. A 3% increase/decrease in the WACC holding all other variables constant would decrease/increase the carrying amount of the private equity investments by RMB5,973,000 as at 31 May 2019 (2018: RMB2,527,000) .

Note III: An increase in the discount for lack of marketability used in isolation would result in a decrease in the fair value of the private equity investments, and vice versa. A 5% increase/decrease in the discount for lack of marketability holding all other variables constant would decrease/increase the carrying amount of the private equity investments by RMB3,912,000 as at 31 May 2019 (2018: RMB2,557,000).

Note IV: An increase in the long-term revenue growth rates used in isolation would result in an increase in the fair value of the private equity investments, and vice versa. A 1% increase/decrease in the long-term revenue growth rates holding all other variables constant would increase/decrease the carrying amount of the shares by RMB1,455,000 as at 31 May 2019 (2018: RMB2,429,000).

Note V: An increase in the WACC used in isolation would result in a decrease in the fair value of the private equity investments, and vice versa. A 3% increase/decrease in the WACC holding all other variables constant would decrease/increase the carrying amount of the private equity investments by RMB7,611,000 as at 31 May 2019 (2018: RMB4,518,000).

Note VI: An increase in the discount for lack of marketability used in isolation would result in a decrease in the fair value of the private equity investments, and vice versa. A 5% increase/decrease in the discount for lack of marketability holding all other variables constant would decrease/increase the carrying amount of the private equity investments by RMB4,839,000 as at 31 May 2019 (2018: RMB4,954,000).

39 Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

The following table represents the changes in level 3 instruments of long-term investments measured at FVTPL during the years ended 31 May 2019 and 2018.

	2019 RMB'000	2018 RMB'000
At the beginning of the year	124,929	89,503
Addition	—	12,000
Changes in fair value	21,926	23,426
At the end of the year	146,855	124,929

40 Related Party Transactions

During the year, the Group entered into the following transactions with related parties:

		Trade sales		Trade purchases	
	Relationship	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
New Oriental Group	Controlling shareholder of the Company and its fellow subsidiaries	14,776	15,571	8,884	6,071
Metropolis Holding	A company wholly owned by the Chairman of the Company	—	—	10,467	8,570
Tencent Group	Non-controlling shareholder of the Company and its fellow subsidiaries	—	—	6,525	2,363
Shidai Yuntu	Associate	1,542	445	18,875	5,272

40 Related Party Transactions (Continued)

The following balances represent outstanding amounts due from related parties at 31 May 2019 and 2018:

	Amounts due from related parties	
	2019	2018
	RMB'000	RMB'000
New Oriental Group	**673**	408
Metropolis Holding	**989**	839
Shidai Yuntu	**506**	—
Tencent Group	**1,172**	603

The following balances represent outstanding amounts due to related parties at 31 May 2019 and 2018:

	Amounts due to related parties	
	2019	2018
	RMB'000	RMB'000
New Oriental Group	**3,294**	789
Tencent Group	**27**	27

Amounts due from related parties of RMB3,340,000 (2018: RMB1,850,000) as of 31 May 2019, are trade in nature.

Amounts due to related parties as of 31 May 2019 and 2018 are trade in nature including contract liabilities, and trade and other payables, which are unsecured, interest-free and repayable on demand.

40 Related Party Transactions (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the years ended 31 May 2019 and 2018 are as follows:

	2019 RMB'000	2018 RMB'000
Short-term benefits	**3,469**	3,551
Retirement benefits	**190**	156
Other long-term benefits	**240**	197
Equity-settled share option expense	**35,812**	—
	39,711	3,904

The remuneration of directors and key executives is determined by the board of directors of the Company having regard to the performance of individuals and market trends.

