新东方在线

在线学习 当然新东方在线

2020

Annual Report

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

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report for the year ended 31 May 2020.

Compared with our previous financial year, our total revenue has increased by 17.6% from RMB918.9 million in FY 2019 to RMB1.1 billion in FY 2020. Our total student enrolments has also increased by 30.9% from 2.2 million in FY 2019 to 2.9 million in FY 2020.

FY 2020 has presented unprecedented challenges for the education industry in China and around the world. Due to the COVID-19 pandemic, in-person classes have largely shifted online and various domestic and overseas examinations have been suspended. This has resulted in a direct increase in the demand for online education and a decrease in the number of students participating in overseas test preparation. These factors have brought significant challenges to, but also created unique opportunities in, the online education industry. In response to these challenges, we are focusing on building robust technological infrastructure to accommodate our growing needs, as well as increasing our efforts in hiring talented staff, in order to expand our business capabilities to meet these changing times. These investments may not be immediately reflected in our short-term financial results but we believe that our efforts will be ultimately reflected in the results of our business in the long-term.

Despite facing these challenges, we remained committed to supporting our students during these difficult times. We have proactively donated free courses across various subjects to a significant number of students of all grades to help alleviate some of the impact caused by the suspension of offline schools and physical learning centres as a result of COVID-19. These measures have, in turn, contributed to our student acquisition efforts, which has been reflected in our total student enrolment numbers, which has increased by 30.9% from 2.2 million in FY 2019 to 2.9 million in FY 2020. Our average spending per student has also remained relatively stable at RMB401, compared with RMB434 over the same period last year. During these turbulent times, we continue to believe that our core long-term corporate growth strategy remains key to overcoming these challenging times and sustaining growth in the long-run. We have continued to focus on optimizing our business model in order to remain relevant in this highly competitive industry. Our efforts have begun reaping results as we see our total revenue increasing by 17.6% over the past financial year from RMB918.9 million in FY 2019 to RMB1.1 billion in FY 2020.

During this Reporting Period we adjusted our course products and optimized our business structure in all three major business segments:

- for our college education segment, we optimized our product lines, which resulted in a year-on-year revenue growth of 1.6% to RMB641.7 million, accounting for 59.4% of our total revenue.

- for our K-12 education segment, we significantly increased our investment in course content and technology, leading to admirable results despite the pandemic. Our net revenue increased by 85.4% to RMB295.1 million in FY 2020, accounting for 27.3% of our total revenue and our number of student enrolments increased by 224.5% to approximately 1.86 million.

- for our pre-school segment, in order to deliver course content in a more engaging and standardised manner, we changed our operational focus to the Donut English-learning APP and optimized our business structure, leading to an improvement in the gross profit margin from -0.9% in FY 2019 to 28.3% in FY 2020.

The COVID-19 pandemic has caused significant changes in people's lifestyles, working styles, and learning habits. During the pandemic, we actively cooperated with various online platforms such as Xuexi Qiangguo, People's Daily, and CCTV broadcasting channel to provide course materials free of charge during China's winter and spring vacation periods to domestic college and working students across China, enabling them to continue their studies at home despite school closures during the virus outbreak. We also donated tens of millions of free live broadcast courses to primary and middle school students. These measures helped us broaden our customer base and widen our geographical coverage in China and also resulted in us accelerating our development of certain new business lines and courses. Leveraging on our 27 years of experience in the education industry, our comprehensive course portfolio, constantly improving course content and service quality and precision marketing strategies, I truly believe that Koolearn will continue to be the online education platform of choice for students to come.

Looking forward, we will continue to heavily invest in our human resources. At Koolearn, we have always adhered to our founding principles, including training our teachers to be the best they can be. Thus, we have continuously emphasised the importance of teacher training. To continue improving the quality of our teachers, we have implemented a teacher grading system and teacher recruitment and training; and through strict teacher selection, full class teaching observations, and course quality inspection, these measures have assisted our teachers in focusing on their strengths and keeping up with the pace of our business growth. At the same time, we actively lay out our core strategies to enhance the competitiveness of our different operational areas including teaching and tutoring, subject operations, teaching products, Internet technology and marketing. As at 31 May 2020, the Company had a total of 9,394 experienced teachers, tutors and course researchers. At the same time, we have established a team of 956 members focusing on the development of internet technology and internet products and an integrated marketing team of 3,132 members. In our K-12 segment, we have started building teacher training and tutoring talent bases across China, including Beijing, Xi'an, Wuhan, Jinan, Zhengzhou, and we plan to further expand our network of teachers and tutoring centers to more domestic in order to better attract local talent. Among them, Dongfang Youbo currently has more than 1,800 teachers, and we have plans to increase the number of faculty members. Besides Beijing and Wuhan, Dongfang Youbo also established new teacher centers in other top tier cities to ensure the supply of high quality teachers for future expansion. As the Company continues to grow, we have established a systematic evaluation system, which helps us promote and retain outstanding talent as well as implement outstanding management practices in order to ensure we can continue to uphold our principles in nurturing the best possible talent within our Group.

In FY 2020, we have begun seeing the benefits of developing our own live-streaming platform. During the COVID-19 pandemic, we have seamlessly relocated our K-12 large-class courses from a third-party platform to our own proprietary platform. Going forward, we will continue to invest heavily in internet technology by: (1) improving the user terminals in terms of stability, speed and adaptability to different devices; (2) expanding the network coverage of our servers to ensure that users in different regions receive stable, high-quality services; (3) upgrading our server and cloud base technologies to establish a reliable and readily available cloud system. In order to enhance our internet user experience, we will continue to add more tools and capabilities into our platforms for improving teaching effectiveness and efficiency, such as increasing the in-class application of interactive courseware materials, enhancing the reward system for students, and further encouraging teacher-student engagement and group interactions with a view to create a "new" user experience for both students and parents. As for our online products, we will continue to provide a fast and convenient, all-round multifunctional, one-stop service to students before, during and after class by optimising our core teaching tools, data exchange, and system linkages with the aim of shortening the learning path for our students. We believe that innovation in educational technology will help students learn in a better and more effective way by making the learning experience fun and engaging.

As our product offerings and technology continue to improve, we will utilise appropriate advertising strategies to increase our customer acquisition in order to ensure a healthy growth rate of our internet users.

Our acquisition cost per enrolment maintained at relatively low levels thanks to our wide brand recognition and the positive reputation that we, and New Oriental, have cultivated over the past 27 years. Moving forward, we will continue to optimise and explore high-quality customer acquisition channels. We have established an excellent marketing team dedicated to stabilising the cost of customer acquisition by adopting various online and offline approaches. For our online channels, apart from traditional advertising, we have implemented social media marketing and short video live broadcast marketing for promotional purposes. Furthermore, we will continue to adopt flexible marketing strategies to optimise our returns on each marketing dollar spent and allow us to monitor the effectiveness of our marketing efforts. Although our overall sales and marketing expenses have increased due to the provision of free classes during COVID-19 pandemic, the accumulation of visitor traffic, growth in our customer conversion team, and more diversified customer reach methods and strategies will help us consolidate our leading online education provider position in the market and allow us to ultimately achieve more better-priced student enrolment capabilities. We firmly believe that cash-burning is not the answer to customer acquisition and there is no shortcut to success. We anticipate to achieve sustainable development in the online education industry by having professional teams and excellent products as well as providing high-quality services.

This pandemic has undoubtedly popularised and accelerated the introduction of online education to many more families in China and around the world. With the adoption of 5G technology and the application of artificial intelligence and big data, the online education industry has ushered in a new period of rapid development. Our K-12 business has greatly improved during this period and accumulated a large traffic pool and significant number of core user groups. Through the "Koolearn Technology + DFUB" dual platforms, we are able to fulfil the needs of students with different economic conditions and learning preferences and capabilities. While focusing on the first and second-tier markets, the live broadcast courses of our dual teacher classes have also attracted a large number of new students from lower-tier cities during this period. DFUB's single-teacher small classes have further accelerated its penetration into the third to fifth-tier markets, and have begun to broaden its presence in surrounding county-level cities and rural areas. In our college education sector, we will further consolidate our internal resources, upgrade our existing product structure and customer acquisition channels, enhance competitiveness, and reshape our business lines. By focusing our core resources on the main business and products, we will be able to consolidate our resources, enhance operational efficiency and improve operational capabilities. We believe that a series of effective strategies in the online education market will ensure our Company's sustainable and healthy development into the future.

We have full confidence in the future development of our Group and in the industry in which we operate. We believe that our long-term investment focus in talent, innovation and technology *today* will not only enrich the learning experience of our students, bring a sense of accomplishment to our employees and provide high quality educational resources to society, it will also establish a solid foundation for our long-term growth and continued success *tomorrow*.

Finally, I would like to thank our management and employees for their continued commitment, dedicated effort, and contribution to our Group; our board of Directors for their guidance and support; and our Shareholders for your continued belief in us and our business.

YU Minhong
Chairman

Hong Kong
14 September 2020

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), *Chief financial officer*
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-designed 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, *Committee chairman (appointed on 20 January 2020)*
Ms. SUN Chang
Mr. TONG Sui Bau
Mr. CHI Yufeng, *Committee chairman (resigned on 20 January 2020)*

Nomination committee

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

Company secretary

Mr. CHEUNG Kai Cheong Willie

Authorised representatives

Mr. YIN Qiang
Mr. CHEUNG Kai Cheong Willie

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditors

Registered office

P.O. Box 2681
Cricket Square
Hutchins Drive
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 Law and United States Law

Skadden, Arps, Slate, Meagher & Flom and affiliates

As to PRC Laws

Beijing Tian Yuan Law Firm

As to Cayman Islands Law

Conyers Dill & Pearman

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

Financial performance highlights

	FY 2020 RMB'000	FY 2019 RMB'000	Year-on-year change (%)
Revenue	**1,080,587**	918,911	17.6
Loss for the year	**(758,239)**	(64,109)	1,082.7
Loss for the year attributable to:			
— Owners of our Company	**(742,005)**	(39,773)	1,765.6
— Non-controlling interests	**(16,234)**	(24,336)	(33.3)
Loss per share			
— Basic and diluted (RMB)	**(0.79)**	(0.06)	1,216.7
Non-IFRS measure: Adjusted loss for the year[1] (unaudited)	**(658,022)**	(289)	227,589.3
Non-IFRS measure: LBITDA[2] (unaudited)	**(673,764)**	(122,032)	452.1

Condensed consolidated statements of comprehensive income

	RMB'000				
	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
Revenue	**1,080,587**	918,911	650,457	446,215	334,205
Gross profit	**493,086**	506,409	397,926	303,612	225,130
Operating (loss)/profit	**(881,185)**	(188,414)	33,090	65,493	29,288
(Loss)/profit for the year	**(758,239)**	(64,109)	82,026	92,212	59,551
(Loss)/profit for the year attributable to owners of our Company	**(742,005)**	(39,773)	91,375	93,960	59,551
Non-IFRS Measure: Adjusted (loss)/profit for the year (unaudited)	**(658,022)**	(289)	73,584	92,736	30,545

Notes:

(1) Adjusted loss for the year represents loss for the year less gain on fair value changes of financial assets at fair value through profit or loss ("**FVTPL**") plus net loss on disposal and deemed disposal of associates, listing expenses, other expenses and share-based compensation expenses for the FY. IFRS refers to the International Financial Reporting Standards ("**IFRS**").

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

Condensed consolidated balance sheets

	RMB'000				
	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
Assets:					
Non-current assets	**707,832**	293,776	220,834	119,162	61,827
Current assets	**2,341,412**	2,974,817	1,199,736	1,028,844	880,654
Total assets	**3,049,244**	3,268,593	1,420,570	1,148,006	942,481
Equity and liabilities:					
Equity attributable to owners of our Company	**1,863,700**	2,601,586	885,328	789,539	641,753
Non-controlling interests	**—**	(31,479)	(7,143)	2,206	—
Total equity	**1,863,700**	2,570,107	878,185	791,745	641,753
Non-current liabilities	**273,868**	16,530	11,049	5,192	5,323
Current liabilities	**911,676**	681,956	531,336	351,069	295,405
Total liabilities	**1,185,544**	698,486	542,385	356,261	300,728
Total equity and liabilities	**3,049,244**	3,268,593	1,420,570	1,148,006	942,481

BUSINESS OVERVIEW AND OUTLOOK

Our business

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

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

	FY 2020 Student enrolments '000	FY 2019 Student enrolments '000
Students		
College education	**942**	1,293
K-12 education	**1,856**	572
Pre-school education	**54**	314
Total	**2,852**	2,179

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

	FY 2020 Student enrolments '000	FY 2019 Student enrolments '000
Formal courses		
College education	**1,222**	715
K-12 education	**882**	959
Pre-school education[1]	**1**	203
Sub-total average	**1,015**	646
Entry courses	**38**	21
Total average	**401**	434

Note:

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

Our performance overview

Overall financial performance

FY 2020 was an uncommon period for many industries in China and around the world. During the Reporting Period, we continued to invest in talents, educational resources and technological infrastructure which drives the number, scalability and quality of our products and services and has allowed our business to support a surge in the number of students trialing or using our course. The COVID-19 pandemic since the second half of FY2020 has resulted in changes in students' study plan and a decrease in the number of students participating in overseas test preparation courses due to the suspension of overseas examinations and exchange programs, while significantly increasing demand for online educational services. As the leading comprehensive online educational services provider, we always place top priority on the safety of our students and our social responsibility to the communities that we serve. In the face of this pandemic, we proactively offered free courses to a significant number of students to alleviate some of the impact caused by the suspension of offline schools and physical learning centres during the pandemic, particularly for students in Wuhan and other highly impacted cities. Whilst these initiatives cushioned the impact COVID-19 had on students and parents in China, it required us to increase our cost of revenue as we have had to further invest in underlying infrastructure and human resources to meet the surge in demand in time and students using our products and services.

During FY 2020, we followed our long-term growth strategy and made notable progress in all four business segments. Total net revenues increased by 17.6% from RMB918.9 million in FY 2019 to RMB1.1 billion in the Reporting Period. Despite revenue performance being affected in the second half of FY 2020 due to the outbreak of COVID-19, we implemented proactive measures such as providing free course offerings and services to a large number of students of all grades and all subjects across China, our total number of student enrolments increased significantly from 2.2 million in FY 2019 to 2.9 million in FY 2020.

In our college education segment, we optimised product lines and recorded RMB641.7 million in net revenue, representing a year-on-year growth of 1.6%. In the K-12 education segment, we significantly increased our investment in course content and technology, which successfully raised our brand awareness in this highly competitive market. As a direct result of our enhanced products and services, our net revenue and our student enrolments in the K-12 segment recorded a year-on-year growth of 85.4% and 224.5%, respectively. In our pre-school education segment, we changed our operational focus to the Donut English-learning APP and optimised our business structure, leading to an improvement in the gross profit margin from -0.9% in FY 2019 to 28.3% in FY 2020.

College education

Our courses in the college segment 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 RMB715 for FY 2019 to RMB1,222 over the Reporting Period. There was a significant decrease in the number of students in English language learning courses due to the optimization of product lines and delay or suspension of college and oversea exams due to the COVID-19 pandemic in the second half of FY2020. As a result, our student enrolments in the college segment recorded 0.9 million in the Reporting Period, compared to 1.3 million over the previous financial year.

K-12 education

Our comprehensive K-12 course offerings, including primarily Koolearn K-12 courses and location-based live interactive after-school tutoring courses ("**DFUB**"), provide after-school tutoring courses that cover the majority of standard school subjects from primary to 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 made substantial progress in our K-12 expansion plan. The plan focused on three key aspects, namely: (i) upgrading our technological infrastructure; (ii) improving our online products and content; and (iii) recruiting and training teaching personnel. The successful implementation of these new initiatives have helped us achieve impressive operational results in our K-12 segment. The total student enrolments for K-12 segment recorded year-on-year growth of 224.5%. More specifically, our student enrolments for Koolearn K-12 courses recorded year-on-year growth of 269.4%, while our student enrolments for DFUB courses grew year-on-year by 184.2%. Additionally, our growth in the K-12 education segment during the Reporting Period was attributed to the wider exposure of our K-12 course offerings to students across China. Due to the COVID-19 pandemic, we announced a donation of free spring semester courses to alleviate the impact caused by the suspension of offline schools and physical learning. Whilst the pandemic was, and continues to be, an unfortunate and devastating situation in China and around the world, our free courses have introduced a large number of new students to our brand and enabled them to experience our K-12 large classes. We also 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 31 May 2020, DFUB had entered into 172 cities across 24 provinces in China.

Pre-school education

Our pre-school education segment offers inspiring and interactive English learning and other pre-school education courses designed specifically for children between the ages of three and ten. Our child-friendly online educational content is delivered through our Donut English-learning APP. During the Reporting Period, we adjusted the 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 enrolments during the Reporting Period.

Strategic update and future development

Despite COVID-19, FY 2020 has provided us with a unique opportunity to introduce our course offerings and services to a greater number of students in a number of new cities (including third-tier and fourth-tier cities) and allowed us to accelerate the development and introduction of new products to our students or existing products in new regions and new customers.

In line with our vision of being a lifelong learning partner to our students, going forward, we aspire to broaden our geographical presence across China and bring valuable and affordable online educational products and services to more Chinese families. We will remain committed to hiring, training and retaining top talented teaching, course research, marketing, technology professionals, which is the key to our core competitiveness. We will also continue to make strategic investments in developing an innovative and efficient central backing platform to support the growth of our front-end business expansion. We have newly developed and implemented a number of new technologies to drive the enhancement of our students' learning experience, including the Electronic Cloud Classroom Platform (ECCP) system in FY 2020, which has already become a fundamental part of our operations and supported millions of K-12 students' learning during the COVID-19 period.

