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

2020 INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. SUN Dongxu (孫東旭) *Chief executive officer*
(appointed on 16 August 2019)
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*
Ms. SUN Chang (孫暢) *(re-designated from executive Director to non-executive Director on 20 January 2020)*
Mr. WU Qiang (吳強)
Ms. LEUNG Yu Hua Catherine (梁育華)

Independent non-executive Directors

Mr. TONG Sui Bau (董瑞豹)
Mr. KWONG Wai Sun Wilson (鄺偉信)
Mr. LIN Zheying (林哲瑩)
(appointed on 20 January 2020)
Mr. CHI Yufeng (池宇峰)
(resigned on 20 January 2020)

Board committees

Audit committee

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

Remuneration committee

Mr. LIN Zheying
(appointed on 20 January 2020 and committee chairman from date of appointment)
Mr. CHI Yufeng *Committee chairman*
(resigned on 20 January 2020)
Ms. SUN Chang
Mr. TONG Sui Bau

Nomination committee

Mr. YU Minhong *Committee chairman*
Mr. TONG Sui Bau
Mr. LIN Zheying
(appointed 20 January 2020)
Mr. CHI Yufeng
(resigned on 20 January 2020)

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
Conyers Trust Company (Cayman) Limited

Principal bank
Bank of China (Hong Kong) Limited

Stock code
1797

Website
www.koolearn.hk

FINANCIAL HIGHLIGHTS

Key highlights

	Six months ended 30 November 2019 RMB'000	Six months ended 30 November 2018 RMB'000	Period-on-period change %
Revenue	**567,641**	477,969	19
(Loss) profit for the period before tax	**(94,863)**	35,768	(365)
Income tax credit	**7,347**	417	1,662
(Loss) profit for the period	**(87,516)**	36,185	(342)
(Loss) profit for the period attributable to:			
— Owners of our Company	**(71,282)**	48,912	(246)
— Non-controlling interests	**(16,234)**	(12,727)	28
(Loss) earnings per Share:			
— Basic and diluted (RMB)	**(0.08)**	0.07	(214)
Non-IFRS measure: Adjusted Net (Loss) Profit[1]	**(56,250)**	31,433	(279)
Non-IFRS measure: EBITDA[2]	**(108,829)**	(33,877)	221

(1) Adjusted (loss) profit ("**Adjusted Net (Loss) Profit**") for a given period represents (loss) profit for the period less gain on fair value changes of financial assets at fair value through profit or loss (FVTPL) plus listing expenses and share-based compensation expenses for that period. IFRS refers to the International Financial Reporting Standards ("**IFRS**").

(2) Earnings before interest, taxes, depreciation, and amortisation ("**EBITDA**") represents (loss) profit for a given period plus income tax (credit) expenses, listing expenses, share-based compensation expenses, finance costs, depreciation of property and equipment and depreciation of right-of-use assets less other income, gains and losses and impairment losses under expected credit loss model, net of reversal, for that period. The change of finance costs and depreciation of right-of-use assets, in the reconciliation and consequently, the change in the definition of our EBITDA, was due to our application of IFRS16 on 1 June 2019.

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 a 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 number of student enrolments in each type of course offering for the periods indicated is summarised below:

	For the six months ended 30 November 2019 Student enrolment '000	For the six months ended 30 November 2018 Student enrolment '000
Students		
College education	526	621
K-12 education	755	292
Pre-school education	36	191
Total	1,317	1,104

The average spending per enrolment in each type of course offering for the periods indicated is summarised below:

	For the six months ended 30 November 2019 RMB	For the six months ended 30 November 2018 RMB
Formal courses		
College education	1,128	723
K-12 education	1,040	967
Pre-school education[1]	(61)	153
Sub-total average	1,022	617
Entry courses	24	19
Total average	425	430

(1) There was product lines adjustment in pre-school education during Reporting Period.

Our performance overview

Overall financial performance

We achieved stable and healthy growth in terms of net revenue and student enrolments during the Reporting Period. Our total net revenues increased by 18.8% from RMB478.0 million for the six months ended 30 November 2018 to RMB567.6 million over the Reporting Period. Our total student enrolment increased by 19.3% to 1.3 million over the Reporting Period. In the college education segment, we adjusted product lines and recorded RMB361.4 million in net revenue, representing a period-on-period growth of 5.5%. In the K-12 education segment, the successful execution of our growth strategies led to impressive growth in this highly competitive market. Our net revenue and student enrolments in the K-12 segment increased period-on-period by 69.4% and 158.6%, respectively. In our pre-school education segment, we changed our operational focus to *Donut* English-learning APP only. We continued to optimise our courses offerings and our net revenue in the pre-school education segment recorded a period-on-period growth of 72.8%.

College education

Our courses in the college segment mainly consist of courses for college test preparation and overseas test preparation 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, we further improved the product structure and concentrated on higher-priced college test preparation and overseas test preparation businesses, which increased the average spending per enrolment in formal courses from RMB723 for the six months ended 30 November 2018 to RMB1,128 over the Reporting Period. As there was less contribution from English language learning courses, our student enrolment in the college segment recorded 0.5 million in the Reporting Period, representing a decrease of 15.3% over the previous six-month period.

K-12 education

Our comprehensive K-12 course offerings, including primarily *Koolearn* K-12 courses and location-based live interactive after-school tutoring courses ("***DFUB***"), 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 continued to implement 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 period-on-period growth of 158.6%. More specifically, our student enrolments for *Koolearn* K-12 courses recorded period-on-period growth of 157.5%, and our student enrolments for *DFUB* courses grew period-on-period by 186.2%. Our growth in K-12 education during the Reporting Period was largely attributable to the continued successful execution of our growth strategies in this segment. We accelerated the expansion of our *DFUB* business during the Reporting Period and continued to optimise the operations of *DFUB* courses in each city. As at 30 November 2019, *DFUB* had entered 128 cities across 23 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 mainly delivered through our *Donut* English-learning APP. During the Reporting Period, we adjusted our product line in our *Donut* live online English classroom courses and focused on the integration and optimisation of *Donut* APP, which resulted in a decrease in student enrolment during the Reporting Period.

Strategic update and future development

We refer to our announcement of 2 September 2019 and our FY 2019 annual report of 24 September 2019, in which we set out our long-term growth strategies. As mentioned in these documents, 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. To achieve this, we will continue to invest more in recruiting, retaining, training and promoting high-calibre teaching, course research and marketing staff. We will continue to construct a flexible and efficient central backing platform to support the growth of front-end programmes and business. Along with the development of 5G technology and increasing penetration in the online education market, the competition in the online education industry is intensifying. We will continue to optimise our product portfolio in response to the fast-changing industry landscape and customers' booming demand for new technology and new content. During the Reporting Period, we have reorganised a series of products in each business segment. After the modification is complete, our college segment will focus on domestic college test preparation and overseas test preparation, our K-12 segment will focus on dual-teachers' classes and the small classes business of *DFUB* in order to meet different needs of students from different cities and regions, and our pre-school segment will focus on optimising the series of educational content in *Donut* English APP. While business restructuring and product portfolio optimisation may affect the growth of certain segments, we believe that such measures, will enable us to concentrate our core resources on main businesses and products. We believe that the strong vitality of our organisation bodes well for our healthy and sustainable development in the long run.