41 Particulars of Subsidiaries of the Company

General information of subsidiaries

Details of the subsidiaries directly and indirectly held by the Company as at 31 May 2019 are set out below:

Name of subsidiary	Place of incorporation/ registration/ operation and nature of legal entities	Date of incorporation/ establishment	Paid up issued/ registered capital	Proportion ownership interest held by the Company 2019 %	2018 %	Proportion of voting power held by the Company 2019 %	2018 %	Principal activities
Subsidiaries Directly held:								
Xuncheng HK	Hong Kong, limited liability company	2 Mar 2018	HK$1	**100**	100	**100**	100	Investment holding
Dexin Dongfang	PRC, wholly foreign owned enterprise	21 Mar 2018	RMB10,000,000	**100**	100	**100**	100	Provision of software and technology services
Tianjin Kuxue Oriental Network Technology Co., Ltd.	PRC, limited liability company	10 Dec 2018	RMB10,000,000	**100**	—	**100**	—	Provision of software and technology services
Dong Fund Co. Ltd	Cayman, limited liability company	13 Aug 2018	US$1,000,000	**100**	—	**100**	—	Equity investment fund
Subsidiaries Structured entities[a]:								
Beijing Xuncheng	PRC, limited liability company	11 Mar 2005	RMB10,000,000	**100**	100	**100**	100	Provision of on-line education
Kuxue Huisi	PRC, limited liability company	01 Feb 2013	RMB10,000,000	**100**	100	**100**	100	Provision of on-line education
Dongfang Youbo	PRC, limited liability company	23 Jun 2016	RMB10,000,000	**51**	51	**51**	51	Provision of on-line education

41 Particulars of Subsidiaries of the Company (Continued)

General information of subsidiaries (Continued)

(a) As described in Note 1, the Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the equity holders of these structured entities, the Company and its legal owned subsidiaries have power over these structured entities, have rights to variable returns from its involvement with these structured entities and has the ability to affect those returns through its power over these structured entities and is considered to have control over these structured entities. Consequently, the Company regards these structured entities as indirect subsidiaries of the Company.

There are no statutory requirements for subsidiaries to issue statutory audited financial statements.

None of the subsidiaries had any debt securities as at 31 May 2019 and 2018.

Details of non-wholly-owned subsidiary that has material non-controlling interest

The table below show details of non-wholly-owned subsidiary of the Group that has material non-controlling interest:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests as at		Loss allocated to non-controlling interests for the year ended		Accumulated non-controlling for the year ended	
		31 May 2019 %	31 May 2018 %	**31 May 2019 RMB'000**	31 May 2018 RMB'000	**31 May 2019 RMB'000**	31 May 2018 RMB'000
Dongfang Youbo	PRC	**49**	49	**24,336**	9,349	**31,479**	7,143

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31 May 2019 RMB'000	31 May 2018 RMB'000
Current assets	**33,627**	16,132
Non-current assets	**5,106**	2,702
Current liabilities	**103,115**	33,827
Equity attributable to owners of the Company	**(32,903)**	(7,850)
Non-controlling interest	**(31,479)**	(7,143)

41 Particulars of Subsidiaries of the Company (Continued)

Details of non-wholly-owned subsidiary that has material non-controlling interest (continued)

	2019 RMB'000	2018 RMB'000
Revenue	56,858	16,192
Expenses	(106,523)	(35,272)
Loss for the year	(49,665)	(19,080)
Loss attributable to owners of the Company	(25,329)	(9,731)
Loss attributable to the non-controlling interests of Dongfang Youbo	(24,336)	(9,349)

	2019 RMB'000	2018 RMB'000
Dividend paid to non-controlling interests	—	—
Net cash outflow from operating activities	(16,805)	(9,454)
Net cash outflow from investing activities	(3,881)	(1,937)
Net cash inflow from financing activities	35,000	20,000
Net cash inflow	14,314	8,609

42 Event After the Reporting Period

On 16 August 2019, the Group entered into a purchase agreement with Tianjin Qiancheng Xiangyu Technology Limited Partnership for the acquisition of the 49% equity interest in Dongfang Youbo for cash consideration of approximately RMB94 million. Upon completion of the acquisition, Dongfang Youbo will become a wholly-owned subsidiary of the Group.