Furthermore, we will take a number of actions to enhance operational efficiency by continuously refining standard operating procedures and upgrading management systems. We have restructured some of our business lines and trimmed down the scope of these business lines such that we are able to focus on key product offerings and business sub-segments. For example, during FY2020, we adjusted our college business segment, following which, we now focus on domestic test preparation and overseas test preparation business lines. We continually optimized our smart grading and correcting system in our TOEFL & IELTS courses, while enhanced investment in internet products, including launching Koolearn TOEFL Pro APP with Educational Testing Service (ETS) officially authorized content. We will continue to strengthen our collaboration with overseas English test providers, such as Cambridge Assessment English. As for our pre-school business segment, we focused more on optimising our Donut English APP in FY 2020, and in particular, in increasing the quality, engagement and scope of the educational content offered on this APP in FY2020. We believe that as we concentrate our core resources around main businesses and product lines, we are able to create and maintain a healthy business operating environment.

Looking forward, our K-12 education business segment will remain our strategic focus and long-term growth driver. Owing to our early expansion into lower-tier cities through Dongfang Youbo, we currently enjoy a significant first-mover advantage and stand to benefit from the increasing demand in lower-tier cities alongside their rising levels of consumer consumption and standards of living. While DFUB is expected to expand its footprint even deeper into county-level cities, we plan to further strengthen and broaden our customer base in existing local cities. For our Koolearn K-12 courses, we plan to focus on upgrading our APP and online platforms. Through introducing new education technologies and adding more new interactive features to online classes, we will be able to offer the best-in-class learning experience. We have also continued our plan to establish teaching training centers in other geographical locations to attract more qualified teachers and tutors and provide systematic training programs. We will increase our investment in diversified high return-on-investment (ROI) marketing channels and evaluate their unit economics in real time, which will in return keep our average user acquisition cost at a relatively low level. As a result of our improvements to operational teams, marketing capabilities, as well as positive word-of-mouth promotion and brand loyalty, we will continue to acquire new users, while enhancing the retention and conversion rates of our students.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our revenue increased by 17.6% from RMB918.9 million in FY 2019 to RMB1.1 billion in FY 2020.

College education

Revenue from our college education segment increased by 1.6% from RMB631.4 million in FY 2019 to RMB641.7 million in FY 2020, driven primarily by an increase in revenue from college test preparation and revenue from overseas test preparation, which increased by 23.7% and 1.6% year- on-year, respectively. During the Reporting Period, we restructured our college education business lines with greater focus on our college test preparation and overseas test preparation product lines. In particular, we adjusted our English-language learning product line and reorganized certain English-language learning products with relatively high demand into our college test product line. If we excluded the impact of our product line restructuring, revenue from college test preparation courses would have recorded a 9.0% increase during the Reporting Period. Our courses for graduate school entrance exams, which typically accounts for more than half of the revenue recorded under the college test preparation business line, grew by 9.8% from the previous year. Due to the adjustment and upgrade of certain products during FY 2020 as well as the impact from delays or cancelations of certain college and overseas exams since the second half of FY 2020, student enrolment in the college education segment decreased from 1.3 million in FY 2019 to 0.9 million in FY 2020.

K-12 education

Revenue from our K-12 education segment increased by 85.4% from RMB159.2 million in FY 2019 to RMB295.1 million in FY 2020, primarily due to the expansion of DFUB courses and the strengthening of customer acquisition in our Koolearn K-12 courses. In FY 2020, while we continued to enhance course products and services, we also diversified sales and marketing channels in order to promote our Koolearn K-12 business. As DFUB courses continued to evolve and expand into more geographical cities and areas, we simultaneously launched offline promotional campaigns in cities where users were aware of our brand to further improve user awareness and retention. Student enrolments in the K-12 segment increased from 572 thousand in FY 2019 to 1,856 thousand in FY 2020.

Pre-school education

Revenue from our pre-school education segment decreased by 10.1% from RMB33.4 million in FY 2019 to RMB30.0 million in FY 2020, primarily due to the optimization and upgrade of our Donut English-learning app, where average spending per enrolment in formal courses increased from RMB105 in FY 2019 to RMB161 in FY 2020, and the termination of live English courses for Donut online classroom. These adjustments led to a decrease in both revenue and student enrolments in this segment.

Institutional customers

Revenue from our institutional customers increased by 19.8% from RMB94.9 million in FY 2019 to RMB113.7 million in FY 2020.

Cost of revenue, gross profit/loss and gross margin

Our total cost of revenue increased by 42.4% from RMB412.5 million in FY 2019 to RMB587.5 million in FY 2020, primarily due to an increase in teaching staff costs and course research staff costs, in particular in the K-12 education segment, which grew by 23% and 147.3% over FY 2019, respectively, as we devoted significant resources to enhance the quality of our courses and services.

Our gross profit decreased by 2.6% from RMB506.4 million in FY 2019 to RMB493.1 million in FY 2020. Our gross profit margin decreased from 55.1% in FY 2019 to 45.6% in FY 2020, primarily due to the expansion in K-12 segment, and our donation of free courses during the COVID-19 pandemic in the second half of FY 2020.

College education

Cost of revenue for our college education segment decreased by 5.0% from RMB216.9 million in FY 2019 to RMB206.0 million in FY 2020, primarily due to a decrease in teaching materials costs.

Segment gross profit for our college education business increased by 5.1% from RMB414.5 million in FY 2019 to RMB435.7 million in FY 2020, and the segment profit margin increased from 65.6% in FY 2019 to 67.9% in FY 2020.

K-12 education

Cost of revenue for our K-12 education segment increased by 137.2% from RMB143.4 million in FY 2019 to RMB340.0 million in FY 2020, 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.

The segment gross loss for our K-12 education segment was RMB44.9 million in FY 2020, compared to a segment gross profit of RMB15.9 million in FY 2019, and the segment loss margin was 15.2% in FY 2020, compared to segment profit margin of 10.0% in FY 2019. This was primarily due to the offering of free spring semester courses to a significant number of students during the COVID-19 pandemic, the increase in teaching staff costs and course research staff costs, as we updated our Koolearn K-12 course offerings and committed more resources to course content and services, as well as an increase in IT support and technology costs given that all of our Koolearn K-12 courses and DFUB courses are delivered live.

Pre-school education

Cost of revenue for our pre-school education segment decreased by 36.1% from RMB33.7 million in FY 2019 to RMB21.5 million in FY 2020, primarily due to the adjustment of small class live- English learning courses by Donut online classroom which led to a decrease in course research staff costs and teaching materials costs, as we wound-down our live English learning courses and strengthened the development of our Donut English learning APP in this segment.

Segment gross profit for our pre-school education business increased by 2,921.6% from a segment gross loss of RMB0.3 million in FY 2019 to a segment gross profit of RMB8.5 million in FY 2020, and the gross profit margin increased from a segment loss margin of 0.9% in FY 2019 to a segment profit margin of 28.3% in FY 2020, primarily due to a segment margin improvement in our Donut English learning APP and an adjustment in our Donut online classroom courses.

Institutional customers

Cost of revenue for services to institutional customers increased by 7.9% from RMB18.5 million in FY 2019 to RMB20.0 million in FY 2020.

Segment gross profit for our services to institutional customers increased by 22.7% to RMB93.7 million in FY 2020 from RMB76.4 million in FY 2019, and the gross profit margin increased from 80.5% in FY 2019 to 82.4% in FY 2020.

Other income, gains and losses

Our other income, gains and losses increased by 37.1% from RMB142.7 million in FY 2019, to RMB195.7 million in FY 2020, primarily due to RMB48.9 million of interest income from term deposits.

Selling and marketing expenses

Our selling and marketing expenses increased by 96.5% from RMB443.9 million in FY 2019 to RMB872.3 million in FY 2020, primarily due to a substantial increase in marketing expenses and staff costs, in particular expenses relating to online media promotion, as we continued to invest in the promotion of our course offerings, especially our free course offerings, in our college and K-12 segments during COVID-19. The marketing expenses in the college segment increased as we diversified our marketing channels to strengthen our leading position in this market. In the K-12 segment, marketing expenses increased primarily due to our new initiatives to gain wider market recognition and to reach our target students more precisely through diversified marketing campaigns.

Research and development expenses

Our research and development expenses increased by 115.1% from RMB147.5 million in FY 2019 to RMB317.3 million in FY 2020, primarily due to an increase in staff costs as our business strategies required more qualified research and development and technological staff and engineers to support our expansion.

Administrative expenses

Our administrative expenses increased by 78.7% from RMB103.4 million in FY 2019 to RMB184.7 million in FY 2020, primarily due to an increase in staff costs and share-based compensation expenses as our business strategies required more qualified administrative staff.

Share of results of associates

Our share of profit of associates decreased by 157.7% from RMB3.1 million in FY 2019 to a loss of RMB1.8 million in FY 2020, primarily due to an increase in losses from our share of the results of Huoerguosi Oriental New Venture Equity Investment Partnership (L.P.).

Income tax (expense) credit

From FY 2019 to FY 2020, our income tax expenses increased by 493.6% from a credit of RMB10.9 million to an expense of RMB42.8 million, primarily due to the reversal of the deferred tax assets recognised in prior periods.

Loss for the year

As a result of the foregoing, our loss for the year increased by 1,082.7% from RMB64.1 million in FY 2019 to RMB758.2 million in FY 2020.

Non-IFRS measures

To supplement our financial information presented in accordance with IFRS, we also use adjusted loss for the year and LBITDA as non-IFRS measures, which are not required by, or presented in accordance with IFRS. We believe that these non-IFRS measures facilitate comparison of operating performance from period to period by eliminating potential impacts of items that our management do not consider to be indicative of our operating performance. We also believe these measures provide useful information to investors and others in understanding and evaluating our consolidated statements of profit or loss in the same manner as they have assisted our management. Please note, however, our presentation of LBITDA may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures have limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our consolidated statements of profit or loss or financial condition as reported under IFRS.

We define adjusted loss for the year as loss for the year less gain on fair value changes of financial assets at FVTPL plus net loss on disposal and deemed disposal of associates, listing expenses, other expenses and share-based compensation expenses for the FY. We define LBITDA as loss for the year plus income tax expenses (credit), listing expenses, other expenses, share-based compensation expenses, finance costs, impairment losses under expected credit loss model, net of reversal, depreciation of property and equipment and depreciation of right-of-use assets less other income, gains and losses for the FY.

The following table reconciles our loss for the year to adjusted loss:

	FY 2020 RMB'000 (unaudited)	FY 2019 RMB'000 (unaudited)
Reconciliation of net loss to adjusted loss:		
Loss for the year	**(758,239)**	(64,109)
Less:		
Gain on fair value changes of financial assets at FVTPL — non-current assets	**36,473**[(1)]	21,926
Add:		
Net loss on disposal and deemed disposal of associates	**213**	—
Listing expenses	**—**	31,525
Other expenses	**15,981**	—
Share-based compensation expenses	**120,496**	54,221
Adjusted loss for the year	**(658,022)**	(289)

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.

The following table reconciles our loss for the year to LBITDA:

	FY 2020 RMB'000 (unaudited)	FY 2019 RMB'000 (unaudited)
Reconciliation of loss for the year to LBITDA		
Loss for the year	(758,239)	(64,109)
Add:		
Income tax expense (credit)	42,788	(10,871)
Listing expenses	—	31,525
Other expenses	15,981	—
Share-based compensation expenses	120,496	54,221
Finance costs	10,576	—
Impairment losses under expected credit loss model, net of reversal	1,566	880
Depreciation of property and equipment	15,384	9,050
Depreciation of right-of-use assets	73,337	—
Less:		
Other income, gains and losses	195,653	142,728
LBITDA	(673,764)	(122,032)

Liquidity and capital resources

During the Reporting Period, we met our cash requirements primarily from cash and cash equivalents and proceeds from the issuance of shares. We had cash and cash equivalents of RMB480.3 million as at 31 May 2020 compared to RMB716.5 million as at 30 November 2019 and RMB2.5 billion as at 31 May 2019. We had term deposits of RMB1.5 billion as at 31 May 2020, compared to RMB1.8 billion as at 30 November 2019; we did not have any term deposits as at 31 May 2019. Cash and cash equivalents were represented by bank balances and cash; and bank balances and cash comprised of cash and short-term deposits with an original maturity of three months or less.

During the Reporting Period, we primarily used cash to fund required working capital 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 from the Global Offering.

As at the end of FY 2020, our Group's gearing ratio was 38.9% (compared with 21.4% as at the end of FY 2019), calculated as the total liabilities divided by total assets.

Cash flow

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

	FY 2020 RMB'000	FY 2019 RMB'000
Net cash used in operating activities	(521,434)	(24,711)
Net cash (used in) generated from investing activities	(1,433,379)	15,880
Net cash (used in) generated from financing activities	(135,486)	1,702,448
Net (decrease) increase in cash and cash equivalents	(2,090,299)	1,693,617
Cash and cash equivalents at the beginning of the FY	2,497,621	709,448
Effect of exchange rate changes	72,929	94,556
Cash and cash equivalents at the end of the FY	480,251	2,497,621

Net cash used in operating activities

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

Our net cash used in operating activities in FY 2020 was RMB521.4 million. The difference between cash used in operating activities before tax and interest of RMB537.7 million and the loss before tax of RMB715.5 million was mainly due to: (i) the inclusion of non-cash expenses items, primarily including share-based compensation expenses of RMB120.5 million; (ii) a RMB136.2 million increase in cash as a result of movements in working capital, which in turn mainly consisted of a RMB19.2 million increase in contract liabilities and a RMB117.3 million increase in accrued expenses and other payables; and (iii) the exclusion of the effect of the net foreign exchange gain of RMB73.2 million and gain on fair value changes of financial assets at FVTPL of RMB45.7 million. The increase in contract liabilities was primarily attributable to the growth of our customer base and our increased sales. The increase in accrued expenses and other payables was primarily due to the increase in teachers' commission fees and course fees and the number of our teachers.

Net cash used in investing activities

Our net cash used in investing activities in FY 2020 was approximately RMB1.4 billion, primarily attributable to the placement of term deposits of RMB1.8 billion and purchase of property and equipment of RMB79.8 million, which was partially offset by cash generated from net disposal of financial assets at FVTPL of RMB84.4 million and withdrawal of term deposits of RMB331.1 million.

Net cash used in financing activities

Our net cash used in financing activities in FY 2020 was approximately RMB135.5 million primarily attributable to acquisition of non-controlling interest of Dongfang Youbo, which is one of our subsidiaries.

Capital expenditure

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

	FY 2020 **RMB'000**	FY 2019 RMB'000
Purchase of property and equipment	**79,843**	20,830

Our capital expenditures were primarily for purchases of property and equipment in FY 2019 and FY 2020, respectively. Our purchases of property and equipment were RMB20.8 million and RMB79.8 million for FY 2019 and FY 2020, respectively.

Off-balance sheet commitments and arrangements

As at 31 May 2020, we had not entered into any off-balance sheet transactions.

Future plans for material investments and capital assets

As at 31 May 2020, we did not have any other foreseeable plans for material investments and capital assets.

Material acquisitions and/or disposals of subsidiaries and affiliated companies

Reference is made to our announcements of 16 August 2019 and 2 September 2019 (collectively, the "**Dongfang Youbo Announcements**"), in relation to our acquisition of the remaining 49% interest in Dongfang Youbo, following which Dongfang 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 31 May 2020, we had 7,094 full-time employees and 6,683 part-time employees, among which we had 3,075 full-time and 6,319 part-time teaching, content development and content production staff; 2,853 full-time and 279 part-time selling and marketing staff; 943 full-time and 13 part-time research, development and technology staff; and 223 full-time and 72 part-time general and administrative staff. All of our employees were based in China, in our headquarters in Beijing and in various other cities across China.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our retention strategy, we offer employees competitive salaries, performance-based bonuses and other incentives. As at 31 May 2020, 560 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for FY 2020 were RMB1.1 billion, representing a year-on-year increase of 157.8% from RMB413.3 million in FY 2019.

Foreign exchange risk

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

Indebtedness

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

Pledge of assets

As at 31 May 2020, none of our Group's assets were pledged.

Contingent liabilities

As at 31 May 2020, we did not have any material contingent liabilities.