We view our K-12 education sector, and in particular, our education platforms operating in this area, as still having significant room and opportunity for growth. As seen by our acquisition of Dongfang Youbo this year (see our announcement of 16 August 2019 on the *DFUB* acquisition) and our appointment of Mr. SUN Dongxu as an executive Director (see our announcement of 16 August 2019 on the FY 2019 annual results and changes in directorship), we plan to, among other areas, focus on developing our K-12 education segment. Dongfang Youbo, our wholly-owned subsidiary, is a significant contributing factor in this strategy and has enhanced our Group's presence in the K-12 education market in China. During the Reporting Period, *DFUB* has entered into an additional 65 cities. For the remainder of FY 2020, we expect *DFUB* to expand into more cities through more diversified offline marketing channels and we plan to further customise course content based on materials used by local schools. For *Koolearn* K-12 courses, we will continue to increase our investments in upgrading our APP for primary and middle school students and self-develop our online platform. Through continuously introducing new education technologies, we will be able to offer more and more tools that can help improve teaching effectiveness and efficiency, which will in turn, be realised and applied in our online classes. We also plan to establish teaching training centers in other geographical locations to attract more qualified teachers and tutors and provide systematic training programs. We will continue to enhance flexible and effective marketing strategies to optimise our average user acquisition cost.

In our college segment, we have focused on key sectors and key customers to strengthen our market leading position. With product lines adjusted to be more focused, we expect to invest more into our courses in domestic test preparation and overseas test preparation. In response to the booming demands for new technology and new content, we will accelerate our progress in developing and upgrading our portfolio of courses by adding more live steaming content and interactive modules. During the Reporting Period and for the remainder of FY 2020, we intend to continue introducing more high-quality courses offering higher knowledge density in shorter class hours, such as our preparation course series for graduate school entrance exams, with the aim of enhancing efficiency for students and productivity for teachers. We will also continue to explore our "dual-teacher model" to deliver a brand new in-class experience and comprehensive after class assistance. We will continue to collaborate closely with providers of overseas English tests such as ETS. As a growing number of Chinese students take the SAT and GRE outside of China, we will also continue to optimise our SAT and GRE preparation courses to better meet their study needs.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our revenue increased by 18.8% from RMB478.0 million in the six months ended 30 November 2018 to RMB567.6 million in the six months ended 30 November 2019.

College education

Revenue from our college education segment increased by 5.5% from RMB342.7 million in the six months ended 30 November 2018 to RMB361.4 million in the six months ended 30 November 2019, driven by the increase in revenue from college test preparation and revenue from overseas test preparation, which increased by 23.7% and 12.9% period-on-period, respectively. During the Reporting Period, we conducted a restructuring of our college education business lines, with more focus on our college test preparation and overseas test preparation businesses. While we adjusted some English-learning courses in our college segment, we reorganised certain products with relatively strong demands (such as New Concept English) to the college test preparation product line. If we excluded the impact of our product line restructuring, revenue from college test preparation courses would have recorded a 11.1% increase during the Reporting Period. 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 10.8% from the previous year for the same period, as we upgraded course portfolio and average spending per enrolment steadily enhanced.

K-12 education

Revenue from our K-12 education segment increased by 69.4% from RMB75.6 million in the six months ended 30 November 2018 to RMB128.2 million in the six months ended 30 November 2019, primarily due to the continued expansion of *DFUB* courses and solid operational progress in the *Koolearn* K-12 courses. Student enrolments in the K-12 education segment increased from 292 thousand in the six months ended 30 November 2018 to 755 thousand in the six months ended 30 November 2019.

Pre-school education

Revenue from our pre-school education segment increased by 72.8% from RMB12.4 million in the six months ended 30 November 2018 to RMB21.5 million in the six months ended 30 November 2019, primarily due to the continued optimisation of our *Donut* English-learning APP, where the average spending per enrolment in formal courses increased from RMB87 in the six months ended 30 November 2018 to RMB153 in the six months ended 30 November 2019. During the Reporting Period, we made a business adjustment for our *Donut* online classrooms to focus on driving our competitiveness in our *Donut* English-learning APP.

Institutional customers

Revenue from our institutional customers increased by 19.9% from RMB47.2 million in the six months ended 30 November 2018 to RMB56.6 million in the six months ended 30 November 2019.

Cost of revenue, gross profit and gross margin

Our total cost of revenue increased by 27.3% from RMB196.8 million in the six months ended 30 November 2018 to RMB250.5 million in the six months ended 30 November 2019, primarily due to an increase in teaching staff costs, course research staff costs, and IT support and technology costs, which grew by 29.4%, 48.8% and 54.2% period-on-period, respectively, as we devoted significant resources to enhance the quality of our courses.

Our gross profit increased by 12.8% from RMB281.2 million in the six months ended 30 November 2018 to RMB317.1 million in the six months ended 30 November 2019. Our gross profit margin decreased from 58.8% in the six months ended 30 November 2018 to 55.9% in the six months ended 30 November 2019, primarily due to the expansion in K-12 segment, in particular the increase in teaching staff costs and course research staff costs.

College education

Cost of revenue for our college education segment increased by 4.1% from RMB109.5 million in the six months ended 30 November 2018 to RMB114.0 million in the six months ended 30 November 2019, primarily due to the increase in teaching staff costs and course research staff costs.

Segment gross profit for our college education business increased by 6.1% from RMB233.1 million in the six months ended 30 November 2018 to RMB247.4 million in the six months ended 30 November 2019, and the gross profit margin increased from 68.0% in the six months ended 30 November 2018 to 68.5% in the six months ended 30 November 2019.

K-12 education

Cost of revenue for our K-12 education segment increased by 75.9% from RMB63.6 million in the six months ended 30 November 2018 to RMB111.8 million in the six months ended 30 November 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 increased by 35.5% from RMB12.1 million in the six months ended 30 November 2018 to RMB16.4 million in the six months ended 30 November 2019. Gross profit margin decreased from 16% to 12.8%, primarily due to an increase in student enrolments to entry courses from the summer of 2019, and an increase in teaching staff costs and course research staff costs, as we continued to update our *Koolearn* K-12 course offerings and continued to commit 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 decreased by 15.6% from RMB15.1 million in the six months ended 30 November 2018 to RMB12.8 million in the six months ended 30 November 2019, primarily due to a business adjustment in small class live English learning courses by *Donut* online classroom, which led to an decrease in course research staff costs and teaching materials costs.

Segment gross profit for our pre-school education business recorded RMB8.7 million in the six months ended 30 November 2019, compared to segment gross loss of RMB2.7 million in the six months ended 30 November 2018, and the gross profit margin increased from a loss margin of 21.6% to a profit margin of 40.6%, primarily due to a shift in operational focus towards our *Donut* APP business.

Institutional customers

Cost of revenue for services to institutional customers increased by 40.6% from RMB8.5 million in the six months ended 30 November 2018 to RMB12.0 million in the six months ended 30 November 2019.

Segment gross profit for our services to institutional customers increased by 15.3% from RMB38.7 million in the six months ended 30 November 2018 to RMB44.6 million in the six months ended 30 November 2019, and the gross profit margin decreased from 81.9% to 78.8%.

Other income, gains and losses

Our other income, gains and losses remained relatively steadily from RMB89.2 million in the six months ended 30 November 2018, to RMB88.8 million in the six months ended 30 November 2019.

Selling and marketing expenses

Our selling and marketing expenses increased by 25.4% from RMB232.6 million in the six months ended 30 November 2018 to RMB291.6 million in the six months ended 30 November 2019, primarily due to an increase in sales and marketing staff costs as we continued to expand our business and strengthen our professional marketing team, in particular for our *DFUB* courses.