43 Statement of Financial Position and Reserves of the Company

	2019 RMB'000	2018 RMB'000
Non-current Assets		
Amounts due from subsidiaries	**588,440**	—
Interests in subsidiaries	**6,863**	—
	595,303	—
Current Assets		
Amounts due from shareholders	**—**	21
Other receivables	**3,418**	—
Prepayments	**12**	1,815
Bank balances and cash	**1,809,417**	594,677
	1,812,847	596,513
Current Liabilities		
Amounts due to subsidiaries	**—**	192
Accrued expenses and other payables	**22,098**	12,771
Net current assets	**1,790,749**	583,550
Net assets	**2,386,052**	583,550
Capital and Reserves		
Share capital	**120**	73
Reserves	**2,385,932**	583,477
Total Equity	**2,386,052**	583,550

43 Statement of Financial Position and Reserves of the Company (Continued)

The movement in the reserves of the Company is shown as follows:

	Share Premium RMB'000	Preferred shares RMB'000	Share option reserve RMB'000	Other reserve RMB'000	(Accumulated deficit) Retained profits RMB'000	Total RMB'000
At 7 February 2018	—	—	—	—	—	—
Loss and total comprehensive expense for the period	—	—	—	—	(6,553)	(6,553)
Issuance of preferred shares		590,030	—	—	—	590,030
At 31 May 2018	—	590,030	—	—	(6,553)	583,477
Profit and total comprehensive expense for the year	–	–	–	–	46,285	46,285
Issuance of ordinary shares	132,199		–	–	–	132,199
Recognition of equity-settled share-based payments	–	–	54,221	–	–	54,221
Forfeiture and cancellation of share options	–	–	(2,708)	–	2,708	–
Issue of new shares upon listing	1,633,792		–	–	–	1,633,792
Share issuance costs	(64,022)		–	–	–	(64,022)
Conversion of convertible redeemable preferred shares to ordinary shares	590,010	(590,030)	–	–	–	(20)
Change in equity for the year	2,291,979	(590,030)	51,513	–	2,708	1,756,170
At 31 May 2019	2,291,979	–	51,513	–	42,440	2,385,932

DEFINITIONS

Unless otherwise stated or set out below, capitalised terms have the same meanings as those defined in the Prospectus (defined below).

"AGM"	the upcoming annual general meeting of our Company to be held on 5 November 2019
"Articles of Association"	the second amended and restated memorandum and articles of association of our Company adopted on 6 March 2019 with effect from the Listing Date, as amended from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Auspicious"	Auspicious Oriental Limited, a company incorporated under the laws of the British Virgin Islands on 30 January 2018 and one of our Shareholders
"Beijing Xuncheng" or "Operating Entity"	Beijing New Oriental Xuncheng Network Technology Inc. (北京新東方迅程網絡科技股份有限公司), a company established under the Laws of the PRC on 11 March 2005 and a Consolidated Affiliated Entity
"Board"	the board of directors of our Company
"business day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
"Century Friendship"	Beijing Century Friendship Education Investment Co., Ltd., a company incorporated under the Laws of the PRC on 19 July 2002 and a substantial shareholder of our Operating Entity
"China" or "the PRC"	the People's Republic of China, and for the purposes of this annual report only, except where the context requires otherwise, excluding Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
"Companies Ordinance"	*Companies Ordinance (Chapter 622 of the Laws of Hong Kong)*, as amended, supplemented or otherwise modified from time to time
"Company", "we", "us", or "our"	Koolearn Technology Holding Limited (新東方在綫科技控股有限公司), an exempted company with limited liability incorporated under the Laws of the Cayman Islands on 7 February 2018 A1A5
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules

"Consolidated Affiliated Entity(ies)"	an entity controlled by the Company through the Contractual Arrangements
"Contractual Arrangement(s)"	the series of contractual arrangements entered into by and among WFOE, the Relevant VIE Entities and the Registered Shareholders, details of which are described in the section headed "Contractual Arrangements" of the Prospectus
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to New Oriental A1A27A
"Corporate Governance Code"	the *Corporate Governance Code and Corporate Governance Report* set out in Appendix 14 to the Main Board Listing Rules
"Dexin Dongfang" or "WFOE"	Beijing Dexin Dongfang Network Technology Co., Ltd. (北京德信東方網絡科技股份有限公司), a company incorporated under the Laws of the PRC on 21 March 2018 and a wholly-owned subsidiary of our Company
"*DFUB*"	an online education platform operating by Dongfang Youbo, including the website at http://dfub.xdf.cn/ and related apps
"Director(s)"	the director(s) of our Company
"Dongfang Youbo"	Beijing Dongfang Youbo Network Technology Co., Ltd. (北京東方優播網絡科技有限公司), a company incorporated under the Laws of the PRC on 23 June 2016 and a Consolidated Affiliated Entity
"Dongfang Youbo Acquisition"	acquisition of the remaining 49% equity interest in Dongfang Youbo by Beijing Xuncheng and as described in our announcement of 16 August 2019 and supplemental announcement of 2 September 2019
"Dragon Cloud"	Dragon Cloud Holdings Limited, a company incorporated under the Laws of the British Virgin Islands on 2 March 2012 and one of our substantial shareholders (as defined in the SFO)
"First Bravo"	First Bravo Asia Limited, a company incorporated under the Laws of the British Virgin Islands on 15 January 2018 and one of our Shareholders
"FY"	financial year ended 31 May
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group" or "our Group"	the Company and its subsidiaries from time to time or, where the context requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Public Offer Shares"	the 16,452,000 Shares initially being offered for subscription in the Hong Kong Public Offering

"Hong Kong Public Offering"	the offer of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong, details of which are described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering" of the Prospectus
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"IFRS"	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
"Image Frame"	Image Frame Investment (HK) Limited, a company incorporated under the Laws of Hong Kong on 5 January 2016, and one of our Pre-IPO Investors and one of our substantial shareholders
"Independent Third Party(ies)"	any entity or person who is not a connected person of our Company within the meaning ascribed to it under the Listing Rules
"International Offer Shares"	the 148,061,000 Shares being initially offered for subscription under the International Offering together with the Shares sold pursuant to the exercise of the Over-allotment Option A1A15(2)(b)
"International Offering"	the conditional placing of the International Offer Shares outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from the registration requirement under the U.S. Securities Act, details of which are described in the section headed "Structure of the Global Offering" of the Prospectus
"Kuxue Huisi"	Beijing New Oriental Kuxue Huisi Network Technology Co., Ltd. (北京酷學慧思網絡科技有限公司), a company established under the Laws of the PRC in 1 February 2013 and a Consolidated Affiliated Entity
"Latest Practicable Date"	17 September 2019, being the latest practicable date for ascertaining certain information before the publication of this annual report
"Laws"	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any government or regulatory authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions, whether at the city, provincial, state or federal level (as appropriate)
"Linzhi Tencent"	Linzhi Tencent Technology Co., Ltd. (林芝騰訊科技有限公司), a company established under the laws of the PRC on 26 October 2015, a substantial shareholder of Beijing Xuncheng and a subsidiary of Shenzhen Tencent Industry Investment Fund Co., Ltd. (深圳市騰訊產業投資基金有限公司)

"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	28 March 2019
"Listing Rules"	the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
"MIIT"	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as Ministry of Information Industry)
"Model Code"	the *Model Code for Securities Transactions by Directors of Listed Issuers* set out in Appendix 10 to the Main Board Listing Rules
"Mr. Pan"	PAN Xin (潘欣), a former director of our Company who resigned on 16 August 2019
"Mr. Sun"	SUN Dongxu (孫東旭), a Director
"Mr. Wu"	WU Qiang (吳強), a Director
"Mr. Yin"	YIN Qiang (尹強), a Director
"Mr. Yu"	YU Minghong (俞敏洪), a Director and Chairman of our Board
"Ms. Sun"	SUN Chang (孫暢), a Director
"New Oriental"	New Oriental Education & Technology Group Inc., a company incorporated under the Laws of the Cayman Islands on 16 March 2006, the American depository shares of which are listed on the New York Stock Exchange (NYSE: EDU) and our Controlling Shareholder
"New Oriental China"	New Oriental Education & Technology Group Co., Ltd. (新東方教育科技集團有限公司), a company incorporated under the Laws of the PRC on 2 August 2001 and one of our Registered Shareholders
"New Oriental Framework Agreement"	a framework agreement dated 13 March 2019 between our Company (for itself and on behalf of the remaining members of our Group) and New Oriental (for itself and on behalf of the remaining members of the Retained New Oriental Group) as described in the section headed "Continuing connected transactions — New Oriental Framework Agreement" in the Prospectus