DIRECTORS AND SENIOR MANAGEMENT

Directors

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

Name	Age	Position	Initial date of appointment
SUN Dongxu (孫東旭)	34	Executive Director, *Chief executive officer*	16 August 2019
YIN Qiang (尹強)	46	Executive Director, *Chief financial officer*	23 May 2018
YU Minhong (俞敏洪)	57	Non-executive Director, *Chairman*	23 May 2018
SUN Chang (孫暢)	52	Non-executive Director	7 February 2018
WU Qiang (吳強)	47	Non-executive Director	23 May 2018
LEUNG Yu Hua Catherine (梁育華)	37	Non-executive Director	13 July 2018
TONG Sui Bau (董瑞豹)	49	Independent non-executive Director	15 March 2019
KWONG Wai Sun Wilson (鄺偉信)	54	Independent non-executive Director	15 March 2019
LIN Zheying (林哲瑩)[(1)]	55	Independent non-executive Director	20 January 2020

Note:

(1) Mr. Lin was appointed a Director on 20 January 2020 to replace Mr. CHI Yufeng, who resigned as a director on the same date (see our announcement of 30 January 2020),

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

Executive Directors

SUN Dongxu (孫東旭) ("Mr. Sun")

Mr. Sun, aged 34, is an executive Director and our Company's chief executive officer. Within our Group, Mr. Sun is a director of: Beijing Xuncheng since September 2019 (he is also Beijing Xuncheng's chief executive officer), also Dexin Dongfang's CEO since November 2019, Dexin Dongfang since August 2019, Xuncheng HK since November 2019, Kuxue Huisi also CEO since November 2019, and Xi'an Ruiying Huishi Network Technology Co., Ltd. (西安睿盈慧師網絡科技有限公司) ("**Xi'an Ruiying**") since April 2020. Mr. Sun began his career with the New Oriental group (which, at the time, included our Group) as a teacher in the foreign exams department of Tianjin New Oriental School from June 2007 to June 2008. Between June 2008 and April 2016, Mr. Sun worked at Hefei New Oriental School, beginning as the assistant supervisor of the foreign examination department, from June 2008 to June 2009, and moving through various positions within the school to ultimately acting as the assistant principal, from March 2012 to October 2013, and principal, from October 2013 to April 2016. Aside from our Group, Mr. Sun has been the vice-president of New Oriental China since April 2019, and was previously the assistant vice-president of New Oriental China from April 2016 to April 2019. Mr. Sun received his bachelor's degree in engineering, majoring in computer science and technology, from Nankai University (南開大學), China, in June 2007.

YIN Qiang (尹強) ("Mr. Yin")

Mr. Yin, aged 46, is an executive Director and our Company's chief financial officer. He is also a director and chief financial officer of Beijing Xuncheng, since January 2016, director of Zhuhai Chongsheng Heli Network Technology Co., Ltd. (珠海崇勝合力網絡科技有限公司) and Xi'an Ruiying, since July 2019 and April 2020, respectively. Mr. Yin received his bachelor's degree in economics from Capital University of Economics and Business (首都經濟貿易大學), China, in July 1996 and his master's degree in business management at Peking University, China, in July 2008. Mr. Yin is also a PRC accredited accountant (since October 2001). Aside from our Group, Mr. Yin has been the vice-president of New Oriental China since April 2019. Mr. Yin was the financial controller and assistant vice-president of New Oriental China from June 2005 to May 2016, and a senior accountant at PricewaterhouseCoopers from 1996 to 2001.

Non-executive Directors

YU Minhong (俞敏洪) ("Mr. Yu")

Mr. Yu, aged 57, is a non-executive Director, chairman of the Nomination Committee and Chairman of our Board. Mr. Yu is also the chairman and a director of Beijing Xuncheng, since May 2015, and certain companies under the Retained New Oriental Group, including Leci Internet Technology (Beijing) Company Limited ("**Leci Internet**"). Mr. Yu received his bachelor's degree in English from Peking University, China in July 1985. Mr. Yu is the founder and currently the executive chairman of the board of directors of New Oriental, since 2001, and was a director of Sunlands Technology Group, a company whose American depository shares are listed on the New York Stock Exchange under the symbol "STG", from August 2017 (and an independent director from March 2018) to June 2019. Mr. Yu is the chairman and director of New Oriental, our Controlling Shareholder and a company whose American depository shares are listed on the New York Stock Exchange under the symbol "EDU", since 2001.

SUN Chang (孫暢) ("Ms. Sun")

Ms. Sun, aged 52, is a non-executive Director and a member of the Remuneration Committee. She was our Company's co-chief executive officer until 19 January 2020. Ms. Sun is a director of Beijing Xuncheng (since May 2015) and Beijing Dexin (since March 2018). Ms. Sun received her bachelor's degree in pre-school education from Beijing Normal University (北京師範大學), China, in July 1990 and her master's degree in business administration from Renmin University of China (中國人民大學), China, in July 1999. Aside from our Group, Ms. Sun was the assistant vice-president, from 2012 to 2016, and the vice-president of New Oriental China between 2016 and 2020. Ms. Sun was the general manager of the investment division at China Netcom Group Corporation Limited (now China United Network Communications Group Co., Ltd. (中國聯合網絡通訊集團有限公司), or China Unicom (中國聯通)) from 2000 to 2004, and the marketing manager at Microsoft (China) Co., Ltd. (微軟（中國）有限公司) from 1997 to 2000.

WU Qiang (吳強) ("Mr. Wu")

Mr. Wu, aged 47, is a non-executive Director and member of the Audit Committee. Mr. Wu is also a director of Leci Internet, since November 2015. Mr. Wu received his master's degree in engineering from the Institute of Automation at the Chinese Academy of Sciences (中國科學自動化研究所), China, in July 1997. Aside from our Group, Mr. Wu was the vice-president of New Oriental China from 2016 to April 2019, and is currently its senior vice-president, since April 2019. He was the principal of Beijing New Oriental School (北京新東方學校) from July 2014 to April 2018. Prior to this, Mr. Wu was the vice-principal of Beijing New Oriental School from 2013 to 2014, director of research and development at New Oriental China from 2005 to 2007, vice-principal of other New Oriental schools in Qingdao and Chengdu from 2008 to 2012, and a president of Beijing Mingri Dongfang Technology Co., Ltd. (北京明日東方科技有限公司) from 2000 to 2005.

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

Ms. Leung, aged 37, is a non-executive Director. She has also been a director of Beijing Xuncheng, since January 2019. Ms. Leung received her bachelor of science in economics (concentration in finance) from the Wharton School of the University of Pennsylvania, the United States, in June 2004. Aside from our Group, Ms. Leung has been the vice-general manager of the strategy development department at Sixjoy Hong Kong Limited since December 2013, a subsidiary of Tencent Holdings Limited, and previously served as a senior research analyst at Arete Research Services L.L.P. from November 2012 to June 2013, and was an executive director in the investment research division at Goldman Sachs (Asia) L.L.C. from August 2010 to November 2012.

Independent Non-executive Directors

TONG Sui Bau (董瑞豹) ("Mr. Tong")

Mr. Tong, aged 49, is an independent non-executive Director, chairman of the Audit Committee and member of the Remuneration Committee and Nomination Committee. Mr. Tong received his bachelor's degree in accounting with an additional concentration in computer science from the University of Wisconsin, Madison, U.S., in May 1993. Mr. Tong was previously a member of the American Institute of Certified Professional Accountants (AICPA), from 1995 to 2009, and Chartered Financial Analyst, from 1999 to 2009. Mr. Tong has been a non-executive director of NetEase Inc. since 2009, a company whose American depository shares are listed on the Nasdaq under the symbol "NTES" and whose shares are listed on the Stock Exchange (Stock Code: 9999). He was previously an executive director and co-chief operating officer of NetEase Inc., from 2003 to 2009, and from 2004 to 2009, respectively.

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

Mr. Kwong, aged 54, is an independent non-executive Director and member of the Audit Committee. Mr. Kwong is an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Kwong received his bachelor of arts degree from the University of Cambridge, United Kingdom, in June 1987. Mr. Kwong is an executive director of China Metal Recourses Utilisation Limited, since August 2013, a company listed on the Stock Exchange (stock code: 1636). Mr. Kwong also acts as an independent non-executive director of Shunfeng International Clean Energy Limited, since July 2014, a company listed on the Stock Exchange (Stock Code: 1165), C.banner International Holdings Limited, since August 2011, a company listed on the Stock Exchange (Stock Code: 1028), China Outfitters Holdings Limited, since June 2011, a company listed on the Stock Exchange (Stock Code: 1146), and China New Higher Education Group Limited, since March 2017, a company listed on the Stock Exchange, (Stock Code: 2001). Mr. Kwong was the president of Gushan Environmental Energy Limited, a company listed on the NYSE under the symbol "GU" (from December 2007 to October 2012). Prior to this, he was a managing director in the investment banking division and the head of Hong Kong and China equity capital markets at CLSA Equity Capital Markets Limited from March 2004 to July 2006, and a director and the general manager of the corporate finance division of Cazenove Asia Limited, from 2002 to 2003, and from 1997 to 2003, respectively.

LIN Zheying (林哲瑩) ("Mr. Lin")

Mr. Lin, aged 55, is an independent non-executive Director, chairman of the Remuneration Committee and member of the Nomination Committee, with effect from 20 January 2020. Prior to this appointment, Mr. Lin did not hold any positions within our Group. Mr. Lin received his bachelor's degree majoring in planning statistics from the Shanxi College of Finance and Economics (currently known as the Shanxi University of Finance and Economics), China, in July 1987, a master's degree in business administration from the Guanghua School of Management, Peking University in China, in July 2006, and a doctoral degree in business administration from ESC Rennes School of Business, France, in June 2008. Aside from our Group, Mr. Lin served as a director of Shenzhen Fengchao Technology Limited, from November 2016 to December 2017; and has been serving as a vice-chairperson of S.F. Holdings (Group) Co. Ltd., since June 2014, and an executive director of Ancient Jade Capital Management Co., Ltd., since January 2011. Aside from our Company, Mr. Lin also holds, or have held within the past three years, directorships in the following listed companies: (i) executive director and vice-chairperson of S.F. Holding Co., Ltd., a company listed on the Shenzhen stock exchange (Stock Code: 002352), since March 2017; and (ii) independent non-executive director of Shanghai Dongzheng Automotive Finance Co., Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 2718), from August 2018 until June 2020.

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

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

Save as disclosed in this annual report and in our annual results announcement of 16 August 2020, (a) none of our Directors has: (i) held any other directorship on another public company in Hong Kong or overseas in the last three years preceding the date of this report; (ii) has any other professional qualifications; or (iii) any other relationship with any other Director, senior manager or substantial shareholder (as defined in the Listing Rules) of our Company; and (b) no other matters have occurred during FY 2020 that need to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules or that need to be brought to the attention of our Shareholders or the Stock Exchange.

Senior management

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

Company secretary

CHEUNG Kai Cheong Willie (張啟昌) ("Mr. Cheung")

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

Save as disclosed above, there have been no further matters during FY 2020 that need to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' REPORT

Our Board is pleased to present this Directors' report together with our Group's consolidated financial statements for FY 2020.

Our company and our principal activities

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

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

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

Our subsidiaries are set out in Note 40 to the consolidated financial statements.

Business review

A fair review of our Group's business (as required by Schedule 5 to the *Companies Ordinance*, Chapter 622 of the Laws of Hong Kong), including an analysis of our Group's financial performance, an indication of our Group's likely future business developments, a description of the principal risks and uncertainties facing our Group and our Group's key relationships with our stakeholders who have a significant impact on our Group and on which our Group's success depends, is set out in "Chairman's statement", "Business overview and outlook", and "Management discussion and analysis." These discussions form part of this annual report. Events affecting our Company that have occurred between the end of FY 2020 and date of this annual report are set out in "Events after the Reporting Period."

Financial results and summary

Our Group's results for FY 2020 are set out in the "Consolidated statement of profit or loss and other comprehensive income" at pages 105.

A summary of our Group's condensed consolidated results and financial positions is set out at pages 106 to 107.

Our major customers and suppliers

During FY 2020: (a) our Group's five largest customers accounted for approximately 2.45% of our total revenues, while the largest customer accounted for approximately 0.75% of our total revenues; and (b) our Group's top five suppliers accounted for approximately 17.01% of our total purchase amounts, while the largest supplier accounted for approximately 4.77% of our total purchase amounts.

None of our Directors, and, to the best of our Directors' knowledge, none of their respective associates, or any Shareholder who, to the best of our Directors' knowledge, owns 5% or more of our issued capital, has any interest in any of our five largest customers and suppliers during FY 2019 and up to the date of this annual report.

Use of net 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 (as defined in the Prospectus) aggregated approximately HK$1.8 billion, and as of the beginning of FY 2020, the full amount was remaining. As at 31 May 2020, 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:

HK$ million[(2)]	Net proceeds from Global Offering[(1)]	Utilised during FY 2019	Utilised during FY 2020	Remaining amount
Staff recruitment and training activities	533.0	—	143.5	389.5
Acquisitions and/or investments	533.0	—	—	533.0
Course development	178.0	—	18.5	159.5
Technology infrastructure	178.0	—	158.1	19.9
Marketing activities	178.0	—	158.1	19.9
Working capital and general corporate purposes	178.0	—	71.8	106.2

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:RMB0.89385, being the midpoint rate of HKD to RMB published by the People's Bank of China on the business day before the date of the annual results announcement on 21 August 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 five to ten years of the Listing Date.

Share capital

Movements in our Company's share capital and details of issued Shares during FY 2020 are set out at Note 28 to the consolidated financial statements.

On 19 November 2019, our Shareholders granted to our Directors a general mandate to repurchase up to 10% of our then-total number of issued Shares. During FY 2020, we did not make any repurchases on the Stock Exchange, and neither we nor our subsidiaries purchased, sole or redeemed any of our Company's listed securities.

Debentures issued

Our Group did not issue any debentures during FY 2020.

Emolument policy and directors' remuneration

In compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules, we established the Remuneration Committee to formulate our Directors' remuneration policies. The remuneration is determined based on each Director's and senior manager's qualification, position, responsibility and seniority. In additional to this, our Directors and senior managers may have been granted options under our Pre-IPO ESOP and are eligible to participate as grantees of our Post-IPO ESOP. Our Directors', senior managers' and top five highest paid individuals' remuneration are detailed at Notes 11, 12 and 39 to the consolidated financial statements.

None of our Directors waived or agreed to waive any remuneration and there were no emoluments paid by our Group to any of our Directors as an inducement to join, or upon joining our Group, or as compensation for loss of office. Our Group did not pay any of our Directors any discretionary bonuses during FY 2020.

Equity-linked agreements

Except as disclosed in this annual report, no equity-linked agreement was entered into by our Group, or existed during FY 2020.

Final dividends

Our Board did not recommend the payment of a final dividend for FY 2020 (FY 2019: nil).

Property and equipment

Movements in our Group's property and equipment during FY 2020 are detailed in Note 15 to the consolidated financial statements.

Bank loans and borrowings

Our Group did not incur any bank loans or other borrowings during FY 2020.

Material litigation

As at the end of FY 2020, our Company was not involved in any material litigation or arbitration. Nor were our Directors aware of any material litigation or claims that were pending or threatened against our Company.

Reserves

As at the end of FY 2020, we had distributable reserves of approximately RMB2.7 billion, further details of which are set out at Note 42 to the consolidated financial statements.

Directors and their service contracts and appointment letters

Directors and senior management

A list of Directors and senior managers and their biographical details (including changes in our Board during FY 2020) are set out in "Directors and senior management".

The interests and short positions as at the end of FY 2020 of our Directors, and our Company's chief executives and substantial shareholders (as defined in the SFO) in our Company and associated corporations (as appropriate) that falls to be disclosed under Part XV of the SFO are set out in "Other information".

Directors' service agreements

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

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

Permitted Indemnity Provision

Pursuant to Article 164 of the Articles of Association and subject to applicable Laws, every Director (including resigned directors during the period of his/her directorship at our Company) shall be indemnified out of the assets and profits of our Company against all losses or liabilities incurred or sustained by him/her as a director of our Company, except for losses or liabilities in respect of fraud or dishonesty. This permitted indemnity provision was in force during FY 2020 and continued to be in force as at the date of this report.

Our Controlling Shareholder's and Directors' competing business

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

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

Continuing connected transactions

We have entered into a number of continuing transactions with our connected persons in our ordinary and usual course of business, which constitute continuing connected transactions under the Listing Rules. We set out below details of our non-exempt continuing connected transactions in accordance with Chapter 14A of the Listing Rules:

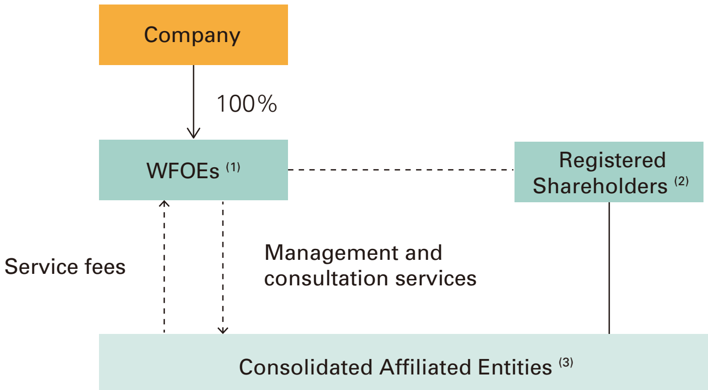
Contractual Arrangements

Overview

Our Group entered into a series of Contractual Arrangements with Beijing Xuncheng and Kuxue Huisi, and their Registered Shareholders, pursuant to which our Company obtained effective control over and had the right to receive all of the economic benefits derived from Beijing Xuncheng and Kuxue Huisi, and proportional control and right to receive the economic benefits derived from our then non-wholly owned subsidiary, Dongfang Youbo, through our Operating Entity's controlling interest and proportionate shareholding in Dongfang Youbo. On 16 August 2019, we, through Beijing Xuncheng, acquired the remaining interest in Dongfang Youbo, following which, Dongfang Youbo became a wholly-owned subsidiary of our Company and assumed the same rights and obligations as Kuxue Huisi under the Contractual Arrangements.

As a result of the Contractual Arrangements, the financial results of our Consolidated Affiliated Entities are able to be consolidated into our Group's financial information as if they were our Company's subsidiaries. We set out a summary of our Contractual Arrangements during FY 2019.

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



Notes:

(1) Dexin Dongfang and Zhuhai Chongsheng Heli Network Technology Co., Ltd. (珠海崇勝合力網絡科技有限公司) ("**Zhuhai Chongsheng**") (collectively, the "**WFOEs**").

(2) Our Registered Shareholders are New Oriental China, Linzhi Tencent Technology Co., Ltd. (林芝騰訊科技有限公司) and the Tianjing Limited Partnerships.