Research and development expenses

Our research and development expenses increased by 109% from RMB61.7 million in the six months ended 30 November 2018 to RMB128.9 million in the six months ended 30 November 2019, primarily due to a continued 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 177.2% from RMB28.4 million in the six months ended 30 November 2018 to RMB78.8 million in the six months ended 30 November 2019, primarily due to share-based compensation expenses and an increase in staff costs as our business strategies required more qualified administrative staff.

Share of result of associates

Our share of profit of associates remained relatively steadily from RMB3.6 million in the six months ended 30 November 2018 to RMB3.3 million in the six months ended 30 November 2019.

Income tax (expenses) credit

From the six months ended 30 November 2018 to the six months ended 30 November 2019, our income tax credit increased by 1,661.9% from RMB417 thousand to RMB7.3 million in the six months ended 30 November 2019, primarily due to a decrease in current income tax expenses.

(Loss) profit for the period

As a result of the above, our profit for the period decreased by 341.9% from RMB36.2 million in the six months ended 30 November 2018 to a loss of RMB87.5 million in the six months ended 30 November 2019.

Non-IFRS measures

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

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

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

The following table reconciles our net (loss) profit to Adjusted Net Profit (Loss):

	Six months ended 30 November 2019 RMB'000	Six months ended 30 November 2018 RMB'000
Reconciliation of net (loss) profit to Adjusted Net (Loss) Profit:		
(Loss) profit for the period	**(87,516)**	36,185
Less:		
Gain on fair value changes of financial assets at FVTPL — Non-current assets	**14**[(1)]	19,677
Add:		
Listing expenses	**—**	14,925
Share-based compensation expenses	**31,280**	—
Adjusted Net (Loss) Profit	**(56,250)**	31,433

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

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

Note:

(1) During the Reporting Period, gain on fair value changes of financial assets at FVTPL includes interest income from wealth management products, which is excluded for calculation of adjusted loss for the period.

Liquidity and capital resources

During the Reporting Period, we funded our cash requirements principally from cash and cash equivalents. As at 30 November 2019, we had cash and cash equivalents RMB716.5 million and term deposits RMB1,757.5 million. Cash and cash equivalents represented bank balances and cash. Bank balances and cash comprised of cash and short-term deposits with a term of less than three months.

During the Reporting Period, we primarily used cash to fund required working capital, acquisition of the remaining 49% equity interest in Dongfang Youbo, and other recurring expenses to support the expansion of our operations. Going forward, we believe that our liquidity requirements will be satisfied by using funds from a combination of internally generated cash and net proceeds received from our Global Offering.

As at the end of the Reporting Period, our Group's gearing ratio was 28.4% (compared with 21.4% as at 31 May 2019), calculated as total liabilities divided by total assets.

Capital expenditure

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

	Six months ended 30 November 2019 RMB'000	Six months ended 30 November 2018 RMB'000
Purchase of property and equipment	**33,357**	10,118

Our capital expenditures were primarily for purchases of property and equipment in the six months ended 30 November 2018 and 2019, respectively. Our purchases of property and equipment were RMB10.1 million and RMB33.4 million for the six months ended 30 November 2018 and 2019, respectively.

Off-balance sheet commitments and arrangements

As of 30 November 2019, we had not entered into any off-balance sheet transactions.

Future plans for material investments and capital assets

As of 30 November 2019, we did not have any other foreseeable plans for material investments and capital assets.

Material acquisitions and/or disposals of subsidiaries and affiliated companies

We refer to our announcements of 16 August 2019 and 2 September 2019 on our acquisition of the remaining 49% interest of Dongfang Youbo, following which Dongdang Youbo changed from a non-wholly owned subsidiary to our wholly-owned subsidiary.

Save as disclosed above, during the Reporting Period, we did not have any other material acquisitions and/or disposals of subsidiaries and affiliated companies.

Employees and remuneration policy

As at 30 November 2019, we had 2,813 full-time employees and 4,051 part-time employees, among which we had 938 full-time and 3,229 part-time teaching, content development and content production staff; 1,007 full-time and 753 part-time selling and marketing staff; 665 full-time and 20 part-time research, development and technology staff; and 215 full-time and 49 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 30 November 2019, 97 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for the six months ended 30 November 2019 were RMB338.2 million, representing a period-on-period increase of 57.2%.

Foreign exchange risk

Foreign exchange risk arises when commercial transactions or recognised 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. During the Reporting Period, we had 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.

Pledge of assets

As at 30 November 2019, none of our Group's assets were pledged.

Contingent liabilities

As at 30 November 2019, we did not have any material contingent liabilities.

OTHER INFORMATION

Disclosure of interests

Directors and chief executives

As at 30 November 2019, the interests and short positions of our Company's directors and chief executives in our Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the *Securities and Futures Ordinance* (Chapter 571 of the Laws of Hong Kong), 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 for Securities Transactions by Directors of Listed Issuers* ("**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 Dongxu[2]	Beneficial owner		8,000,000	0.85%
Ms. SUN Chang[3]	Interest in a controlled corporation	First Bravo	14,742,640	1.57%
Mr. YU Minhong[4]	Beneficial owner		16,695,285	1.78%
	Beneficiary of a trust	Tigerstep	13,858,832	1.48%
Mr. YIN Qiang[5]	Beneficial owner		2,100,000	0.22%
	Interest in a controlled corporation	Perfect Go	3,371,196	0.36%
Mr. WU Qiang[6]	Beneficial owner		1,350,000	0.14%

Notes:

(1) The percentages are calculated based on our Company's total number of issued shares, being 938,446,602 Shares, as at 30 November 2019.

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

(3) First Bravo Asia Limited ("**First Bravo**") is wholly-owned by Ms. SUN Chang. Under the SFO, Ms. SUN Chang 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 Minhong under the Pre-IPO ESOP; and (ii) 13,858,832 Shares held through Tigerstep Developments Limited ("**Tigerstep**"). Mr. YU Minhong is a beneficiary of a family trust that controls Tigerstep through a trust arrangement, and as such, under the SFO, Mr. YU Minhong 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 Qiang under the Pre-IPO ESOP; and (ii) 3,371,196 Shares held through Perfect Go Industries Limited ("**Perfect Go**"), which is wholly-owned by Mr. YIN Qiang, and as such, under the SFO, Mr. YIN Qiang is deemed to be interested in all of Perfect Go's interests in our Company.

(6) These interests represent the 1,350,000 Shares that may be issued pursuant to an exercise of options granted to Mr. WU Qiang 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 Minhong[(1)]	Interest in a controlled corporation; beneficiary of a trust	20,238,554	12.8%

Note:

(1) According to the best knowledge of our Directors, New Oriental is held by Tigerstep as to approximately 12.8% while Mr. YU Minhong is a beneficiary of a family trust that controls Tigerstep through a trust arrangement. Under the SFO, Mr. YU Minhong 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 Minhong	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%

Notes:

(1) Beijing Century Friendship Education Investment Co., Ltd. ("**Century Friendship**") and New Oriental Education & Technology Group Co., Ltd. ("**New Oriental China**") are controlled through a series of contractual arrangements by, and are therefore treated as subsidiaries of New Oriental. Mr. YU Minhong 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 the section headed "Contractual Arrangements" in the Prospectus), Beijing Xuncheng. Under the SFO, Mr. YU Minhong 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) Huoerguosi Oriental New Venture Equity Investment Partnership (L.P.) ("**New Venture**") is held by our Company as to more than 20%, and is held by New Oriental China as to 50%. Mr. YU Minhong controls New Oriental China and, under the SFO, is deemed to be interested in all of New Oriental China's interests in New Venture.