"New Oriental Group"	New Oriental and its subsidiaries from time to time (including its Consolidated Affiliated Entities)
"New Venture"	Huoerguosi Oriental New Venture Equity Investment Partnership) (L.P.) （霍爾果斯東方新創股權投資合夥企業有限合夥）
"Nomination Committee"	the nomination committee of the Board
"Nova Max"	Nova Max Enterprises Limited, a company incorporated under the Laws of the British Virgin Islands on 15 January 2018 and one of our Shareholders
"NYSE"	New York Stock Exchange
"Over-allotment Option"	the option granted by the Company to the international underwriters in connection with the Global Offering, exercisable up to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to sell up to 24,677,000 Shares to the international underwriters, details of which are described in the section headed "Structure of the Global Offering — Over-allotment Option" of the Prospectus
"Perfect Go"	Perfect Go Industries Limited, a company incorporated under the laws of the British Virgin Islands on 15 January 2018 and one of our Shareholders
"PRC Legal Adviser"	Tian Yuan Law Firm, our legal adviser on PRC Laws
"Prospectus"	the prospectus of the Company in relation to the Listing and the Global Offering dated 15 March 2019
"QIB(s)"	a qualified institutional buyer within the meaning of Rule 144A
"Registered Shareholders"	New Oriental China, Linzhi Tencent, and the Tianjin Limited Partnerships
"Regulation S"	Regulation S under the U.S. Securities Act
"Relevant Period"	the period from the Listing Date to 31 May 2019, both dates inclusive
"Remuneration Committee"	the remuneration committee of the Board
"Retained New Oriental Group"	the New Oriental Group, excluding our Group
"RMB" or "Renminbi"	Renminbi, the lawful currency of China
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of our Company currently with a par value of US$0.00002 each

"Shareholder(s)"	holder(s) of our Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in the Listing Rules and includes our Consolidated Affiliated Entities
"substantial shareholder(s)"	has the meaning ascribed to it in the Listing Rules
"Tencent"	Tencent Holdings Limited, an exempted company with limited liability incorporated under the Laws of the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700)
"Tencent Group"	Tencent and its subsidiaries from time to time
"Tianjin Limited Partnerships"	the limited partnerships that hold interests in our Operating Entity, namely Tianjin Xuncheng Yiyue Technology Partnership (L.P.) (指天津迅程壹月科技合夥企業（有限合夥）), Tianjin Xuncheng Luyue Technology Partnership (L.P.) (天津迅程陸月科技合夥企業（有限合夥）, Tianjin Bayue Technology Partnership (L.P.) (天津迅程捌月科技合夥企業（有限合夥）), Tianjin Xuncheng Jiuyue Technology Partnership (L.P.) (天津迅程玖月科技合夥企業（有限合夥）), Tianjin Xuncheng Shiyue Technology Partnership (L.P.) (天津迅程拾月科技合夥企業（有限合夥）), Tianjin Xuncheng Shieryue Technology Partnership (L.P.) (天津迅程拾貳月科技合夥企業（有限合夥）), and Tianjin Xuncheng Shisanyue Technology Partnership (L.P.) (天津迅程拾叁月科技合夥企業（有限合夥）)
"Tigerstep"	Tigerstep Developments Limited, a company incorporated under the Laws of the British Virgin Islands, and one of our Pre-IPO Investors and connected persons of the Company
"U.S. Securities Act"	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"United States"	United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States
"Xuncheng HK"	New Oriental Xuncheng Technology (HK) Limited 新東方迅程科技（香港）有限公司, a company incorporated under the Laws of Hong Kong on 2 March 2018 and a wholly-owned subsidiary of our Company
"Zhishang"	Beijing Zhishang Education Technology Co., Ltd (北京職尚教育科技有限公司), a minority investment of our Group (as described in the section headed "History, reorganisation and corporate structure" in the Prospectus)
"%"	per cent

Koolearn Technology Holding Limited
新東方在綫科技控股有限公司