(3) Beijing Xuncheng, our Operating Entity, and its subsidiaries.

(4) "→" denotes legal and beneficial ownership in the equity interests of the WFOEs.

(5) "—" denotes legal ownership in the equity interests of the Consolidated Affiliated Entities,

(6) "⇢" denotes control by the WFOEs under the Contractual Arrangements through: (a) powers of attorney to exercise all Registered Shareholders' rights in the Operating Entity, (b) exclusive options to acquire all or part of the equity interests in the Operating Entity, and (c) equity pledges over the equity interests in the Operating Entity.

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

Summary of our Contractual Arrangements

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

(a) Exclusive Management Consultancy and Business Cooperation Agreement

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

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

(c) Equity Pledge Agreement
Dexin Dongfang, on the one hand, and the Registered Shareholders and Beijing Xuncheng, on the other hand, entered into an equity pledge agreement on 10 May 2018 ("**Equity Pledge Agreement**"), pursuant to which the Registered Shareholders unconditionally and irrevocably pledged all of their respective equity interests in Beijing Xuncheng to Dexin Dongfang in order to guarantee the performance of the Contractual Arrangements by the Relevant VIE Entities and the Registered Shareholders. Under the Equity Pledge Agreement, the Registered Shareholders have agreed that, without prior written consent of Dexin Dongfang, they will not transfer or dispose of the pledged equity interests or create or allow any third party to create any encumbrance on the pledged equity interests that would prejudice Dexin Dongfang's interest.

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

(e) Supplemental Agreement of Zhuhai Chongsheng
Dexin Dongfang and Zhuhai Chongsheng, on the one hand, and Beijing Xuncheng and the Registered Shareholders, among others, on the other hand, entered into a supplemental agreement on 10 October 2019, pursuant to which, Zhuhai Chongsheng joined as a party to the Contractual Arrangements (including the Exclusive Management Consultancy and Business Cooperation Agreement, Exclusive Call Option Agreement, Equity Pledge Agreement, and Powers of Attorney). Pursuant to the supplemental agreement, Zhuhai Chongsheng shared the same rights and obligations as Dexin Dongfang under the Contractual Arrangements (as appropriate).

(f) Acceptance Letter
Dongfang Youbo executed a letter of acceptance dated 10 October 2019, under which, it assumed the same rights and obligations as Kuxue Guisi, the other wholly-owned subsidiary of Beijing Xuncheng, under the Exclusive Management Consultancy and Cooperation Agreement.

Reasons for our Contractual Arrangements

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

Given the above restrictions and as advised by Tian Yuan Law Firm, our PRC legal adviser ("**PRC Legal Adviser**"), we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we operate our Relevant Business through our Consolidated Affiliated Entities. To maintain effective control over the Relevant Business operated by our Consolidated Affiliated Entities and to receive the economic benefits generated by our Relevant Business, a series of Contractual Arrangements have been entered into between our WFOEs, our Consolidated Affiliated Entities and their Registered Shareholders.

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

Qualification requirements

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

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

Our PRC legal adviser advised us that, as at the date of this report: (a) the MIIT guidance memorandum issued by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as Ministry of Information Industry) (stating that an applicant is required to provide, among others, satisfactory proof of the Qualification Requirements and business development plan, and that applicants should submit written statements about the main foreign investors' experience and qualifications or that of their parents or subsidiaries in providing value-added telecommunications services; see page 183 of the Prospectus) had no legal or regulatory effect under the PRC Laws; and (b) no applicable PRC Laws had provided clear guidance or interpretation on the Qualification Requirements.

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

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

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

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

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

Risks relating to our Contractual Arrangements

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

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

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

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

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

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

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

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

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

Listing Rules implications and waiver

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

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

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

(b) no change to the agreements underlying our Contractual Arrangements without independent Shareholders' approval;

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

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

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

Other continuing connected transactions

As discussed in the Prospectus, the following transactions also constitute non-exempt continuing connected transactions of our Group for FY 2020:

New Oriental Framework Agreement

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

The annual cap and actual transaction amounts for the above non-exempted continuing connected transactions for FY 2020 are:

No.	Transaction	Annual cap for FY 2020 (RMB million)	Annual transaction amount for FY 2020 (RMB million)
1.	Sub-licensing of TPO examination materials from our Group to the Retained New Oriental Group	17.0	16.9
2.	Provision of educational materials from the Retained New Oriental Group to our Group	4.5	1.8
3.	Provision of educational resources:		
	— from our Group to the Retained New Oriental Group (online resources)	3.8	0.2
	— from the Retained New Oriental Group to our Group (offline resources)	19.5	6.9

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

Tencent Framework Agreement

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

The annual cap and actual transaction amounts for the above non-exempted continuing connected transactions for FY 2020 are:

No.	Transaction	Annual cap for FY 2020 (RMB million)	Annual transaction amount for FY 2020 (RMB million)
1.	Cloud and technical services from Tencent to our Group	12.8	10.2
2.	Payment services from Tencent to our Group	5.2	3.3

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

Tigerstep Framework Agreement

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

The annual cap and actual transaction amounts for the above non-exempted continuing connected transaction for FY 2020 are:

No.	Transaction	Annual cap for FY 2020 (RMB million)	Annual transaction amount for FY 2020 (RMB million)
1.	Property leasing from Tigerstep (and its subsidiaries) to our Group	11.5	11.1

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

Confirmations in respect of our continuing connected transactions

Confirmations from our independent non-executive Directors

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

With respect to our Contractual Arrangements:

(a) the transactions carried out during FY 2020 have been entered into in accordance with the relevant provisions of our CCT Arrangements; and

(b) no dividends or other distributions have been made by our Relevant VIE Entities to the holders of its equity interests that are not otherwise subsequently assigned or transferred to our Group during FY 2020;

With respect to all CCT Agreements:

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

Save as disclosed in this section, we did not enter into any other transaction during FY 2020, including the related party transactions disclosed under Note 39 to the financial statements in this annual report, that would fall to be disclosed under Chapter 14A of the Listing Rules. We have complied with the requirements in Chapter 14A of the Listing Rules during FY 2020.

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

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

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

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

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

Contracts with our Controlling Shareholder or management contracts

Save as disclosed in this annual report, no other contracts of significance or contract or significance for the provision of services had been entered into among our Group and our Controlling Shareholder during FY 2020.

No contract, concerning the management and administration of the whole or any substantial part of our Company's business was entered into or existed during FY 2020.

Save as disclosed in this annual report, and in particular the " — Continuing connected transactions" above, none of our Directors (or any entity connected with our Directors) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which our Company was a party and which subsisted during FY 2020.

Pre-emptive rights

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

Tax relief and exemption

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

Auditor

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

Events after the Reporting Period

See: (i) our announcement of 21 August 2020 on the revision of the annual caps for FY 2021 for two of our continuing connected transactions, the "provision of educational materials" transaction under the New Oriental Framework Agreement and the "property leasing" transaction under the Tigerstep Framework Agreement; and (ii) our announcement of 25 August 2020 on the granting of options under the Post-IPO ESOP. Aside from these announcements and this annual report, our Group did not have any significant event occur after the Reporting Period.

Environmental policies and performance

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

Public float

Based on the information publicly available to our Company, and to the best knowledge of our Directors, as at the date of this annual report, our Company maintained the prescribed percentage of public float under the Listing Rules.

Compliance with relevant laws and regulations

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

Closure of register of members

Our Company's annual general meeting (the "**AGM**") will be held on 5 November 2020. Our register of members will be closed from 2 November 2020 to 5 November 2020 (both days inclusive) in order to determine the identity of our Shareholders who are entitled to attend the AGM, during which period no Share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 30 October 2020.

By the order of our Board
YU Minhong
Chairman

Hong Kong
14 September 2020

Disclosure of interests

Directors and chief executives

As at the end of FY 2020, the interests and short positions of our Directors and Company's chief executives (being those as at the end of FY 2020) in our Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by our Company pursuant to Section 352 of the SFO, or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code are set out below. All interests disclosed represent long positions in Shares. Our Directors and Company's chief executives do not hold any short positions in Shares.

Interest in our Shares

Name of Director or chief executive	Nature of interest	Relevant entity	Number of ordinary Shares	Approximate percentage of shareholding in our Company[1]
Mr. Sun[2]	Beneficial owner		8,500,000	0.90%
Mr. Yu[3]	Beneficial owner		16,695,285	1.78%
	Beneficiary of a trust	Tigerstep	15,858,832	1.69%
Ms. Sun[4]	Interest in a controlled corporation	First Bravo	14,742,640	1.57%
Mr. Yin[5]	Beneficial owner		2,900,000	0.31%
	Interest in a controlled corporation	Perfect Go	3,371,196	0.36%
Mr. Wu[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 939,464,602 Shares, as at 31 May 2020.

(2) These interests represent the 8,000,000 Shares and 500,000 Shares that may be issued pursuant to an exercise of options granted to Mr. Sun under the Pre-IPO ESOP and the Post-IPO ESOP, respectively.

(3) These interests comprise: (i) 16,695,285 Shares that may be issued pursuant to an exercise of options granted to Mr. Yu under the Pre-IPO ESOP; and (ii) 15,858,832 Shares held through Tigerstep Developments Limited ("**Tigerstep**"). Mr. Yu is a beneficiary of a family trust that controls Tigerstep through a trust arrangement, and as such, under the SFO, Mr. Yu is deemed to be interested in all of Tigerstep's interests in our Company.

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

(5) These interests comprise: (i) 2,100,000 Shares and 800,000 Shares that may be issued pursuant to an exercise of options granted to Mr. Yin under the Pre-IPO ESOP and Post-IPO ESOP, respectively; and (ii) 3,371,196 Shares held through Perfect Go Industries Limited ("**Perfect Go**"), which is wholly-owned by Mr. Yin, and as such, under the SFO, Mr. Yin is deemed to be interested in all of Perfect Go's interests in our Company.

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

Interest in our Controlling Shareholder

Name of Director or chief executive	Nature of interest	Total number of shares	Percentage of shareholding in New Oriental[(1)]
Mr. Yu[(1)]	Interest in a controlled corporation; beneficiary of a trust	19,750,272	12.4%

Note:

(1) According to the best knowledge of our Directors, New Oriental is held by Tigerstep as to approximately 12.4% while Mr. Yu is a beneficiary of a family trust that controls Tigerstep through a trust arrangement. Under the SFO, Mr. Yu is deemed to be interested in all of Tigerstep's interests in New Oriental.

Interest in our associated corporations (other than New Oriental)

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

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 holds an 80% equity interest in Century Friendship, which in turn, holds the entire 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 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 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 the end of FY 2020, 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	53.22%
Image Frame[(2)]	Beneficial interest	90,416,181	9.62%
Tencent	Interest in a controlled corporation	90,416,181	9.62%

Notes:

(1) The percentages are calculated based on our Company's total number of issued Shares, being 939,464,602 Shares, as at 31 May 2020.

(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

Our Company has adopted two share incentive plans, the Pre-IPO ESOP and Post-IPO ESOP (collectively, the "**Share Option Schemes**"). See "Statutory and general information" as Appendix IV to the Prospectus for further details of our Share Option Schemes.

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

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

Pre-IPO ESOP

Maximum number of Shares

The overall limit in the number of options under the Pre-IPO ESOP represents 47,836,985 underlying Shares, subject to possible adjustments under the Pre-IPO ESOP, all of which were granted to eligible participants by the end of FY 2019. As at the end of FY 2020, 3,129,000 options under the Pre-IPO ESOP had been exercised, 31,000 had been cancelled, 5,425,500 options had lapsed, and options to subscribe for an aggregate of 39,251,485 underlying Shares remained outstanding, representing approximately 4.18% of our total issued share capital as at the end of FY 2020.

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

Limit for each participant

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

Remaining life of the Pre-IPO ESOP and option period

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

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

Consideration and subscription price

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

Details of option grants

As at the end of FY 2020, (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, and (b) other 85 grantees held unexercised options under the Pre-IPO ESOP to subscribe for a total of 11,106,200 Shares, representing approximately 1.18% of the issued share capital of our Company, details of which are as follows:

					Number of options				
Name or category of grantee	**Date of grant**	**Vesting period**	**Maximum period during which options are exercisable**	**Exercise price**	**Outstanding as at 1 June 2019**	**Exercised during the FY 2020**	**Cancelled during the FY 2020**	**Lapsed during the FY 2020**	**Outstanding as at end of FY 2020**
Mr. Yu	6 March 2019	Three years from Listing Date	From immediately after the end of the 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
Mr. Sun	6 March 2019	Three years from Listing Date	From immediately after the end of the 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
Mr. Yin	6 March 2019	Three years from Listing Date	From immediately after the end of the 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
Mr. Wu	6 March 2019	Three years from Listing Date	From immediately after the end of the 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 immediately after the end of the vesting period to the day prior to the sixth anniversary of the Listing Date	HK$8.88 per Share	16,595,200	3,129,000	Nil	2,360,000	11,106,200
Total					44,740,485	3,129,000	Nil	2,360,000	39,251,485

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

Post-IPO ESOP

Maximum number of Shares

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

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

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

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

Limit for each participant

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

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

Remaining life of the Post-IPO ESOP and option period

The Post-IPO ESOP is valid for ten years from the Grant Date (being from 29 January 2020 to 28 January 2030), which is also the maximum option period, following which any outstanding options shall expire and may not be exercised. Under the Post-IPO ESOP rules, there is no minimum period for which an option must be held before it can be exercised.

Consideration and subscription price

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

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

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

(c) the nominal value of each Share on the grant date.

Details of option grants

As at the end of FY 2020, (a) our Directors held unexercised options under the Post-IPO ESOP to subscribe for a total of 1,300,000 Shares, representing approximately 0.14% of the issued share capital of our Company, and (b) the other 507 grantees held unexercised options under the Post-IPO ESOP to subscribe for a total of 36,899,000 Shares, representing approximately 3.93% of the issued share capital of our Company, the details of which are set out below:

					Number of options						
Name or category of grantee	**Date of grant**	**Vesting period**	**Exercisable Period**	**Exercise price**	**Outstanding as at 1 June 2019**	**Granted during FY 2020**	**Exercised during FY 2020**	**Cancelled during FY 2020**	**Lapsed during FY 2020**	**Outstanding as at end of FY 2020**	**Closing price of the Shares immediately before the date of grant**
Mr. Sun	29 January 2020	(1) One-third of the options to vest on the date immediately before the first anniversary of the date of grant ("**First Vesting Date**"); (2) One-third of the options to vest on the date immediately before the first anniversary of the First Vesting Date ("**Second Vesting Date**"); and (3) One-third of the options to vest on the date immediately before the first anniversary of the Second Vesting Date ("**Third Vesting Date**").	Ten years from the date of grant	HK$25.35 per Share	Nil	500,000	Nil	Nil	Nil	500,000	HK$25.35
Mr. Yin	29 January 2020				Nil	800,000	Nil	Nil	Nil	800,000	HK$25.35
Other grantees (in aggregate)	29 January 2020				Nil	38,700,000	Nil	Nil	1,801,000	36,899,000	HK$25.35
Total					Nil	40,000,000	Nil	Nil	1,801,000	38,199,000	

CORPORATE GOVERNANCE REPORT

Corporate governance practices

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

During FY 2020, we applied the principles and code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules as the basis of our corporate governance practices and we have complied with all the code provisions set out therein. Our Board will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest development.

Our Directors' compliance with the Model Code

During FY 2020, we adopted the Model Code contained in Appendix 10 to the Listing Rules as our Company's code of conduct regarding our Directors' dealing in our Company's securities. Having made specific enquiry of all our Directors, all Directors confirmed that they have complied with the provisions of the Model Code throughout FY 2020.

Our Board

As at the date of this report, our Board consists of nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors.

See "Corporate Information" pages 6 to 7 for details of our Board and board committee members. See "Director's report — Directors and senior management" at pages 19 to 22 for the biographical information of our Directors.

During FY 2020, our Company has met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and representing at least one-third of our Board, with at least one of whom possessing the appropriate professional qualifications or accounting or related financial management expertise (being Mr. TONG Siu Bau and Mr. KWONG Wai Sun Wilson). Mr. Tong is an independent non-executive Director who possesses the appropriate qualifications to act as chairman of our Audit Committee.

None of our Board members are related to one another.

Responsibilities and delegation

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

Mr. Yu is the Chairman of our Board and Mr. Sun is our chief executive officer. Our Chairman provides leadership and is responsible for the effective functioning and leadership of, and providing advice to, our Board. Our chief executive officer focuses on our Company's overall strategic planning, overall management and business direction.

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

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

Appointment and re-election of Directors

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

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

Continuous professional development of Directors

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

During FY 2020, each of our Directors received professional training, which include, among others: (a) participating in continuous professional training seminar(s), conference(s), course(s) and/or meeting(s); (b) reading materials provided by external parties, or prepared by our Company, and provided from time to time to Directors, regarding legal and regulatory changes and matters relevant to directors' duties and responsibilities and our Group's business; and/or (c) news, journals, magazines or other reading materials that touch on legal and regulatory changes and matters relevant to our Directors discharging their directors' duties and responsibilities or that concern our Group's business.