Substantial shareholders

As at 30 November 2019, as far as our Directors are aware, the following persons (other than our Directors and the chief executive 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 far as our Directors are aware, none of the persons listed 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	53.28%
Image Frame[(2)]	Beneficial interest	90,416,181	9.63%
Tencent[(2)]	Interest in a controlled corporation	90,416,181	9.63%

Notes:

(1) The percentages are calculated based on our Company's total number of issued shares, being 938,446,602 Shares, as at 30 November 2019.

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

Share Option Schemes

The purpose of our Pre-IPO ESOP and Post-IPO ESOP (collectively, the "**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.

Pre-IPO ESOP

As at 30 November 2019, (a) our Directors held unexercised options under the Pre-IPO ESOP to subscribe for a total of 28,145,285 Shares, representing 3.0% of the issued share capital of our Company (being 938,446,602 Shares), and (b) the other grantees held unexercised options under the Pre-IPO ESOP to subscribe for a total of 12,331,700 Shares, representing approximately 1.3% of the issued share capital of our Company (being 938,446,602 Shares), 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 1 June 2019	Exercised during the Relevant Period	Cancelled during the Relevant Period	Lapsed during the Relevant Period	Outstanding as at 30 November 2019
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	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	Nil	8,000,000
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	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	Nil	1,350,000
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	16,595,200	2,111,000	Nil	2,152,500	12,331,700
Total					44,740,485	2,111,000	Nil	2,152,500	40,476,985

Further details of movements in the Pre-IPO ESOP is set out in Notes 19 and 20 to the condensed consolidated financial statements.

Post-IPO ESOP

As at 30 November 2019, no options have been granted, exercised, cancelled or lapsed under the Post-IPO ESOP. Please see our announcement of 29 January 2020 for options granted under the Post-IPO ESOP after the Reporting Period.

Corporate governance practices

Our Company is committed to maintaining and promoting stringent corporate governance. The principle of our Company's corporate governance is to promote effective internal control measures and to enhance the transparency and accountability of the Board to all Shareholders. During the Reporting Period, our Company has complied with the applicable code provisions in the *Corporate Governance Code* as stated in Appendix 14 of the Listing Rules.

Our Directors' compliance with the Model Code

We have adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regulating our Directors' dealings in our Company's securities. To our Directors' best knowledge and belief, all of our Directors confirm that they have strictly complied with the required standards set out in the Model Code during the Reporting Period.

Audit committee

We have established an Audit Committee in compliance with Rule 3.21 of the Listing Rules and the *Corporate Governance Code* as set out in Appendix 14 to the Listing Rules. 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, to review and approve connected transactions and to provide advice and comments to the Board. The Audit Committee consists of three members: Mr. TONG Sui Bau (as the Audit Committee's chairperson), Mr. WU Qiang and Mr. KWONG Wai Sun Wilson.

The Audit Committee has reviewed our Group's unaudited consolidated financial statements for the six months ended 30 November 2019 and discussed matters with respect to the accounting policies and practices adopted by our Company and internal control measures with senior management members and our external auditor, Deloitte Touche Tohmatsu.

Other Board committees

In addition to our Audit Committee, our Board has established a nomination committee and a remuneration committee.

Purchase, sale or redemption of our company's listed securities

During the Reporting Period, neither our Company nor any of its subsidiaries purchased, sold or redeemed any of our Company's securities listed on the Stock Exchange.

Material litigation

As at 30 November 2019, our Company was not involved in any material litigation or arbitration. Nor were the Directors of our Company aware of any material litigation or claims that were pending or threatened against our Company.

Changes in the information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the following Directors experienced changes in their directorship in our Group, as set out as follows:

(a) Ms. SUN Chang has been re-designated from executive Director to non-executive Director, and has stepped down from her position as co-chief executive officer of our Company;

(b) Mr. CHI Yufeng has resigned from his position as an independent non-executive Director, chairman of the Board's remuneration committee and member of the Board's nomination committee; and

(c) Mr. LIN Zheying has been appointed an independent non-executive Director, chairman of the Board's remuneration committee and member of the Board's nomination committee, with the above changes having taken place on 20 January 2020.

Please see our Company's announcement of 20 January 2020 on changes to directors and the composition of our Board, in relation to the above changes.

(d) Mr. WU Qiang has stepped down as one of Beijing Xuncheng's directors.

Save as disclosed above and in our FY 2019 annual report dated 24 September 2019, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Use of proceeds from our global offering

Our Shares were listed on the Main Board of the Stock Exchange on 28 March 2019. Net proceeds received from our Global Offering aggregated to approximately HK$1.78 billion. As at 30 November 2019, our Group had used the net proceeds from the Global Offering in the following manner and according to the intended uses set out in the Prospectus:

	Net proceeds from Global Offering (HK$ million)(1)	Utilised as at 30 November 2019 (HK$ million)(2)	Utilised during the six months ended 30 November 2019 (HK$ million)(2)	Remaining amount (HK$ million)
Staff recruitment and training activities	533	—	—	533
Acquisitions and/or investments	533	—	—	533
Course development	178	—	—	178
Technology infrastructure	178	42.7	42.7	135.3
Marketing activities	178	—	—	178
Working capital and general corporate purposes	178	1.7	1.7	176.3

Notes:

(1) Includes net proceeds from the partial exercise of the over-allotment options, as detailed in our Company's announcement of 22 April 2019, which will be used by our Company for the purposes and in the same allocation proportions set out in the Prospectus. The same amounts have been carried forward to the beginning of this Reporting Period.

(2) Converted from RMB at the exchange rate of HK$1:RMB0.8862, being the midpoint rate of HKD to RMB published by the People's Bank of China on 19 January 2020. The figures presented in this table are approximations and subject to currency exchange fluctuation and rounding.

The remaining balance was placed with banks and financial institutions or under held in accordance with our treasury policy detailed in "Business — Risk management and internal control — Treasury management policy" in the Prospectus. Our Group will apply the remaining net proceeds in the manner set out in the Prospectus. Our Company will gradually utilise the remaining 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 date of this report, we anticipate to use up the remaining amount of the net proceeds within ten years of the Listing Date.

Events after the Reporting Period

We refer to our announcement of 29 January 2020 on the grant of options under our Post-IPO ESOP, including certain grants made to our Directors and our announcement of 20 January 2020 on changes to our Board and the composition of our Board committees. Save as disclosed in these announcements and this interim report, no other significant events affecting our Company have occurred since the end of the Reporting Period to the date that this interim report is published on the Stock Exchange's website.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Koolearn Technology Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 61, which comprise the condensed consolidated statement of financial position as of 30 November 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 January 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Six Months Ended 30 November 2019

	NOTES	Six months ended 30 November 2019 RMB'000 (unaudited)	2018 RMB'000 (audited)
Revenue	4	**567,641**	477,969
Cost of revenue		**(250,535)**	(196,759)
Gross profit		**317,106**	281,210
Other income, gains and losses	6	**88,754**	89,220
Impairment losses under expected credit loss model, net of reversal		**(209)**	(670)
Selling and marketing expenses		**(291,553)**	(232,575)
Research and development expenses		**(128,883)**	(61,653)
Administrative expenses		**(78,797)**	(28,427)
Listing expenses		**—**	(14,925)
Share of results of associates		**3,274**	3,588
Finance costs		**(4,555)**	—
(Loss) profit before tax		**(94,863)**	35,768
Income tax credit	7	**7,347**	417
(Loss) profit for the period	8	**(87,516)**	36,185
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of foreign operations		**124**	—
Total comprehensive (expense) income for the period		**(87,392)**	36,185
(Loss) profit for the period attributable to:			
Owners of the Company		**(71,282)**	48,912
Non-controlling interests		**(16,234)**	(12,727)
		(87,516)	36,185
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(71,158)**	48,912
Non-controlling interests		**(16,234)**	(12,727)
		(87,392)	36,185
(Loss) earnings per share			
— Basic and diluted (RMB)	9	**(0.08)**	0.07

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 November 2019

	NOTES	30/11/2019 RMB'000 (unaudited)	31/05/2019 RMB'000 (audited)
Non-current Assets			
Property and equipment	11	33,340	29,548
Right-of-use assets	11	251,310	—
Interests in associates		87,560	84,025
Financial assets at fair value through profit or loss	12	146,869	146,855
Deferred tax assets	21	34,942	27,591
Deposits for acquisition of property and equipment		26,535	5,757
Refundable rental deposits		12,289	—
		592,845	293,776
Current Assets			
Trade and other receivables	13	67,378	35,478
Prepayments		53,117	81,870
Financial assets at fair value through profit or loss	12	210,486	352,943
Income tax recoverable		6,905	6,905
Term deposits	15	1,757,450	—
Bank balances and cash	16	716,531	2,497,621
		2,811,867	2,974,817
Current Liabilities			
Lease liabilities		56,780	—
Contract liabilities	17	388,617	400,928
Refund liabilities		26,863	19,414
Trade payables	18	36,300	41,541
Accrued expenses and other payables		258,296	219,645
Income tax payables		428	428
		767,284	681,956
Net Current Assets		2,044,583	2,292,861
Total Assets less Current Liabilities		2,637,428	2,586,637

	NOTES	30/11/2019 RMB'000 (unaudited)	31/05/2019 RMB'000 (audited)
Capital and Reserves			
Share capital	19	**120**	120
Reserves		**2,436,777**	2,601,466
Equity attributable to owners of the Company		**2,436,897**	2,601,586
Non-controlling interests		**—**	(31,479)
Total Equity		**2,436,897**	2,570,107
Non-current Liabilities			
Deferred tax liabilities	21	**16,534**	16,530
Lease liabilities		**183,997**	—
		200,531	16,530
		2,637,428	2,586,637

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 November 2019

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Preferred shares RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Other reserve RMB'000	Retained profits/ Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 June 2018 (audited)	73	164,242	590,030	23,978	—	—	946	105,873	885,142	(7,143)	877,999
Profit (loss) and total comprehensive income (expense) for the period	—	—	—	—	—	—	—	48,912	48,912	(12,727)	36,185
Issuance of ordinary shares	2	132,199	—	—	—	—	—	—	132,201	—	132,201
At 30 November 2018 (audited)	75	296,441	590,030	23,978	—	—	946	154,785	1,066,255	(19,870)	1,046,385
At 1 June 2019 (audited)	120	2,456,221	–	23,978	–	51,513	946	68,808	2,601,586	(31,479)	2,570,107
Loss for the period	–	–	–	–	–	–	–	(71,282)	(71,282)	(16,234)	(87,516)
Other comprehensive expense for the period	–	–	–	–	124	–	–	–	124	–	124
Loss and total comprehensive expense for the period	–	–	–	–	124	–	–	(71,282)	(71,158)	(16,234)	(87,392)
Recognition of equity-settled share-based payments	–	–	–	–	–	31,280	–	–	31,280	–	31,280
Acquisition of non-controlling interests (Note 25)	–	–	–	–	–	–	(141,713)	–	(141,713)	47,713	(94,000)
Exercise of share options (Note 20)	–	23,868	–	–	–	(6,966)	–	–	16,902	–	16,902
At 30 November 2019 (unaudited)	120	2,480,089	–	23,978	124	75,827	(140,767)	(2,474)	2,436,897	–	2,436,897

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 November 2019

	Six months ended 30 November	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	**(53,355)**	35,420
INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at fair value through profit or loss	**350,000**	380,000
Purchases of financial assets at fair value through profit or loss	**(208,000)**	(400,000)
Proceeds on disposal of property and equipment	**53**	20
Interest received	**7,879**	8,891
Purchase of property and equipment	**(33,357)**	(10,118)
Payments for right-of-use assets	**(8,217)**	—
Payments for rental deposits	**(10,489)**	—
Placement of term deposits	**(1,757,450)**	—
NET CASH USED IN INVESTING ACTIVITIES	**(1,659,581)**	(21,207)
FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	**16,902**	132,211
Proceeds from issuance of series A preferred shares	**—**	12
Payment of issue costs	**—**	(1,898)
Repayment of lease liabilities	**(21,784)**	—
Interest paid	**(4,555)**	—
Acquisition of non-controlling interest of a subsidiary	**(94,000)**	—
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(103,437)**	130,325
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(1,816,373)**	144,538
CASH AND CASH EQUIVALENTS AT 1 JUNE	**2,497,621**	709,448
Effect of exchange rate changes	**35,283**	57,939
CASH AND CASH EQUIVALENTS AT 30 NOVEMBER, REPRESENTED BY BANK BALANCES AND CASH	**716,531**	911,925

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 November 2019

1. GENERAL

Koolearn Technology Holding Limited (the "Company", and together with its subsidiaries, the "Group") 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"). New Oriental Education & Technology Group Inc. ("New Oriental Group") 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 provides education and related services 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 condensed consolidated financial statements is presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Due to the restrictions imposed by the relevant laws and regulatory regime of the People's Republic of China (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 New Oriental Xuncheng Network Technology Inc. ("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") in the PRC. On 10 May 2018, the wholly-owned subsidiary of the Company, Beijing Dexin Dongfang Network Technology Co., Inc. ("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;

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

- 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;
- 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. 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.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 November 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 May 2019.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements.

IFRS 16	Leases
IFRIC-23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial position and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases*

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases*, and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight line basis over the lease term.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

<u>Taxation</u>

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

3.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 June 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS16 retrospectively with the cumulative effect recognised at the date of initial application, 1 June 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of buildings in the PRC was determined on a portfolio basis; and

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

As at 1 June 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 4.60% to 4.70%.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

	At 1 June 2019 RMB'000
Operating lease commitments disclosed as at 31 May 2019	175,540
Lease liabilities discounted at relevant incremental borrowing rates	161,283
Less: Recognition exemption — short-term leases	(4,886)
Lease liabilities relating to operating leases recognised upon application of IFRS 16 and lease liabilities as at 1 June 2019	156,397
Analysed as	
Current	41,121
Non-current	115,276
	156,397

The carrying amount of right-of-use assets as at 1 June 2019 comprises the following:

	NOTES	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		156,397
Reclassified from prepaid lease payments	(a)	9,859
Adjustments on rental deposits at 1 June 2019	(b)	1,977
Less: Accrued lease liabilities at 1 June 2019	(c)	(10)
		168,223

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

(a) Upon application of IFRS 16, prepaid lease payments amounting to RMB9,859,000 were reclassified from prepayments to right-of-use assets.

(b) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB1,977,000 was adjusted to refundable rental deposits paid and right-of-use assets.

(c) Lease payments increase progressively over lease terms

These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities as at 1 June 2019 was adjusted to right-of-use assets at transition.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 June 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 May 2019 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 June 2019 RMB'000
Non-current Assets			
Right-of-use assets	—	168,223	168,223
Refundable rental deposits	—	5,799	5,799
Current Assets			
Trade and other receivables	35,478	(7,776)	27,702
Prepayments	81,870	(9,859)	72,011
Non-current Liabilities			
Lease liabilities	—	(115,276)	(115,276)
Current Liabilities			
Accrued expenses and other payables	(219,645)	10	(219,635)
Lease liabilities	—	(41,121)	(41,121)

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 November 2019, movements in working capital have been computed based on opening statement of financial position as at 1 June 2019 as disclosed above.

4. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended 30 November	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Timing of revenue recognition		
Over time	**534,256**	459,990
A point in time	**33,385**	17,979
Total	**567,641**	477,969
Type of customer		
Students	**511,056**	430,772
Institutional customers	**56,585**	47,197
Total	**567,641**	477,969
Type of service		
Pre-recorded online course services provided to students	**337,677**	347,259
Pre-recorded online education package services to institutional customers	**56,572**	38,505
Live online course services provided to students	**140,007**	74,226
Sales of online testing package	**15,289**	6,624
Others	**18,096**	11,355
Total	**567,641**	477,969

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

5. 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 *Operating Segments* 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 six months ended 30 November 2019 (unaudited)

	College Education RMB'000	K12 Education RMB'000	Pre-school Education RMB'000	Institutional customer RMB'000	Total RMB'000
Revenue	361,392	128,154	21,510	56,585	567,641
Cost of revenue	(113,990)	(111,762)	(12,773)	(12,010)	(250,535)
Segment gross profit	247,402	16,392	8,737	44,575	317,106
Unallocated income and expenses:					
Other income, gains and losses					88,754
Impairment losses under expected credit loss model, net of reversal					(209)
Selling and marketing expenses					(291,553)
Research and development expenses					(128,883)
Administrative expenses					(78,797)
Share of results of associates					3,274
Finance costs					(4,555)
Loss before tax					(94,863)

5. SEGMENT INFORMATION (Continued)

For the six months ended 30 November 2018 (audited)

	College Education RMB'000	K12 Education RMB'000	Pre-school Education RMB'000	Institutional customer RMB'000	Total RMB'000
Revenue	342,675	75,649	12,448	47,197	477,969
Cost of revenue	(109,528)	(63,552)	(15,137)	(8,542)	(196,759)
Segment gross profit (loss)	233,147	12,097	(2,689)	38,655	281,210
Unallocated income and expenses:					
Other income, gains and losses					89,220
Impairment losses under expected credit loss model, net of reversal					(670)
Selling and marketing expenses					(232,575)
Research and development expenses					(61,653)
Administrative expenses					(28,427)
Listing expenses					(14,925)
Share of results of associates					3,588
Profit before tax					35,768

Segment gross profit (loss) 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 under expected credit loss model, net of reversal, selling and marketing expenses, research and development expenses, administrative expenses, listing expenses, share of results of associates and finance costs 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 six months ended 30 November 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 six months ended 30 November 2019 (Six months ended 30 November 2018: nil).

6. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 November	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Exchange gain, net	**45,243**	57,939
Interest income from term deposits	**24,871**	—
Interest income from bank balances	**8,732**	907
Interest income from rental deposits	**330**	—
Gain on fair value changes of financial assets at fair value through profit or loss ("FVTPL")	**6,891**	30,096
Gain on lease termination	**2,672**	—
Government grants	**762**	302
Loss on disposal of property and equipment	**(2,533)**	(87)
Others	**1,786**	63
	88,754	89,220

7. INCOME TAX CREDIT

	Six months ended 30 November	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Current tax:		
PRC enterprise income tax	**—**	9,067
Deferred tax (Note 21)	**(7,347)**	(9,484)
	(7,347)	(417)

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, as no business is carried out in the Cayman Islands. There were no material change of tax status of the Group from 31 May 2019. Applicable tax rates of the Group's major subsidiaries are as follows.

7. INCOME TAX CREDIT (Continued)

In October 2017, a two-tiered profits tax rates regime ("Regime") was proposed by the Chief Executive of Hong Kong. To implement the Regime, the relevant Inland Revenue (Amendment) (No. 3) Ordinance 2018 ("Ordinance") was signed into law on 28 March 2018 and was gazetted on the following day by Hong Kong Legislative Council. Subject to the Ordinance, the Regime will be applicable to any year of assessment commencing on or after April 1, 2018. Under the Regime, in the year of assessment, the first Hong Kong dollars ("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%. As there is no assessable profits during the six months ended 30 November 2019, a flat rate of 8.25% could be applied accordingly when proceeding tax returns (Six months ended 30 November 2018: 8.25%).

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 six months ended 30 November 2019 (Six months ended 30 November 2018: 25%).

The Group's subsidiaries operating in the PRC are eligible for certain tax concessions for the years ended 31 December 2018 and 2019. In 2017, Beijing Xuncheng obtained the "high and new technology enterprise" (the "HNTE") status and enjoy the preferential tax rate of 15% from 2018 to 2020. 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 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 ended 31 December 2019 (Year ended 31 December 2018: 150%).

8. (LOSS) PROFIT FOR THE PERIOD

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

	Six months ended 30 November	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Depreciation of property and equipment	**6,200**	3,980
Depreciation of right-of-use assets	**32,544**	—

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 November	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
(Loss) earnings:		
(Loss) profit for the period attributable to owners of the Company for the purpose of calculating diluted (loss) earnings per share	**(71,282)**	48,912
Less:		
Profit attributable to series A preferred shareholders	**–**	(5,901)
Profit attributable to series B preferred shareholders	**–**	(4,203)
(Loss) earnings for the purpose of calculating basic (loss) earnings per share	**(71,282)**	38,808
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**936,852,651**	593,497,700
Effect of dilutive potential ordinary shares:		
Weighted average number of series A preferred shares	**–**	90,416,181
Weighted average number of series B preferred shares	**–**	64,396,251
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**936,852,651**	748,310,132

9. (LOSS) EARNINGS PER SHARE (Continued)

The calculation of the number of shares for the purpose of basic loss per shares for the six months ended 30 November 2019 has taken into account the weighted average number of ordinary shares outstanding with regard to the issuance of shares upon exercise of share options.

The calculation of diluted loss per share for the six months ended 30 November 2019 does not assume the exercise of the Company's share options since the assumed exercise of share options would result in a decrease in loss per share.

The calculation of the number of shares for the purpose of basic earnings per shares for the six months ended 30 November 2018 has taken into account the weighted average number of ordinary shares outstanding with regard to the issuance of shares, without considering the effect of conversion of series A preferred shares nor series B preferred shares.

The calculation of basic earnings per share for the six months ended 30 November 2018 was based on the profit for the period 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.

The calculation of diluted earnings per share for the six months ended 30 November 2018 assumes the conversion of series A preferred shares and series B preferred shares using the conversion ratio as of 30 November 2018.

10. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 November 2019 (Six months ended 30 November 2018: nil). The directors of the Company have determined that no dividend will be paid in respect of the six months ended 30 November 2019 (Six months ended 30 November 2018: nil).

11. MOVEMENTS IN PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group disposed of certain office equipment with an aggregate carrying amount of RMB2,586,000 (Six months ended 30 November 2018: RMB107,000) for cash proceeds of RMB53,000 (Six months ended 30 November 2018: RMB20,000), resulting in a loss on disposal of RMB2,533,000 (Six months ended 30 November 2018: RMB87,000).

During the current interim period, the Group entered into several new lease agreements for the use of buildings ranging from one month to three years. On lease commencement, the Group recognised RMB130,896,000 of right-of-use assets and RMB121,660,000 lease liabilities.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30/11/2019 RMB'000 (unaudited)	31/05/2019 RMB'000 (audited)
Non-current assets		
Financial assets at FVTPL		
— unlisted equity investments[(a)]	**146,869**	146,855
Current assets		
Financial assets at FVTPL		
— wealth management products[(b)]	**210,486**	352,943

(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 2.95% to 4.4% per annum, and maturity period ranging from 1 day to 182 days. The principles and returns of these wealth management products are not guaranteed.