Attendance records of Directors

During FY 2020 and as at the Latest Practicable Date, our Directors attended the following meetings:

Director	Board meetings	Audit committee	Remuneration committee	Nomination committee	Annual general meeting
Mr. Sun *(appointed on 16 August 2019)*	3/4	—	—	—	1/1
Mr. Yin	4/4	—	—	—	1/1
Mr. Pan *(resigned on 16 August 2019)*	1/4	—	—	—	—
Mr. Yu	4/4	—	—	2/2	1/1
Ms. Sun	4/4	—	2/2	—	1/1
Mr. Wu	4/4	2/2	—	—	0/1
Ms. Leung	4/4	—	—	—	0/1
Mr. Chi *(resigned on 20 January 2020)*	4/4	—	2/2	2/2	1/1
Mr. Lin *(appointed on 20 January 2020)*	—	—	—	—	—
Mr. Tong	4/4	2/2	2/2	2/2	1/1
Mr. Kwong	4/4	2/2	—	—	1/1

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

Board committees

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

Audit Committee

We have established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The Audit Committee comprises of three non-executive Directors (including two independent non-executive Directors), namely, Mr. Tong (committee chairman), Mr. Wu and Mr. Kwong.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system (including risk management) of our Group, review and approve connected transactions and provide advice and comments to the Board.

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

The Audit Committee has performed the following major tasks during FY 2020:

- discussing and making recommendation on the re-appointment of the Auditor;
- reviewing and monitoring the independence and objectivity of the Auditor and the effectiveness of the audit process for our Group's annual audit for FY 2020;
- reviewing the annual results of our Group for FY 2020;
- reviewing our Company's financial controls, risk management and internal control systems;
- discussing the effectiveness of the risk management and internal control systems of our Company with the management;
- reviewing the effectiveness and resources of our Company's internal auditors and ensuring its co-ordination with the Auditor;
- reviewing our Company's and its subsidiaries' operating, financial and accounting policies and practice;
- reviewing any management letter and material queries from the Auditor and the management's response, and ensuring timely response to the issues raised by the Auditor's management letter was provided by our Board;
- reviewing arrangements employees of our Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- reviewing the continuing connected transactions of the Group carried out during FY 2020.

Remuneration Committee

We have established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The Remuneration Committee comprises of three non-executive Directors (including two independent non-executive Directors), namely, Mr. Lin (committee chairman), Ms. Sun and Mr. Tong.

The primary duties of the Remuneration Committee are to review and make recommendations to our Board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior managers.

During FY 2020, the Remuneration Committee reviewed and made recommendations on the remuneration packages of our Directors and our Company's senior managers.

We set out below the remuneration of our Company's senior managers (including our executive Directors) by band for FY 2020:

Annual remuneration	Number of individuals
HK$6,000,001 to HK$10,000,000	1
HK$10,000,001 to HK$20,000,000	1

Further details of the remuneration for FY 2020 are set out in Note 11 to the consolidated financial statements.

Nomination Committee

We have established the Nomination Committee with written terms of reference in compliance with the Corporate Governance Code. The Nomination Committee comprises of three non-executive Directors (including two independent non-executive Directors), namely, Mr. Yu (committee chairman), Mr. Lin and Mr. Tong.

The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors and management of Board succession.

The Nomination Committee has performed the following major tasks during FY 2020:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board;
- developing the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship;
- assessing the independence of all the independent non-executive Directors;

- making recommendations to the Board on the selection of individuals nominated for directorships; and
- making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors of our Company.

We have adopted a Board diversity policy to enhance greater diversity of members on our Board. See " — Board diversity policy" at page 52.

We have also adopted a director nomination policy to guide our Nomination Committee in identifying and recommending candidates for directorship positions and to make recommendations to our Board on the succession planning of directors. See " — Director nomination policy" at page 52.

Corporate governance functions

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

Our Board shall review our Company's corporate governance policies and practices, our Directors' and senior managers' training and continuous professional development, our Company's policies and practices on compliance with legal and regulatory requirements, our Company's compliance with the Corporate Governance Code, and the disclosure in this Corporate Governance Report. Our Board has performed the above duties during FY 2020.

Risk management and internal controls

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

Risk management and internal control systems and policies

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

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

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

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

During FY 2020, our Audit Committee held 2 meetings, and as at the date of this report, our Audit Committee also conducted 2 reviews of our risk management and internal controls systems and policies and has reported its findings to our Board. Our Board is satisfied that our Company's risk management and internal control systems and policies are effective and adequate.

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

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

Significant risks of the Company

During FY 2020, our Company identified several significant risks through its risk management system and has formulated and implemented measures for managing these risks accordingly.

1. *Market competition and innovation risk*

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

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

2. *Product and service quality risk*

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

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

3. *Regulatory and compliance risk*

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

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

4. *Information security risk*

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

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

5. *Crisis management and reputation risk*

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

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

Directors' responsibilities in respect of the financial statements

Our Directors acknowledge their responsibility for preparing our Company's consolidated financial statements for FY 2020. Our Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon our Company's ability to continue as a going concern.

Our auditor's reporting responsibilities for our Company's Consolidated financial statements is summarised in the "Independent auditor's report" prepared by them and set out at pages 101 to 195.

Director nomination policy

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

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

Board diversity policy

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

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

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

Dividend policy

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

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

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

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

Auditor's remuneration

We have appointed Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong as our Company's external auditor for FY 2020. Our Auditor's reporting responsibilities for the consolidated financial statements is summarised in the "Independent auditor's report" prepared by them and set out at pages 101 to 195.

We set out below details of fees paid or payable to Deloitte for Deloitte providing audit and non-audit services to us during FY 2020:

Services provided by Deloitte	**Fees paid or payable (RMB '000)**
Audit services	4,000
Non-audit services	480
Total	4,480

Company Secretary

Our Company Secretary is Mr. CHEUNG Kai Cheong Willie ("**Mr. Cheung**"), a manager of SWCS Corporate Services Group (Hong Kong) Limited. Mr. Cheung's primary contact persons at our Company are the head of investor relations (Ms. Helen SONG) and our executive Director and chief financial officer (Mr. Yin). During FY 2020, Mr. Cheung has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Shareholders' rights

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

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

Communication with Shareholders and investors

Shareholders may send enquiries to the following:

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

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

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

To requisition a general meeting:

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

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

During FY 2020 and up to the date of this annual report, we have not made any changes to our Articles of Association. The current version of our Articles of Association is available for viewing on our website (www.koolearn.hk) and the Stock Exchange's website (www.hkexnews.hk).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CONTENTS

Information about the ESG Report

ESG reporting scope:

This report covers Koolearn Technology Holding Limited (the "**Company**") and its subsidiaries (together, the "**Group**"). This report has the same reporting scope as the report for FY 2019. For easy reference and reading, "Company", "we", "us", or "our" shall also refer to the Group in this report.

Reporting period:

This report is released annually, covering the period from 1 June 2019 to 31 May 2020. Certain content may be beyond the aforesaid reporting period for illustrative purposes.

Basis for preparation:

This report was prepared in accordance with the *Environmental, Social and Governance (ESG) Reporting Guide* in *Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* (the "**Listing Rules**") and with reference to standard requirements including the *GRI Sustainability Reporting Standards* (GRI Standards) published by the Global Reporting Initiative.

Reporting principles:

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

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

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

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

Description of data:

Unless otherwise stated, the amounts in this report are denominated in Renminbi ("**RMB**"). In addition to the data of the last report, the scope of this report is expanded to include data of six new indicators relating to product responsibility and one new indicator relating to community investment.

Form of publication:

This report is published online and prepared in both Traditional Chinese and English. The online version is available on the website of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") at www.hkexnews.hk.

ESG Management

- ### ESG governance structure

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

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

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

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

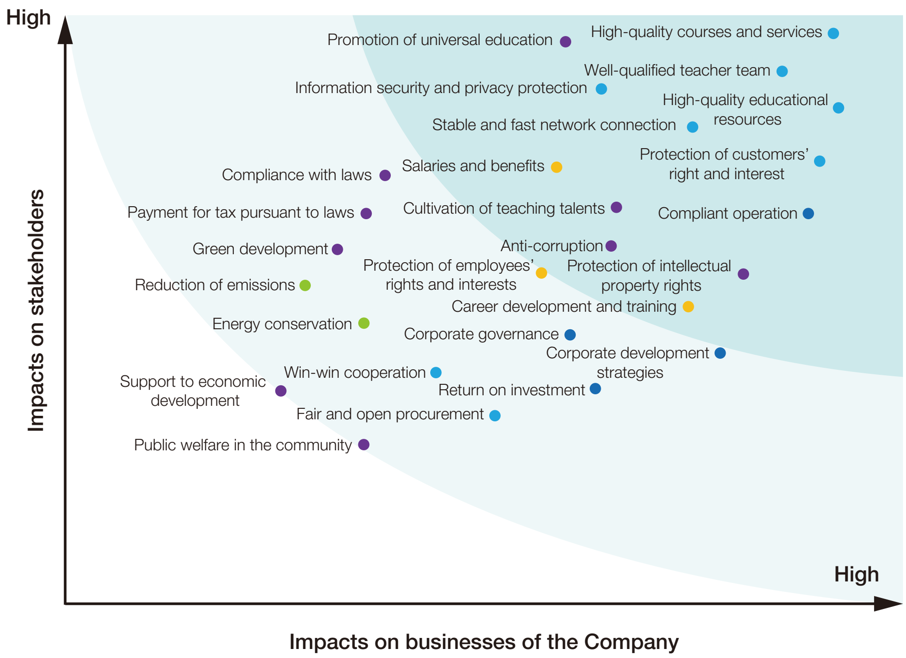
- ### Stakeholder communication

Our Group considers stakeholder communication to be an important method for improving ESG works. Our Group has respected the opinions of stakeholders and maintained constant communication with stakeholders. Diversified communication channels have been established for the purposes of understanding stakeholders' expectations and demands and providing timely responses to stakeholder feedback. We have prepared a stakeholder communication chart from the perspective of sustainable development to provide a basis for the identification of material issues of our Group.

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

- **Identification of material issues**

  Considering the importance of environmental, social and governance issues to stakeholders and the significance of the issues to the environment and society, our Group has evaluated material environmental, social and governance issues related to our businesses and has selected a total of 25 issues of concern by stakeholders in accordance with the *Environmental, Social and Governance Reporting Guide* in *Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* and international standards. A materiality matrix was developed as a basis for our Group's attention to and disclosure of ESG issues.



1. Green Development

1.1 Emission management

Our Group is not involved in large-scale production and pollutant emission given its primary focus on the education industry. In strict compliance with the *Environmental Protection Law of the People's Republic of China,* the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* and other national laws, regulations and policies, our Group has formulated the *Regulations on Management of Office Environment to* manage various types of emissions. While ensuring that emissions such as wastewater, hazardous and non-hazardous wastes are disposed of in compliance with requirements of municipal governments, our Group reduces the generation of emissions and greenhouse gases by controlling and minimising resource consumption at source, which sufficiently reduces the impact caused by the business operations of our Group to the ecological environment.

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

Management of greenhouse gas emissions	Our greenhouse gas emissions mainly arise from the daily use of electricity by offices, outsourced heat used for office heating and indirect greenhouse gas emissions from business travel. Our Group does not own or control any direct emission sources such as vehicles, generators and gas cookers, and neither does it use fuels such as coal, gasoline, diesel, natural gas, etc. Hence, there is no direct greenhouse gas emissions. We have taken multiple measures to reduce the generation of greenhouse gases in the course of our operations: ➢ During the reporting period, particularly during the COVID-19 outbreak, we proactively promoted working from home by utilizing video conferences and teleconferences, which resulted in fewer business by employees and thereby reduced greenhouse gas emissions generated from business travel. ➢ We encourage employees to take public transport.
Management of wastewater discharge	Our wastewater discharge only involves domestic sewage produced from day-to-day office operation, which we are not authorised to directly deal with and which fall under the centralised management of municipal governments. Moreover, we enhance the management of water resources in offices to minimise waste and actively implement water-saving measures to reduce the generation and discharge of sewage.
Management of hazardous wastes	The hazardous wastes generated in the course of our operations are mainly all kinds of obsolete electronic equipment arising from the day-to-day operation of offices, including servers, computer mainframes, monitors and laptops as well as toner cartridges and ink cartridges used for printers. When we deliver hazardous wastes to a qualified third-party professional company for processing, we well select those with value for recycling and reuse in order to reduce waste generation: ➢ Obsolete electronic products that do not contain confidential information and cannot be recycled are delivered to a third party professional company for processing. ➢ Usable old computer monitors, memory banks and hard drives that do not contain confidential information are recycled and reused.
Management of non-hazardous wastes	The non-hazardous waste we generate consists mainly of office waste paper and general domestic waste produced during our day-to-day office operations, which are all delivered to the property management company for centralised processing. We use less paper by facilitating electronisation and encouraging repetitive use to reduce the production of non-hazardous wastes.

Table of key performance indicators — Emissions:

Indicators	**Unit**	**FY 2020**	FY 2019
Office sewage discharge	(m^3)	**1,735.70**	1,348.95
Scope 2: Greenhouse gas emission from indirect sources	(tCO_2e)	**1,293.56**	1,440.55
Total greenhouse gas emission	(tCO_2e)	**1,293.56**	1,440.55
Greenhouse gas emission per capita	(tCO_2e/person)	**0.09**	0.23
Generation of electronic waste	(kg)	**3,533**	6,906
Disposal of obsolete microcomputer (mainframe)	(quantity)	**125**	265
Disposal of obsolete monitors	(quantity)	**128**	348
Disposal of obsolete laptops	(quantity)	**57**	84
Disposal of obsolete servers	(quantity)	**0**	78
Disposal of obsolete printers	(quantity)	**14**	6
Disposal of obsolete toner and ink cartridges	(quantity)	**1,180**	450
Disposal of other obsolete electronic equipment	(quantity)	**40**	146
Generation of electronic waste per capita	(kg/person)	**0.26**	1.11
Use of office paper	(tonne)	**14.12**	21.06
Use of office paper per capita	(kg/person)	**1.03**	3.38

Notes:

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

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

3. Disposal of obsolete toner and ink cartridges used in offices significantly increased during the reporting period due to the growing number of employees and business dealings resulted from our business expansion.

1.2 Conservation of resources

Despite being an office-type company not involving massive consumption of energy, our Group pays particular attention to efficient use of energy and resources and strictly abides by the *Environmental Protection Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China* and other national laws, regulations and policies. During the reporting period, our Group was not involved in any material incidents of violation of laws during use of energy and water resources.

The resources used by our Group consist primarily of electricity used in day-to-day office operations, outsourced heat for office heating, and water supplied by municipal water sources.

As a company relying heavily on human resources, our Group divides resource conservation into two major parts. Firstly, it maintains close connection with property management companies to ensure a stable supply of electricity and water and avoid wastage caused by malfunction. Secondly, it develops a green office culture of conservation by promoting resource conservation to employees. As required by the *Regulations on Management of Office Environment* and given our insistence on starting from the little things, we have implemented a variety of measures to save resources and improve efficiency of resource use. Energy conservation and emission reduction are made possible as energy conservation and environmental protection principles are embedded into our everyday operations.

Energy conservation	➢	We advocate electricity saving, put up electricity saving signs and green office posters, and promote energy conservation habits through daily communications to raise employees' awareness of environmental protection and improve their day-to-day practices.
	➢	Energy-efficient cooling equipment and other technological means are used in our own data centre to reduce energy consumption. Its energy consumption is lower than the average level of general data centres in the PRC.
	➢	Priority is given to energy-efficient products, such as energy-efficient refrigerators, LED lamps and air-conditioners, during procurement of equipment.
	➢	We avoid energy waste by requiring employees to turn off the power and not to keep lights on before leaving the office, and to switch off electronic equipment or turn on the power saving mode in time to reduce standby power consumption during non-office hours.
Water conservation	➢	We put up water conservation slogans in office area, toilets, pantries, etc. to enhance the water saving awareness of employees;
	➢	We check the faucets, water pipes and water dispensers regularly to prevent water waste caused by equipment damage.
Paper saving	➢	We actively promote paperless office and build online management systems and platforms to reduce paper used during the review and approval process;
	➢	We promote paper saving, advise employees to use double-sided printing and reuse one-sided paper when printing internal communication documents, and require employees to place printer paper neatly and separate reusable paper from white paper to avoid damage and waste paper caused by disorderly placement.

Table of key performance indicators — Use of resources:

Indicators	Unit	FY 2020	FY 2019
Total electricity consumption	('0,000 kWh)	**161.46**	185.97
Consumption of outsourced heat	(million kJ)	**1,419.22**	1,093.56
Comprehensive energy consumption	(tce)	**246.90**	265.90
Comprehensive energy consumption per capita	(kgce/person)	**17.92**	42.65
Total water consumption	(tonne)	**2,042**	1,587
Water consumption per capita	(tonne/person)	**0.15**	0.25

Note:

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

2. People-oriented Principle

2.1 Protection of employees' rights and interests

Our Group upholds the principle of equal employment, attaches importance to employees' rights and interests, and strictly complies with the requirements under the *Labour Law of the People's Republic of China,* the *Labour Contract Law of the People's Republic of China,* the *Social Insurance Law of the People's Republic of China* and other national laws and regulations. We have formulated comprehensive employment management measures and a sound salaries and benefits system to protect employees in the areas of recruitment, dismissal, working hours, leaves and other rights and interests. We value diversity whereby all employees are offered equal employment and development opportunities without being discriminated based on factors such as gender and age.

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

- **Employee diversity**
  As an education company, talent is the key to our development. During the recruitment process, we attach significance to the diversity of applicants by encouraging people of different faculties, employment backgrounds and nationalities to file applications. When cultivating talent, we focus on providing more diversified cultivation plans and training courses to employees and encourage communications among employees of different backgrounds to stimulate creativity. During the reporting period, we continuously conducted the following:

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

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

- **Protection of employees' rights and interests**

  In accordance with the requirements of national laws and regulations, we have formulated management policies such as the *Remuneration Administrative Measures*, *Attendance Management System and Administrative Measures for Annual Leaves and Rest Days* to ensure that employees are provided with attractive remuneration packages, reasonable working hours and various welfare benefits, through which we stimulate their enthusiasm and productivity and promote the co-development of employees and our Group.

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

- **Prohibition of child labour and forced labour**

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

  - ➢ Established recruitment information collection and approval procedures and required applicants to provide authentic and valid identification. The employment of minors is forbidden.

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

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

Table of key performance indicators — Employment:

Indicators		Unit	FY 2020	FY 2019
Total number of employees		(person)	**13,777**	6,235
Number of employees by type of employment	Full-time	(person)	**7,094**	1,690
	Part-time	(person)	**6,683**	4,545
Number of employees by age group	Below 30	(person)	**11,910**	4,882
	30–50	(person)	**1,848**	1,320
	Above 50	(person)	**19**	33
Number of employees by gender	Male	(person)	**4,390**	2,868
	Female	(person)	**9,387**	3,367
Number of employees by province	Beijing	(person)	**4,490**	6,192
	Tianjin	(person)	**2,330**	43
	Shandong	(person)	**494**	
	Hubei	(person)	**1,666**	
	Shaanxi	(person)	**2,095**	
	Henan	(person)	**1,102**	
	Others	(person)	**1,600**	
Number and percentage of employees by rank	Staff	(person)	**12,437**	5,787
	Supervisor and manager	(person)	**1,263**	422
	Controller or above	(person)	**77**	26

2.2 Value employees' development

We see employees as an important driver of corporate development. Adhering to the principle of co-development of the Company and employees, we assist employees in identifying their career path, provide employees with diversified and equal training and promotion opportunities and facilitate communication among employees of different backgrounds to stimulate creativity.

Employees are not subject to any change or discrimination in trainings and promotion due to their gender, rank, age and other differences, and their rights to have equal development are protected.

- **Staff training**

  We have developed policies like *Training Management System* and *Administrative Measures for New Employee Training* to specify the employee training system, training process management and evaluation system for training effectiveness. Apart from strengthening their working capability in the existing position, we also encourage employees to make plans to enrich their knowledge and skills and unleash their potential to improve on an ongoing basis, which contributes to the co-development of the Company and employees.

Comprehensive hierarchical training system	We are committed to providing our employees with a wealth of learning resources, and have established a comprehensive training system featuring clear targets, detailed plans, diversified content and follow-ups for all employees. Management, teachers, general staff and new staff are all provided with a full range of trainings including pre-employment, on-the-job, internal transfer and promotion trainings. ➢ **Trainings for management:** We provide management with trainings in the areas of management skills enhancement, personal improvement and leadership and CEIBS courses through dispatch, visits, study tours, and book lending, for example, leadership training, time management training and international advanced management experience training. These serve to enhance the innovation and sustainability of each business segment and facilitate our Group's formation of an excellent team of leaders and an echelon of reserve cadres. ➢ **Trainings for the teachers:** New teachers are required to receive teaching qualification certification training, teaching skills training, content development training, demo course training and mandatory course training on our online teacher training academy; we provide senior teachers with various specially-designed training programmes to transform their roles from teaching into training and developing new teachers, which enables us to develop more and better teacher teams; and tutors learn how to effectively manage classes via the training programmes on our online teacher training academy.

	➢ **Regular trainings:** We provide regular practical trainings for all employees in the areas of professional skills and knowledge, general skills and knowledge, and licencing qualification by means of both internal and external teaching to allow employees to quickly understand all products and businesses of our Group and improve their productivity. Moreover, we support and encourage individuals to take continuing education courses. Our Group assists employees in obtaining their MBA and other professional qualifications by offering them with specialised trainings. ➢ **Trainings for new employees:** We have established a mentor training system. New employees are provided with induction training, vocational training and position training by means of face-to-face teaching, outward bound activities and online courses to help them comprehensively adapt to the new working environment and blend into the corporate culture.
Tailor-made employee training schemes	We have formulated target-oriented training schemes based on our strategic development needs and job-specific ability requirements. We conduct a survey on training needs every year by handing out the Departmental Training Needs Form. We devise annual training schemes with reference to our Group's annual strategic goals and development plans, development needs of each business segment, staff functions and gap analysis to provide various trainings in line with the demands of employees and the development needs of our Group.
Evaluation of regular training effectiveness	We organise assessments regularly after the trainings to evaluate the effectiveness of training. Together with the reward and punishment measures established, we are able to encourage employees to improve their professional quality while obtaining constructive feedback about the effectiveness of trainings for the purposes of further optimisation of training content. With respect to the teacher team, we have a general assessment system for reviewing teacher performance and rewarding excellent performance with incentives. The assessment indicators include student feedback, professional ethics, total class hours, contribution to content development and contributions to teacher training.

- **Appraisal and promotion of employees**
  We are devoted to providing employees with a smooth career path and clear appraisal and promotion plans based on the principles of legality, fairness, competition, incentive, cost and transparency to facilitate the growth of employees.

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

Table of key performance indicators — Development and training:

Indicators		Unit	FY 2020	FY 2019
Percentage of employees trained		(%)	94	82
Percentage of employees trained by gender	Male	(%)	92	84
	Female	(%)	94	80
Percentage of employees trained by rank	Staff	(%)	93	81
	Supervisor and manager	(%)	96	87
	Controller or above	(%)	86	77
Total number of employee training sessions		(session)	1,101	90
Total number of employees trained		(person-time)	146,422	7,240
Average training hours of employees		(hour/person)	37	4
Average training hours of employees by gender	Male	(hour/person)	35	4
	Female	(hour/person)	38	4
Average training hours of employees by rank	Staff	(hour/person)	39	3
	Supervisor and manager	(hour/person)	15	13
	Controller or above	(hour/person)	27	16

2.3 Care about the health and life of employees

As employees are our greatest resource, we are committed to providing employees with a healthy, safe and people-oriented corporate culture and environment. Insisting on the people-oriented principle, we proactively organise employee care activities, attach significance to communications with employees and care about the work, life, physical and mental health of employees. A wide range of employee activities are conducted to build an enthusiastic and harmonious working environment where employees become united and are dedicated to striving for better career development. This in turn strengthens the cohesiveness of the Company and the sense of belonging of employees. In addition, we pay attention to the safety of our office premises and basic facilities with an aim to create a comfortable working environment for employees.

- **Care for employees**

Employee engagement	➢ We collect opinions from employees on the management, systems and policies of our Group through the employee feedback collection mailbox, employee satisfaction surveys, employee chat rooms and other channels with an aim to promote mutual communication and provide timely response to the opinions and demands of employees, and effectively address their difficulties. ➢ We build communication channels between leaders and employees by conducting annual symposiums, debriefing meetings, management communication meetings, etc. ➢ A regular communication mechanism supported by routine trainings has been formed.
Care for employees	➢ We have formulated the *Interim Measures for Administration of the Employee Care and Mutual Aid Fund* to provide active assistance to employees and their families with serious illness and support employees with familial financial difficulties; ➢ Corresponding benefits are granted to employees for marriage, childbirth and birthdays. ➢ We negotiate with external business operators to obtain discounts for employees. ➢ As we care for our female employees, we introduced menstrual leave for female employees and provide facilities such as breastfeeding rooms and refrigerators for the convenience of breastfeeding employees.

Celebration of festivals	➢	We prepare holiday gifts for employees at traditional Chinese festivals such as the Spring Festival, Dragon Boat Festival and Mid-Autumn Festival.
	➢	We have organised featured activities at special festivals, such as the "Today, I Confess My Love for You" message writing campaign on the WeChat platform on Valentine's Day as well as celebration activities for the Children's Festival, Mid-Autumn Festival and Women's Day.
	➢	During the COVID-19 outbreak, we organised a writing campaign called "Meet in Words — Send Warmth and Love to Your Pals in Wuhan", in which we encouraged staff members to send appreciation or inspirational messages to our staff members in Wuhan.
Cultural and sports activities	➢	Every year, we regularly organise travel activities for all teachers and staff and provide them with certain subsidies.
	➢	We regularly organise team building activities for employees and receive favourable feedback from them.
	➢	We organise sports events such as badminton competitions and swimming galas to encourage employees to strike a proper balance between work and rest. We seek to ensure that employees are physically and mentally happy and therefore have higher working efficiency.

Case: "Meet in Words — Send Warm and Love to Your Pals in Wuhan" writing campaign

On 14 February 2020, which was the Valentine's Day, when most parts of the country were still under lockdown due to the COVID-19 outbreak, the Company organised a message writing campaign for staff. Through this campaign, we expressed gratitude to the staff members in Wuhan for their continuous dedication to the Company and the local development and their efforts contributed to the country during the severe epidemic outbreak.

We sent our blessing, encouragement and care through words and the internet to our pals in the Koolearn Wuhan Base. We managed to meet in words despite the outbreak. This campaign received overwhelmingly positive feedback from our staff members, showing that the lockdown in Wuhan was unable to block our care and blessing.

- **Health of employees**

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

  In the face of the global outbreak of COVID-19 in 2020, to act in line with the national epidemic prevention measures, the Group postponed the resumption of work during this critical period and prioritised remote work-from-home arrangements upon the resumption of work to mitigate the risk of infection.

Care about employees' occupational health	➢	We placed green plants and installed air purifiers in the office, and newly renovated offices are put into operation only after being confirmed safe upon inspection for hazard factors with the aim of providing employees with a healthy working environment.
	➢	We regularly arrange medical examinations for employees and provide them with professional medical and health services. 100% of our employees have been provided medical examinations by company during the reporting period.
	➢	We organise lectures with the theme of professional health to enhance employees' occupational health awareness.
	➢	We provide employees with activities and facilities such as boxing classes, neck and shoulder pain classes, free gymnasium benefits, etc. to reduce suffering experienced as a result of prolonged sitting periods.
Proactive epidemic prevention	➢	We flexibly adjusted the time of resumption of work and made remote work-from-home arrangements to mitigate the risk of infection according to the epidemic prevention level in the cities where we operated.
	➢	Regular reports on the body temperature and health condition of employees were made according to the community epidemic prevention requirements.
	➢	We stored necessary medicines and preventive supplies which were provided to the frontline epidemic prevention staff and other employees of the Company.
	➢	We provided counselling to employees in high risk regions to safeguard their physical and mental health.

- **Safety of employees**

  We build a safe and healthy working environment for employees. We have formulated the *Safety Management System* to specify the departments responsible for safety management and supervision, various facility safety management matters, fire safety management matters, safety education and training, safety accident handling and reward and punishment mechanisms, etc.

Safety management and supervision system	➢ A safety working group has been established under all departments to implement the accountability system. The department heads are the first individuals in charge of the safety works in their respective department. ➢ An emergency coordination working group and a work safety supervision team have been established as standing units at the Group level and are led by the CEO of the Group. They are in charge of coordinating the handling of major safety incidents and emergencies, and are responsible for guiding and supervising safety management. ➢ The Human Resources and Administration Department is the competent department for supervising our Group's safety works. It is responsible for conducting safety management promotions and trainings, guiding and supervising the implementation of safety management and preparation of safety management plans of all departments, and assisting in handling all safety accidents. ➢ Team or group members of each branch maintain communications with the local government and the property management company of the office area, and take part in the safety inspection and maintenance of infrastructure and equipment as well as relevant drills in compliance with local requirements. ➢ Fire safety inspections and property safety inspections are regularly conducted to detect and eliminate potential safety hazards in a timely manner.
Safety education training	➢ We regularly organise safety management trainings, such as earthquake and fire safety drills, safety equipment operation, first aid measures and practices, to help employees become familiar with the safety management systems, master first aid knowledge, and learn methods and ways of prevention, self-rescue, rescue assistance, escape, and emergency evacuation.

Table of key performance indicators — Health and safety:

Indicators	Unit	FY 2020	FY 2019
Number of people suffered from work-related injuries and fatalities in the past three years	(person)	**1**	0
Number of days lost due to work-related injuries	(day)	**23**	0

Note:

During the reporting period, an employee fell down and suffered from bone fracture in a staff outward bound activity. The Company processed the work-related injury verification and filed a social insurance claim. Safety promotion was also conducted in the Company to avoid similar accidents.

3. Win-win Cooperation

3.1 Supplier management

Our Group is dedicated to facilitating the sustainable development of suppliers. We have formulated and implemented the *Supplier Management Implementation Rules,* pursuant to which we continue to optimise the supplier management procedures in practices and formulate comprehensive standards for supplier admission, evaluation, etc. Provided that product quality is guaranteed, we continue to procure suppliers to perform environmental and social responsibilities and endeavour to improve communication with and the capability of suppliers.

Continuous optimisation of the supplier management system	➢ **Supplier admission:** we have in place a specific inspection team which conducts pre-review, on-site inspection and evaluation of new suppliers in respect of their qualifications and operational capabilities so as to strictly ensure the quality of suppliers. ➢ **Establishment of supplier database:** We have established a supplier database. The supplier list is subject to dynamic updates according to the results of the regular supplier evaluations; based on such evaluation results, we have established a supplier blacklist, pursuant to which we will terminate cooperation with suppliers that have major problems within a specified period and will not make procurements from them for three years. ➢ **Supplier evaluation:** We evaluate suppliers in areas of quality of goods supplied and services, financial management, safety, environmental protection, etc. through daily evaluations and regular evaluations. Unqualified suppliers will be required to make rectifications within a specified period.

Procuring suppliers to perform environmental and social responsibilities	➢	Suppliers who we cooperate with shall sign a social responsibility commitment letter, which ensures that they will comply with the environmental protection policies and various national laws and regulations.
Supplier communication and capacity development	➢	If circumstances permit, we will regularly convene supplier meetings to explain the Company's procurement policy, future business development plan and commend outstanding suppliers with an aim to facilitate the establishment of long-term cooperative relationships;
	➢	We regularly carry out technology and management exchange activities to help suppliers improve their comprehensive capabilities.

Table of key performance indicators — Supply chain management:

Indicators		**Unit**	**FY 2020**	FY 2019
Total number of suppliers		(quantity)	**81**	41
Number of suppliers by geographical region	Beijing	(quantity)	**54**	35
	Other regions	(quantity)	**19**	6
Number of suppliers where the practices are being implemented		(quantity)	**81**	41
Annual evaluation ratio of suppliers where the practices are being implemented		(%)	**100**	100

3.2 Agent management

We strive to create a positive and healthy market order by managing agents in a stringent manner. The *Management Regulations for the Operation of Agents* have been formulated and implemented to regulate various sale and promotion behaviours during the sale process to protect the legal interests and rights of agents to the greatest extent possible and promote the win-win situation between the industry chain and the industry.

Regulating the market order	➢	**Cross-region sales:** Cross-region sales by specific business agents in unauthorised regions are prohibited.
	➢	**Brand management:** All agents are required to use the unified name of "Koolearn" or "Koolearn Online Class" for promotion and sales. Any addition to or reprocessing of the trademarks and words is forbidden.
	➢	**Sales promotion:** The selling prices of the courses shall be the same as those shown in our official website. Improper behaviour, such as customer snatching, is prohibited.
Strengthening supervision ability	➢	Regional heads regularly visit the offline service centres to conduct reviews on marketing, services, product price, etc. in accordance with the *Management Regulations for the Operation of Agents*.
	➢	Our Company has set up a whistleblowing and complaint mailbox (wubijubao@koolearn-inc.com). Corresponding punishments will be imposed on agents which are involved in any non-compliant sale behaviours, such as selling a product at a price lower than that shown in the office website.

4. High-quality Services

4.1 Provision of high-quality education services

Our Group is a leading online education service provider in China. We primarily offer online education courses to students covering a full spectrum of ages in three core segments — college education, K-12 education and pre-school education. In addition, using our online education modules, we also provide educational content packages to schools and institutional customers such as universities, public libraries, telecom operators and online video streaming providers. Our Group strives to provide first-rate education services to all students in strict compliance with the *Law for Promoting Private Education of the People's Republic of China*, the *Opinion on Supervising After-school Tutoring Institutions of the General Office of the State Council* and other laws and regulations. By virtue of our strong content development capabilities, well-qualified teacher team and outstanding technology platform, we provide high-quality courses and satisfying services to users.

- **Management of the teaching platform**

  Focusing on user experience, our Group endeavours to create a stable, convenient and efficient online learning platform. We have formulated the *Comprehensive System & Procedures for KOOLEARN Platform Quality Management,* under which we specify clear rules and policies and implement systems to enable the stable operation of the online platform and ensure the course videos play smoothly, so that users are able to have a high-quality learning experience.

Ensuring stable operation of the platform	➢	We adopt ISO9001 quality system standards as the quality assurance basis for our platform development. All-inclusive quality management standards covering the entire process and involving all staff are adopted during platform development.
	➢	The product platform is embedded in the management and surveillance backstage, enabling comprehensive monitoring of the server, operational system, middleware and applications from the operation level and application level. Operation and maintenance staff and developers are able to access a wide range of monitoring services, which effectively reduces the risk of failures and speeds up our handling of incidents.
	➢	The platform adopts a sophisticated multi-layer service-oriented distributed architecture, which ensures that the platform maintains strong stability and load capacity during peak access times as the access level, service level and data level may be quickly expanded.
Ensuring smooth broadcasting of the courses	➢	We reserve a live streaming room for each teacher before the class to improve the live streaming environment.
	➢	Our courses are live streamed through the technology platform, and technicians and educational administration staff supervise the whole process to ensure the smoothness, allowing students to have better experiences.
	➢	Thematic video courses are recorded in a professional studio equipped with professional photography equipment and specialists. Teachers will conduct rehearsals before the official recording, based on which the video team will adjust the setting and parameters. In the official recording, professional camera operators will monitor the whole process to ensure the quality.