During the six months ended 30 November 2019, the Group made purchases of online course services and referral services from Edutainment World amounting to RMB1,338,000 (Six months ended 30 November 2018: RMB774,000).

During the six months ended 30 November 2019, the Group made purchases of online classroom related services from EEO amounting to RMB9,215,000 (Six months ended 30 November 2018: RMB6,593,000).

13. TRADE AND OTHER RECEIVABLES

	30/11/2019 RMB'000 (unaudited)	31/05/2019 RMB'000 (audited)
Trade receivables	**15,685**	9,974
Less: allowance for credit losses	**(2,386)**	(2,177)
	13,299	7,797
Other receivables	**54,079**	27,681
Trade and other receivables	**67,378**	35,478

Trade receivables arising from institutional customers

The following is an analysis of trade receivables by age, presented based on the invoice date, net of allowance for credit losses:

	30/11/2019 RMB'000 (unaudited)	31/05/2019 RMB'000 (audited)
1–90 days	**6,196**	3,968
91–180 days	**371**	3,267
181 days–365 days	**6,205**	527
over 365 days	**527**	35
	13,299	7,797

14. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

	Six months ended 30 November	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Impairment loss recognised in respect of:		
Trade receivables	**(209)**	(670)

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 November 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 May 2019.

15. TERM DEPOSITS

The Group's term deposits are deposited with an original maturity of over three months in a bank.

As at 30 November 2019, the Group's term deposits carried at market rate ranged from 2.93% to 3.25% per annum.

The Group's term deposits that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	30/11/2019	31/05/2019
	RMB'000	RMB'000
	(unaudited)	(audited)
United States dollars ("US$")	**1,757,450**	—

16. 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 30 November 2019, the Group's short-term bank deposits carried at market rate ranged from 0.00% to 2.65% (31 May 2019: 0.00% to 2.65%) 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:

	30/11/2019	31/05/2019
	RMB'000 (unaudited)	RMB'000 (audited)
US$	**560,388**	1,603,887
HK$	**16,753**	736,610

17. CONTRACT LIABILITIES

	30/11/2019	31/05/2019
	RMB'000 (unaudited)	RMB'000 (audited)
Contract liabilities in relation to students	**320,176**	321,810
Contract liabilities in relation to institutional customers	**68,441**	79,118
	388,617	400,928

17. CONTRACT LIABILITIES (Continued)

The following table shows the unsatisfied contracts at 30 November 2019 and 31 May 2019 and the expected timing of recognising revenue.

	30/11/2019 **RMB'000** **(unaudited)**	31/05/2019 RMB'000 (audited)
Expected to be recognised within one year		
Students	**297,656**	293,940
Institutional customers	**60,966**	67,869
Expected to be recognised over one year		
Students	**22,520**	27,870
Institutional customers	**7,475**	11,249
Total	**388,617**	400,928

Included in contract liabilities, RMB71,000 as at 30 November 2019 (31 May 2019: RMB212,000) were amounts due to related parties (details as set out in Note 24).

18. TRADE PAYABLES

The following is an analysis of trade payable by age, presented based on the invoice date.

	30/11/2019 **RMB'000** **(unaudited)**	31/05/2019 RMB'000 (audited)
1–90 days	**30,872**	32,263
91–180 days	**1,325**	5,423
181 days–365 days	**559**	2,064
366 days–730 days	**2,211**	720
over 730 days	**1,333**	1,071
	36,300	41,541

Included in trade payables, RMB362,000 as at 30 November 2019 (31 May 2019: RMB494,000), were amounts due to related parties (details as set out in Note 24), which were aged 1–90 days based on the invoice date.

19. SHARE CAPITAL

Details of the movements of share capital of the Company are as follows:

Issued and fully paid	Number of ordinary shares	Par value per ordinary share		Share capital	
		US$	RMB	US$	RMB
At 1 June 2019 (audited)	936,335,602			18,726	120,000
Exercise of share options[a]	2,111,000	0.00002	0.00013	42	298
At 30 November 2019 (unaudited)	**938,446,602**			**18,768**	**120,298**

(a) In the current period, as a result of options exercised, 2,111,000 ordinary shares were issued by the Company. Upon the exercise of share options, RMB23,868,000 was credited to share premium and RMB6,966,000 was debited to share option reserve.

20. SHARE-BASED PAYMENTS

The Company's share option scheme was adopted pursuant to a resolution passed on 13 July 2018 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 28 March 2025.

The table below discloses movement of the Company's share options held by the Group's employees:

	Number of share options
Outstanding as at 1 June 2019 (audited)	44,740,485
Forfeited during the period	(2,152,500)
Exercised during the period	(2,111,000)
Outstanding as at 30 November 2019 (unaudited)	**40,476,985**

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was RMB12.88.

21. DEFERRED TAX ASSETS AND LIABILITIES

The followings are the major deferred tax liabilities and assets recognised and movements thereon during the current and preceding interim periods:

	Accrued expenses	Deductible advertising expenses without expiry date	Provision for credit losses	Right-of-use assets and lease liabilities	Change in fair value of financial assets at FVTPL	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 June 2018 (audited)	3,903	1,057	264	—	(11,049)	(5,825)
Credited (charged) to profit or loss	1,505	12,775	123	—	(4,919)	9,484
At 30 November 2018 (audited)	5,408	13,832	387	—	(15,968)	3,659
Credited (charged) to profit or loss	1,871	6,063	30	—	(562)	7,402
At 31 May 2019 (audited)	7,279	19,895	417	—	(16,530)	11,061
(Charged) credited to profit or loss	(458)	7,543	31	235	(4)	7,347
At 30 November 2019 (unaudited)	**6,821**	**27,438**	**448**	**235**	**(16,534)**	**18,408**

For the purpose of presentation in the condensed 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:

	30/11/2019	31/05/2019
	RMB'000 (unaudited)	RMB'000 (audited)
Deferred tax assets	**34,942**	27,591
Deferred tax liabilities	**(16,534)**	(16,530)
	18,408	11,061

22. CAPITAL COMMITMENTS

	30/11/2019 RMB'000 (unaudited)	31/05/2019 RMB'000 (audited)
Capital commitments in respect of the acquisition of office equipment	**20,720**	7,392

23. 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 30 November 2019 and 31 May 2019. 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 30 November 2019 (unaudited)

	Level 2 RMB'000	**Level 3 RMB'000**	**Total RMB'000**
Financial assets at FVTPL			
Unlisted equity securities	**—**	**146,869**	**146,869**
Financial assets at FVTPL			
Wealth management products	**210,486**	**—**	**210,486**
	210,486	**146,869**	**357,355**

Fair value hierarchy as at 31 May 2019 (audited)

	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

23. 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 weighted average cost of capital ("WACC") that reflects the credit risk of the counterparties.

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30 November 2019 (unaudited)	31 May 2019 (audited)			
Wealth management products issued by banks classified as financial asset at FVTPL	Wealth management products issued by banks — RMB210,486,000	Wealth management products issued by banks — RMB352,943,000	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

23. 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		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30 November 2019 (unaudited)	31 May 2019 (audited)			
Unlisted equity investments classified as financial assets at FVTPL	24.50% equity investment in Edutainment World which engaged in education research, product development and education service — RMB62,659,000;	25.02% equity investment in Edutainment World which engaged in education research, product development and education service — RMB62,659,000;	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% (31 May 2019: 3%) (Note I). WACC determined using a Capital Asset Pricing Model is 22% (31 May 2019: 22%) (Note II). Discount for lack of marketability, determined by reference to the share price of listed entities in similar industries is 21% (31 May 2019: 21%) (Note III).