- **Management of teaching quality**

  Upholding the principle of utilising different teaching methods for different students, we provide users with well-designed courses to comprehensively ensure our teaching quality. Each course offered on the online platform passes our stringent review to enable students to receive high-quality course content. With our continuous efforts, the teacher team has developed into one with excellent quality. In addition, we provide students with carefully prepared supplementary teaching materials, so that students may better master the knowledge learnt in the courses.

Course content	➢ **Selection of course topics:** Our selection of course topics is based on the overall product planning and market demand. The topics are determined upon discussion, elimination and narrowing down. ➢ **Course planning:** The syllabus and curriculum are formulated by the teaching department. Teachers prepare lessons, design teaching processes and produce courseware according to the curriculum, course features and subject rationale. The curriculum is subject to inspection and verification by the educational administration team. ➢ **Course review and approval:** After an online course is recorded, the educational administration staff will bookmark the video and review the content of the courses. If any content does not meet the standards, re-recording or supplementary recording is required. Editing and post-production work for the video will be done by the professional video team to ensure the quality of video courses.

Teacher team	➢	**Trainings for teachers:** These trainings include pedagogical R&D training and time-sensitive trainings. Upon receiving training conducted by the pedagogical R&D team of the subject and through continuous MOOC recording and improvement, teachers produce content with their own personalised features. One to two sessions of time-sensitive training are arranged every week to nurture a teacher team with integrated qualities and comprehensive development. The training content includes current changes in the development of the education and training industry, personal development direction and planning of teachers, etc.
	➢	**Competency tests for teachers:** The person-in-charge of the pedagogical R&D team is responsible for leading the long-term preparation and exercise work. Each pedagogical R&D team will arrange regular tests in stages based on its own circumstances to ensure the competency of teachers.
	➢	**Review of course quality:** We assess the teaching level and student management of teachers by reviewing the course video playback and provide feedback regarding each part; we also review the recorded videos of teachers who have not yet give a lesson and provide guidance and feedback accordingly. The teaching ability and teaching administration of teachers are effectively improved to create a comfortable and efficient classroom experience for students.
Teaching assistance	➢	Electronic lecture notes are provided for all courses and paper lecture notes are provided for some courses. The electronic version of the lecture notes is provided by the teaching department and is uploaded by the educational administration department to the student backstage platform, while paper lecture notes which are required to be delivered to students through the logistic department are carefully typeset and proofread by typesetters and designers of the educational administration department.

- **Quality management of marketing services**

  We recruit our students primarily through online sales. Students can purchase our courses and products on the official website of Koolearn, as well as through our flagship stores on Tmall.com and JD.com. We also acquire students from channels such as brand and in-feed online advertising, traffic conversion from entry courses, word-of-mouth referrals, marketing on new media and offline experience centres. In order to standardise our student recruitment, we uniformly design various promotional materials and reasonably regulate advertisements and promotions to prevent false publicity in strict compliance with the *Advertising Law of the People's Republic of China* and other laws and regulations. We set up product pricing procedures in accordance with relevant national standards and provide fixed prices across the country as well as the same concession policies and discount criteria to ensure the uniform and transparent pricing of our products. In addition, we have formulated the *Quality Control of Marketing Services - Quality Inspection Redline Rules* to specify penalties regarding non-compliant sales activities to cultivate a fair, healthy and positive sales environment.

- **Communications with customers**

  To gain an in-depth understanding of the demands of customers and assist each student to attain expected results, we expand our responsible teaching attitude outside of lessons. Our Group maintains communications with students and parents on an irregular basis by various means and procures students to develop and improve their qualities and academic results, which results in parents placing more confidence in our Group.

Online channels	➢ **Questionnaires:** We collect student information in the preparation stage before the commencement of a course to help teachers quickly understand their students. We collect information about the satisfaction level of parents and students in the conclusion stage of the course for the purpose of improving the courses and services in the next level. ➢ **Live streaming courses:** We live stream our courses from beginning to end to help parents keep track of the courses. ➢ **Phone survey:** We utilise one-to-one phone surveys to shorten the distance between teachers and parents and students, understand the satisfaction level of customers towards their experience and help student solve problems. ➢ **WeChat official account:** We publish information related to study consultation, activity promotion, production introduction, etc. through our WeChat official account, which concurrently serves as a communication channel for students and parents.
Offline channels	➢ **Parent meetings:** Face-to-face meetings with parents are conducted to discuss the basic information of teachers, analyse tests and learning performances as well as common questions and solutions. ➢ **Offline meetings:** We meet with parents and students on a one-to-one or one-to-many basis for discussion of learning performance, formulation of study plans, analysis of test papers, interactions, etc. ➢ **Seminars:** We convey our cutting-edge educational concept through seminars. We conducted a total of 261 sessions of seminar in FY 2020, including 68 sessions about inspirational messages, 80 sessions about family education and 113 about academic subjects.

- **Handling of complaints**

  After sincerely listening to the feedback and opinions of customers, we made continuous improvements and optimise our management standards to enable customers to have a higher satisfaction level. Our Group has formulated and implemented the *Regulations on Handling of Complaints*, pursuant to which all complaints shall be handled on the day they are received until completion and we will immediately provide customers satisfactory replies.

Complaint channels	Measures for handling complaints
➢ Service hotlines ➢ Complaint emails ➢ Website messages ➢ Online feedback on the course page	➢ Share user feedback every day in the form of daily report; ➢ Provide standard answers to enquires received by the customer service department every week; ➢ Publish trending questions and solutions every week; ➢ Analyse negative feedback from users every week to identify areas of improvement regarding internal services and products based on data on negative feedback and update the information to the internal server of the customer service department and responsible teachers in the business department.

4.2 Ensuring information security of customers

As an online service provider, our Group pays significant attention to information security and improves our data security through multiple protective measures to safeguard the security of confidential information of customers. In strict compliance with the *Law on the Protection of Consumer Rights and Interests of the People's Republic of China,* the *Decision of the Standing Committee of the National People's Congress on Strengthening Information Protection on Networks,* the *Provisions on Protecting the Personal Information of Telecommunications and Internet Users* and other laws and regulations, we duly carry out information security related works, put in place accountability for information security and establish a sound management system. We have formulated internal policies, such as the *Regulations on Data Security Management* and *Measures for Management and Protection of Information Security,* to require those who access and use data to comply with national laws and regulations as well as requirements of the Company in relation to data security and confidentiality to be responsible for the protection of data security and the prevention any loss and leakage of data. We apply certain security technologies and procedures and conduct monthly inspections on data security to eliminate various types of information security risk, fully protect the security of our information systems and enable them to operate efficiently.

Protection of system security	➢ We establish firewalls, network security isolation and secure routing protocol to prevent malicious code injection, and utilise prevention and control tools to scan hacker tools. ➢ We conduct data desensitization for key data during the development and testing environment. ➢ We enable fault tolerance and disaster recovery functions for system data to enable data to be quickly recovered after being damaged or influenced. ➢ We separate confidential R&D information and specify the clearance level of all types of staff for accessing data and documents as well as their authorisation to share data and information. ➢ Intranet VPN is used in the core system for encrypted access. We have strict approval processes for activation and deactivation of authorisation, control the export of data, and we encrypt key information.
Protection of customer privacy	➢ When customer information is entered into the database, we perform field-level encryption on sensitive data (especially contact information). ➢ Sensitive data is transmitted after encryption. Measures are taken to protect systems that store sensitive data in the aspects of network, application and data, especially those involving personal information and data of customers or employees. ➢ Databases storing sensitive data are included in the database security audit and monitoring system. Access to and operation of the databases is subject to security audit and monitoring. ➢ A sound information security and confidentiality management system is established to realise an accountability policy for information security and confidentiality and enhance the security awareness of teachers who shall spontaneously abide by the relevant rules of the Company and not divulge or disseminate customer information. ➢ We nurture the data security awareness of employees and require them to receive trainings and assessments related to security capabilities. A confidentiality agreement is also entered into with employees to specify their job duties and code of conduct. In case of any violation of the confidentiality agreement, we will immediately terminate labour or cooperative relationships with the employees concerned who will also be held accountable for relevant legal responsibilities. We also require employees to keep personal information which they have handled confidential after leaving the position.

4.3 Enhancing product innovation and R&D

- **Innovation and R&D**

  Our Group strives to keep introducing innovative products and services to improve the learning experience of students in a revolutionary way and satisfy the diverse needs of users. We have established a scientific innovation incentive system and have provided employees with multi-dimensional innovation platforms and opportunities to nurture creativity and facilitate the continuous improvement of our products and technology services.

  ➢ A scientific assessment system is established to provide incentives to developers based on the principles of objectivity, fairness, openness and focus on actual performance. We have formulated the *Intellectual Property Right Reward and Punishment System*. An employee whose invention at work is patented will be granted an inventor or designer reward.

  ➢ We actively encourage employees to conduct innovative research and experimentation to the extent where costs and risks are controllable. Developers are given sufficient autonomy to individually organise seminars and formulate R&D plans, etc.

  ➢ We provide training opportunities to developers, including regular internal trainings and brainstorming activities, and organise external exchange activities for brainstorming to strengthen their innovation capabilities.

  ➢ We organise internal innovation competitions such as "1024 Programmers Festival" to encourage employees to innovate.

Case: Launch of the livestreaming platform

On 29 October 2019, after 21 weeks of hard efforts, our Group launched the first phase of its livestreaming platform, which is the most important self-developed R&D project in the year. With clear targets and determination to overcome difficulties and challenges, our product, development and test teams have made tremendous efforts to realise the launch of the live streaming platform over all those months. This platform has received positive feedback from users of trial courses immediately upon the launch.

Case: Launch of the integrated educational administration project

During the reporting period, our Group launched the integrated educational administration project, which involved 15 peripheral systems and the participation of more than 160 employees in product, R&D and testing positions. The establishment of an integrated educational administration foundation was completed following the simultaneous launch of the course development, class scheduling and subsequent registration systems. The integrated educational administration system is composed of three modules, namely "course development, class scheduling and subsequent registration", and may help educational administration staff and teachers to quickly and carefully develop new courses, flexibly schedule classes and send notifications on subsequent courses based on the actual situations of students. As such, the working efficiency of teachers and staff and the course registration experience of students are significantly improved.

- **Protection of intellectual property rights and patents**

  Our Group pays significant attention to the protection of intellectual property rights. In strict compliance with the *Copyright Law of the People's Republic of China* and the *Patent Law of the People's Republic of China*, our Group has formulated and implemented the *Administrative Measures for Patent*, the *Administrative Measures for Copyright*, the *Intellectual Property Rights Management System*, the *Reward and Punishment System for Intellectual Property Rights* and the *Confidentiality Agreement on Intellectual Property Rights* to protect trademarks, copyrights, trade secrets and other intellectual property rights by treating them as important assets of the Group. We fully respect the intellectual property rights of our business partners and avoid any acts of infringement.

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

Table of key performance indicators — Product responsibility:

Indicators		Unit	FY 2020	FY 2019
Number of customer complaints		(case)	**617**	435
Percentage of customer complaints being handled		(%)	**100**	100
Service satisfaction		(%)	**95**	96
Number of members of the R&D team		(person)	**956**	437
R&D expense		(RMB million)	**317.10**	147.52
Percentage of R&D expense over operating income		(%)	**44.00**	16.10
Number of patent application		(person)	**1**	2
Number of institutions in partnership with Koolearn Education Cloud		(quantity)	**567**	568
Percentage of teachers by educational background	Bachelor's degree	(%)	**74**	—
	Master's degree	(%)	**25**	—
	PhD and above	(%)	**1**	—
Percentage of teachers by nationality	China	(%)	**99**	—
	Other countries	(%)	**1**	—

5. Compliant Operation

5.1 Integrity and compliance management

Our Group strictly abides by the *Company Law of the People's Republic of China,* the *Anti-Money Laundering Law of the People's Republic of China* and other national laws and regulations in relation to anti-corruption. On the basis of the *Professional Code of Ethics of New Oriental Education & Technology Group Co., Ltd*. issued by the parent company, the *Anti-fraud and Anti-corruption Management System,* the *Implementation Rules on Whistleblowing,* the *Internal Control Management System* and the *Risk Management System* have also been formulated to ensure that the Company maintains integrity and compliance management.

- **Anti-corruption monitoring and report**

  Our Group has established an anti-fraud and anti-corruption internal control mechanism, which includes establishing whistleblowing and complaint channels to prevent and detect fraud and corruption, implementing control measures to reduce the chance of any instance of fraud or corruption, and taking appropriate and effective remedies to redress the harm caused by any fraudulent or corrupt practices.

  Our Group has set up various whistleblowing channels, such as whistleblowing hotline, whistleblowing post box, whistleblowing email and face-to-face whistleblowing. All contracts signed by the Company with external suppliers and students specify that any cases of corruption or acceptance of bribes by any staff of the Company may be reported through such whistleblowing channels. Designated staff of the Audit and Supervision Department will follow up and handle the reports received. Reports that are qualified for investigation upon analysis and verification will be accepted and investigated by an investigation team formed for such purpose. The matters reported, if found to be true, will be either dealt with by the Company or passed to the judicial authority for handling based on the severity level.

  The Audit and Supervision Department regularly analyses the Company's business data and has established a business data model to prevent and examine signs of fraud by tracking and monitoring data abnormalities, to follow up and address corruption and fraudulent practices as soon as they occur. For the procurement section which has a higher risk of corruption, the Audit and Supervision Department conducts random inspections of procurement prices on a regular basis, makes separate price quotations for audit purposes and communicates with stakeholders regarding the separately quoted prices to investigate the reasonableness of the prices and prevent any occurrence of corrupt and fraudulent practices.

- **Anti-corruption trainings**

  Our Group actively carries out anti-corruption trainings and regularly shares internal control and management knowledge on the Company's official account and other platforms to strengthen employees' awareness of anti-corruption and anti-fraud. We organised a learning activity for all staff to study the *Professional Code of Ethics of New Oriental Education & Technology Group Co., Ltd.* and conducted an online examination annually to ensure that all employees learn and understand the requirements of the Code of Ethics. We have introduced common law courses such as Prevention of Risks of Dereliction of Duty by Corporate Employees on our online learning platform to enhance employees' awareness of anti-corruption, avoid corruption at the source and promote the Company's compliance development with integrity.

6. Public Welfare Practices

6.1 Actions to combat the "epidemic"

Novel Coronavirus (COVID-19) broke out at the beginning of 2020. In the face of the significant impact brought by the epidemic, our Group maximized its business advantages and became the first online education institution to start "donating courses" across the country. The courses our Group donated for public welfare purposes received more than 10 million views in aggregate. The social responsibility of the online education industry was fully demonstrated in a series of actions to combat the epidemic through public welfare practices.

During the epidemic outbreak, Koolearn provided free live streaming courses to numerous users of different groups.

Primary, middle and high school students	Regular-priced courses were offered free of charge. The free spring live streaming courses received more than 10 million views from across the country. We also cooperated with "Yangshipin" and Baidu's "Zhi Le Hao Xue" to provide free synchronous courses covering all subjects of primary, middle and high schools.
College students	In cooperation with the Central New Media Platform of the Chinese Communist Youth League, we offered hundreds of thousands of free courses to ensure that the needs of college students to prepare for various examinations were satisfied. These courses included regular-priced CET-4 and CET-6 courses, postgraduate entrance examination on English, and postgraduate entrance examination on mathematics, New Concept English, teacher qualification certificate exquisite courses as well as courses for overseas examinations such as IELTS, TOEFL and GRE.
Young children	Some of the *Donut* English courses of Koolearn were offered free of charge to the public.
Teachers	DFUB, a wholly-owned subsidiary of Koolearn, offered online pedagogical trainings to teachers across the country for public welfare purposes.
University libraries and urban public libraries across the country	In order to support the learning needs of users during the epidemic outbreak, the library.koolearn.com was available for access by users of University libraries and urban public libraries across the country free of charge. The offering covers a wide range of exquisite courses on domestic examinations, overseas studies, minor languages, applied foreign languages, professional certification, job search guidance, literature research, information literacy, etc. There were more than 920,000 click-throughs in aggregate during the period of free product offering.
Promoting educational equity	To maximise the reach, the Company proactively shared public welfare courses with more than 30 organisations.

6.2 Supporting public welfare and charity

With an unwavering enthusiasm in public welfare undertakings, our Group strives to leverage its advantages in educational services to improve accessibility of educational resources and carry out various public welfare campaigns. In strict compliance with the *Charity Law of the People's Republic of China* and other laws and regulations, we hold various public welfare campaigns in a standardised and orderly manner.

Supporting youth development	➢ "2019 Global Vision Youth National Challenge Competition" (2019年國際視野新青年全國挑戰賽) was organised for undergraduates across the country to empower and facilitate the growth of the new generation in China. ➢ We jointly created the exemplary public course named "Youngsters of the Powerful Nation" (《強國青年》) with entities such as the learning platform of Xuexi Qiangguo. ➢ The "Postgraduate New Youth Night Run" (研值新青年熒光夜跑活動) were held in nearly ten university campuses in ten sessions with the participation of nearly 8,000 people.
Donations for poverty alleviation	➢ To successively achieve poverty alleviation in Liangshan Yi Autonomous Prefecture and support Xichang University in carrying out precise poverty relief measures, we made donations for the establishment of three "Loving Bookstores". ➢ We coordinated with the New Oriental Group and the Beijing Qingxi Yuanshan Public Welfare Foundation to provide students in the mountain areas of Yunnan - Guizhou Plateau with courseware well-matched with local syllabus totalling to 343 course hours. ➢ We held the "Hundred-Day Action Group - Public Welfare Reading Day Scheme" (新東方在綫百日行動派讀書日公益計劃) and made donations to establish a book corner in Taiyang Village Primary School in Duchang County, Jiangxi Province.
Sharing of knowledge	➢ We shared knowledge related to English learning through public platforms free of charge and recommended excellent courses prior to important pre-examination times to help university students develop good learning habits. ➢ We livestreamed nine free videos during the year, the themes of which covered CET-4 and CET-6, postgraduate entrance examinations, TOEFL, IELTS, improvement of learning literacy, etc.