23. 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		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30 November 2019 (unaudited)	31 May 2019 (audited)			
Unlisted equity investments classified as financial assets at FVTPL	10% equity investment in EEO which engaged in development of computer platforms used in online education services — RMB84,210,000.	10% equity investment in EEO which engaged in development of computer platforms used in online education services — RMB84,196,000.	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% (31 May 2019: 3%) (Note IV). WACC determined using a Capital Asset Pricing Model is 25% (31 May 2019: 25%) (Note V). Discount for lack of marketability, determined by reference to the share price of listed entities in similar industries is 18% (31 May 2019: 13%) (Note VI).

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 RMB1,850,000 as at 30 November 2019 (31 May 2019: RMB1,642,000).

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 RMB6,119,000 as at 30 November 2019 (31 May 2019: RMB5,973,000).

23. 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 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 RMB3,879,000 as at 30 November 2019 (31 May 2019: RMB3,912,000).

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 RMB1,706,000 as at 30 November 2019 (31 May 2019: RMB1,455,000).

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 RMB7,906,000 as at 30 November 2019 (31 May 2019: RMB7,611,000).

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 RMB5,134,000 as at 30 November 2019 (31 May 2019: RMB4,839,000).

The following table represents the changes in level 3 instruments of long-term investments measured at FVTPL during the six months ended 30 November 2019 and 2018.

	Six months ended 30 November	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
At the beginning of the period	**146,855**	124,929
Changes in fair value	**14**	19,677
At the end of the period	**146,869**	144,606

The total gains or losses for the period included an unrealised gain of RMB14,000 relating to level 3 financial assets that are measured at fair value at the end of each reporting period (Six months ended 30 November 2018: an unrealised gain of RMB19,677,000). Such fair value gains or losses are included in "other income, gains and losses".

24. RELATED PARTY TRANSACTIONS

During the interim period, the Group entered into the following transactions with related parties:

		Trade sales		Trade purchases	
		Six months ended 30 November		Six months ended 30 November	
	Relationship	**2019 RMB'000 (unaudited)**	2018 RMB'000 (audited)	**2019 RMB'000 (unaudited)**	2018 RMB'000 (audited)
New Oriental Group	Controlling shareholder of the Company and its fellow subsidiaries	**15,454**	6,766	**6,641**	4,571
Metropolis Holding (Tianjin) Co., Ltd. ("Metropolis Holding") [(a)]	A company wholly owned by the Chairman of the Company	**–**	—	**5,492**	5,066
Tencent Holdings Limited ("Tencent" and with its subsidiaries the "Tencent Group")	Non-controlling shareholder of the Company and its fellow subsidiaries	**–**	—	**5,044**	2,942
Beijing Shidai Yuntu Book Co., Ltd. ("Shidai Yuntu")	Associate	**131**	599	**10,893**	5,385

The following balances represent outstanding amounts due from related parties at 30 November 2019 and 31 May 2019:

	Amounts due from related parties	
	30/11/2019 RMB'000 (unaudited)	31/05/2019 RMB'000 (audited)
New Oriental Group	**4,889**	673
Metropolis Holding[(a)]	**2,958**	989
Shidai Yuntu	**637**	506
Tencent Group	**332**	1,172

24. RELATED PARTY TRANSACTIONS (Continued)

The following balances represent outstanding amounts due to related parties at 30 November 2019 and 31 May 2019:

	Amounts due to related parties	
	30/11/2019	31/05/2019
	RMB'000 (unaudited)	RMB'000 (audited)
New Oriental Group	**2,957**	3,294
Tencent Group	**69**	27

Amounts due from related parties as of 30 November 2019 and 31 May 2019 are trade in nature including trade and other receivables of RMB8,388,000 (31 May 2019: RMB1,179,000), and prepayments of RMB428,000 (31 May 2019: RMB2,161,000).

Amounts due to related parties as of 30 November 2019 and 31 May 2019 are trade in nature including contract liabilities of RMB71,000 (31 May 2019: RMB212,000), and trade and other payables of RMB2,955,000 (31 May 2019: RMB3,109,000), which are unsecured, interest-free and repayable on demand.

(a) The Group has entered several lease agreements with 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 one and a half years or two years term and can be renewed at the end of the lease term. The lease arrangements were approved by the board of directors of the Company. During the six months ended 30 November 2019, the Group recorded lease payments and property management fee of RMB5,492,000 (Six months ended 30 November 2018: rental expenses of RMB5,066,000) in relation to such leases. As at 30 November 2019, amount due from Metropolis Holding was RMB2,958,000 (31 May 2019: RMB989,000), which represents rental deposit and prepaid property management fee (31 May 2019: rental deposit and prepaid rentals).

24. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the six months ended 30 November 2019 and 2018 are as follows:

	Six months ended 30 November	
	2019	2018
	RMB'000 (unaudited)	RMB'000 (audited)
Short-term benefits	**2,212**	996
Retirement benefits	**79**	87
Other long-term benefits	**138**	108
Equity-settled share option expense	**22,295**	—
	24,724	1,191

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.

25. ACQUISITION OF NON-CONTROLLING INTEREST OF A SUBSIDIARY

During the six months end 30 November 2019, the Group entered into a purchase agreement with non-controlling shareholder, Tianjin Qiancheng Xiangyu Technology Limited Partnership, for the acquisition of the remaining 49% equity interests in Dongfang Youbo, for a cash consideration of RMB94,000,000. Upon completion of the acquisition, Dongfang Youbo became a wholly-owned subsidiary of the Company. The carrying amount of non-controlling interest on the date of acquisition was debit balance of RMB47,713,000 and the difference between the consideration paid and the carrying amount of the non-controlling interests was recorded as other reserve.

DEFINITIONS

Unless otherwise stated or set out below, capitalised terms have the same meanings as those defined in the Prospectus (defined below).

"Beijing Xuncheng"	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 incorporated under the Laws of the PRC on 11 March 2005 and a wholly-owned subsidiary of our Company
"Board"	the board of directors of our Company
"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
"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
"*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 wholly-owned subsidiary of our Company
"FY"	financial year ended 31 May
"Global Offering"	the Hong Kong Public Offering and the International Offering (each as defined in the Prospectus and set out in the section headed "Structure of the Global Offering" therein)
"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"	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
"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 Securities and Futures Commission of Hong Kong) of all relevant jurisdictions, whether at the city, provincial, state or federal level (as appropriate)
"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
"New Oriental" or "Controlling Shareholder"	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 (as defined in the Listing Rules)
"Post-IPO ESOP"	the share options scheme adopted by our Company on 30 January 2019 and amended from time to time, the details of which are set out in the section headed "Statutory and general information" in Appendix IV to the Prospectus
"Pre-IPO ESOP"	the share options scheme adopted by our Company on 13 July 2018 and amended from time to time, the details of which are set out in the section headed "Statutory and general information" in Appendix IV to the Prospectus. The Pre-IPO ESOP is not subject to Chapter 17 of the Listing Rules
"Prospectus"	the prospectus of our Company dated 15 March 2019 issued in relation to the listing of our Shares on the Main Board of the Stock Exchange
"Reporting Period"	the six months ended 30 November 2019
"RMB" or "Renminbi"	Renminbi, the lawful currency of China
"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" or "subsidiaries"	has the meaning ascribed to it in the Listing Rules and includes consolidated affiliated entities controlled by our Group through the Contractual Arrangements (as defined in the Prospectus and set out in the section headed "Contractual Arrangements" therein)
"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
"%"	per cent