Table of key performance indicators — Community Investment:

Indicators	Unit	FY 2020	FY 2019
Number of public welfare campaigns	(session)	**279**	294
Number of staff participating in public welfare campaigns	(person-time)	**4,147**	1,620
Hours spent by staff in participating in public welfare campaigns	(hour)	**3,042**	384

Case: "2019 Global Vision Youth National Challenge Competition"

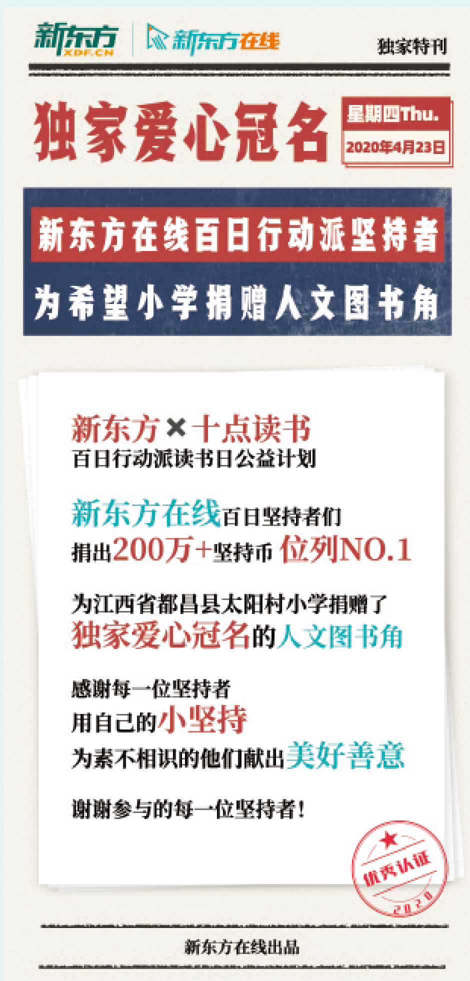
From September to November 2019, Koolearn launched the "2019 Global Vision Youth Competition" targeting undergraduates aged 18 to 26 across the country. With the theme of "You deserve a larger stage", the competition aimed to assist the new generation of Chinese youngsters to stand in the sanctuary of the greatest human civilisation and the highest stage of global political bargains with their global vision and high-level insight. They acquired greater abilities in international exchange, employment and development and were able to develop a global vision and leadership skills.

A total of two first prizes, four second prizes and six third prizes were granted to winners that passed through the preliminary, semi-final and final rounds, facing fierce competition and strict evaluation by the judges. Winners of the first prize also received the opportunity to receive young talent trainings provided by the World Federation of United Nations Associations and were able to fly to Geneva, Switzerland to embark on a one-week trip to the United Nations. The winners of the second prize were qualified for entering the final interview of Koolearn's management trainee programme and had the opportunity to join the Company and grow together with Koolearn.

Case: Hundred-Day Action Group — Public Welfare Reading Day Scheme

In view of the World Book Day on 23 April, the sixth session of the Hundred-Day Action Group of New Oriental introduced the "Hundred Days of Great Public Welfare" section. Koolearn cooperated with 10dian.com to launch the "Hundred-Day Action Group - Public Welfare Reading Day Scheme", under which users who participated in the Hundred-Day Action Group were encouraged to establish a good habit of reading for one hundred days and contribute towards improving public welfare.

The Hundred-Day Action Group of New Oriental received the support of more than 100,000 participants who included primary, middle and high school students, college students, working learners and parents. In merely a week, they donated a total of two million "perseverance coins", representing double of the targeted value. Koolearn made donations to establish a humanistic book corner in Taiyang Village Primary School in Duchang County, Jiangxi Province in the name of the ten thousand persistent participants as a gesture of gratitude to the perseverance and kindness of every user.



Case: The exemplary public course of "Youngsters of the Powerful Nation"

In view of the Youth Day on 4 May, the trailer of the exemplary public course named "Youngsters of the Powerful Nation" jointly produced by Koolearn, the learning platform of Xuexi Qiangguo, the Communication Centre of Chinese Communist Youth League, China Youth Daily and China Literary and Art Volunteers' Association was officially released. The featured programme of "Youngsters of the Powerful Nation" was produced in the form of "exemplary models + sharing of experience". In the first season, eight youngsters were selected from the fields of scientific research, healthcare, culture and arts, sports, etc., to share the stories of youngsters struggling in their own field and portray a picture showing the spiritual outlook of Chinese youngsters in the new era, so as to provide guide for young people to become "patriotic, ambitious, truth-seeking and action-taking" new generation youngsters.

While co-launching the exemplary public course of "Youngsters of the Powerful Nation", Koolearn also offered 100,000 free "Course Packages for Youngsters of the Powerful Nation" for the campaign to help youngster make progress and achieve growth. The course packages included various types of free courses, such as postgraduate entrance examinations, CET-4 and CET-6, New Concept English, TOEFL, IELTS, GRE, minor languages, etc.

ESG Index

No.	Indicator Description	Page
A1 Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharge into water and land, and the generation of hazardous and non-hazardous waste. Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.	P60
A1 Emissions	A1.1 The types of emissions and respective emissions data.	P61
A1 Emissions	A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P61
A1 Emissions	A1.3 Total hazardous waste produced (in weight or volume) and, where appropriate, intensity (e.g. per unit of production volume, per facility, per official employee).	Not applicable[1]
A1 Emissions	A1.4 Total non-hazardous waste produced (in weight or volume) and, where appropriate, intensity (e.g. per unit of production volume, per facility, per official employee).	P61

1 Note: In addition to electronic waste, the Company did not produce other hazardous waste during its operations. According to the latest relevant explanation of the Ministry of Ecology and Environment of the PRC, "electronic waste" is not classified as "hazardous waste", therefore this indicator is not applicable.

No.	Indicator Description	Page
A1 Emissions	A1.5 Description of measures to mitigate emissions and results achieved.	P60
A1 Emissions	A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	P60
A2 Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	P60–P63
A2 Use of Resources	A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	P63
A2 Use of Resources	A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	P63
A2 Use of Resources	A2.3 Description of energy use efficiency initiatives and results achieved.	P61–P63
A2 Use of Resources	A2.4 Description of whether there are any issues in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	P60
A2 Use of Resources	A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable * Our Group mainly provides online education services which involve no finished products and packaging material

No.	Indicator Description	Page
A3 The Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.	P61–P63
A3 The Environment and Natural Resources	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	P61–P63
B1 Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	P63–P65
B1 Employment	B1.1 Total workforce by gender, employment type, age group and geographical region.	P65
B1 Employment	B1.2 Employee turnover rate by gender, age group and geographical region.	Not disclosed
B2 Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to the provision of a safe working environment and the protection of employees from occupational hazards.	P71–P72

No.	Indicator Description	Page
B2 Health and Safety	B2.1 Number and rate of work-related fatalities.	P73
B2 Health and Safety	B2.2 Lost days due to work injury.	P73
B2 Health and Safety	B2.3 Description of occupational health and safety measures adopted and how they are implemented and monitored.	P71–P72
B3 Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work and descriptions of training activities. Note: Training refers to vocational training. It may include internal and external courses paid for by the employer.	P66–P68
B3 Development and Training	B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	P68
B3 Development and Training	B3.2 The average training hours completed per employee by gender and employee category.	P68
B4 Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to the prevention of child and forced labour.	P65
B4 Labour Standards	B4.1 Description of measures in place to review employment practices in the avoidance of child and forced labour.	P65
B4 Labour Standards	B4.2 Description of steps taken to eliminate such practices when discovered.	P65

No.	Indicator Description	Page
B5 Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	P73–P74
B5 Supply Chain Management	B5.1 Number of suppliers by geographical region.	P74
B5 Supply Chain Management	B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented and how they are implemented and monitored.	P73–P74
B6 Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	P75–P84
B6 Product Responsibility	B6.1 Percentage of the total products sold or shipped subject to recalls for safety and health reasons.	Not applicable * Our Group mainly provides online education services which involve no recall products for safety and health reasons
B6 Product Responsibility	B6.2 Number of products and service related to complaints received and how they were dealt with.	P84
B6 Product Responsibility	B6.3 Description of practices relating to observing and protecting intellectual property rights.	P83

No.	Indicator Description	Page
B6 Product Responsibility	B6.4 Description of quality assurance processes and recall procedures.	P75–P80
B6 Product Responsibility	B6.5 Description of consumer data protection and privacy policies and how they are implemented and monitored.	P80–P81
B7 Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	P85
B7 Anti-corruption	B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Not disclosed
B7 Anti-corruption	B7.2 Description of preventive measures and whistleblowing procedures and how they were implemented and monitored.	P85
B8 Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	P86–P90
B8 Community Investment	B8.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	P86–P90
B8 Community Investment	B8.2 Resources contributed (e.g. money or time) to the focus area.	P88

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

To the Shareholders of Koolearn Technology Holding Limited

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Koolearn Technology Holding Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 105 to 195, which comprise the consolidated statement of financial position as at 31 May 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 May 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matter

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

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of investment in unlisted equity securities at fair value through profit and loss	
We identified the measurement of fair value of investment in unlisted equity securities classified as financial assets at fair value through profit or loss and categorised as level 3 under the fair value hierarchy ("**FV Level 3**") as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, and the significant judgements and estimates made by management for the fair value measurement of such financial assets at fair value through profit or loss. As at 31 May 2020, the unlisted equity securities classified as financial assets at fair value through profit or loss and categorised as FV Level 3 amounted to RMB183,328,000 as set out in Note 18 to the consolidated financial statements. Details of the key estimation uncertainty and the valuation techniques and unobservable inputs of FV Level 3 unlisted equity securities are set out in Notes 4 and 38 to the consolidated financial statements, respectively.	Our procedures in relation to fair value measurement of investment in unlisted equity securities at fair value through profit or loss which are categorised as FV Level 3 included: • Obtaining and understanding the Group's process regarding the determination of fair value of the unlisted equity securities at fair value through profit or loss which are categorised at FV Level 3; • Evaluating design, implementation and operating effectiveness of internal controls over the preparation of the valuation; • Assessing the qualification and experience of the independent valuer who performs the valuation; • Evaluating the valuation methodologies and techniques used in determining the fair value of the investment, with the assistance of our internal valuation specialist; • Evaluating the key inputs used in determining the fair value of the investment including revenue growth rate, weighted average cost of capital and expected volatility; and • Reviewing the disclosures made in the consolidated financial statements.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 May 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	5	**1,080,587**	918,911
Cost of revenue		**(587,501)**	(412,502)
Gross profit		**493,086**	506,409
Other income, gains and losses	7	**195,653**	142,728
Impairment losses under expected credit loss model, net of reversal	19	**(1,566)**	(880)
Selling and marketing expenses		**(872,293)**	(443,930)
Research and development expenses		**(317,286)**	(147,520)
Administrative expenses		**(184,692)**	(103,373)
Listing expenses		**—**	(31,525)
Other expenses	10	**(15,981)**	—
Share of results of associates	17	**(1,796)**	3,111
Finance costs	8	**(10,576)**	—
Loss before tax		**(715,451)**	(74,980)
Income tax (expense) credit	9	**(42,788)**	10,871
Loss for the year	10	**(758,239)**	(64,109)
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**220**	—
Total comprehensive expense for the year		**(758,019)**	(64,109)
Loss for the year attributable to:			
Owners of the Company		**(742,005)**	(39,773)
Non-controlling interests		**(16,234)**	(24,336)
		(758,239)	(64,109)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(741,785)**	(39,773)
Non-controlling interests		**(16,234)**	(24,336)
		(758,019)	(64,109)
Loss per share			
— Basic and diluted (RMB)	13	**(0.79)**	(0.06)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 May 2020

	Notes	At 31 May 2020 RMB'000	2019 RMB'000
Non-current Assets			
Property and equipment	15	**81,676**	29,548
Right-of-use assets	16	**331,122**	—
Interests in associates	17	**82,458**	84,025
Financial assets at fair value through profit or loss	18	**183,328**	146,855
Deferred tax assets	29	**—**	27,591
Deposits for acquisition of property and equipment		**13,852**	5,757
Refundable rental deposits		**15,396**	—
		707,832	293,776
Current Assets			
Trade and other receivables	19	**41,993**	35,478
Prepayments	21	**70,838**	81,870
Financial assets at fair value through profit or loss	18	**277,800**	352,943
Income tax recoverable		**—**	6,905
Term deposits	22	**1,470,530**	—
Bank balances and cash	22	**480,251**	2,497,621
		2,341,412	2,974,817
Current Liabilities			
Lease liabilities	27	**77,263**	—
Contract liabilities	23	**420,103**	400,928
Refund liabilities	24	**36,491**	19,414
Trade payables	25	**34,067**	41,541
Accrued expenses and other payables	26	**343,752**	219,645
Income tax payables		**—**	428
		911,676	681,956
Net current assets		**1,429,736**	2,292,861
Total assets less current liabilities		**2,137,568**	2,586,637

	Notes	At 31 May 2020 RMB'000	2019 RMB'000
Capital and Reserves			
Share capital	28	**120**	120
Reserves		**1,863,580**	2,601,466
Equity attributable to owners of the Company		**1,863,700**	2,601,586
Non-controlling interests		**—**	(31,479)
Total Equity		**1,863,700**	2,570,107
Non-current Liabilities			
Deferred tax liabilities	29	**25,648**	16,530
Lease liabilities	27	**248,220**	—
		273,868	16,530
Net assets		**1,863,700**	2,570,107

The consolidated financial statements on pages 105 to 195 were approved and authorised for issue by the Board of Directors on 21 August 2020 and are signed on its behalf by:

Sun Dongxu
Director

Yin Qiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2020

	Attributable to owners of the Company										
	Share capital	Share premium	Preferred shares	Statutory reserve[i]	Translation reserve	Share option reserve	Other reserve	Retained profits/ accumulated losses	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 June 2018	73	164,242	590,030	23,978	—	—	946	105,873	885,142	(7,143)	877,999
Loss and total comprehensive expense for the year	—	—	—	—	—	—	—	(39,773)	(39,773)	(24,336)	(64,109)
Issuance of ordinary shares (ii) (Note 28)	2	132,199	—	—	—	—	—	—	132,201	—	132,201
Issue of new shares upon listing (Note 28)	25	1,633,792	—	—	—	—	—	—	1,633,817	—	1,633,817
Share issuance costs (iii) (Note 28)	—	(64,022)	—	—	—	—	—	—	(64,022)	—	(64,022)
Conversion of convertible redeemable preferred shares to ordinary shares (iv)	20	590,010	(590,030)	—	—	—	—	—	—	—	—
Recognition of equity-settled share-based payments (Note 30)	—	—	—	—	—	54,221	—	—	54,221	—	54,221
Forfeiture and cancellation of share options	—	—	—	—	—	(2,708)	—	2,708	—	—	—
Changes in equity for the year	47	2,291,979	(590,030)	—	—	51,513	—	2,708	1,756,217	—	1,756,217
At 31 May 2019	120	2,456,221	—	23,978	—	51,513	946	68,808	2,601,586	(31,479)	2,570,107
Loss for the year	–	–	–	–	–	–	–	**(742,005)**	**(742,005)**	**(16,234)**	**(758,239)**
Other comprehensive income for the year	–	–	–	–	**220**	–	–	–	**220**	–	**220**
Loss and total comprehensive income (expense) for the year	–	–	–	–	**220**	–	–	**(742,005)**	**(741,785)**	**(16,234)**	**(758,019)**
Recognition of equity-settled share-based payments (Note 30)	–	–	–	–	–	**120,496**	–	–	**120,496**	–	**120,496**
Acquisition of non-controlling interests (Note 40C)	–	–	–	–	–	–	**(141,713)**	–	**(141,713)**	**47,713**	**(94,000)**
Exercise of share options (Note 28)	–	**35,442**	–	–	–	**(10,326)**	–	–	**25,116**	–	**25,116**
Changes in equity for the year	–	**35,442**	–	–	–	**110,170**	**(141,713)**	–	**3,899**	**47,713**	**51,612**
At 31 May 2020	**120**	**2,491,663**	–	**23,978**	**220**	**161,683**	**(140,767)**	**(673,197)**	**1,863,700**	–	**1,863,700**

Notes:

(i) In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "**PRC**"), the PRC subsidiaries are required to set aside 10% of their profit after tax as per statutory financial statements determined under the PRC laws and regulations for the statutory surplus reserve fund until the reserve reaches 50% of their registered capital. Transfer to this reserve must be made before distributing dividends to equity owners of the subsidiaries. The statutory reserve can be used to make up previous years' losses, expand the existing operations or convert into additional capital of the respective subsidiaries.

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

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

(iv) During the year ended 31 May 2018, the Company issued series A preferred shares and the series B preferred shares. Upon the listing of the Company on 28 March 2019, these preferred share were converted into ordinary shares of the Company on a conversion ratio of 1:1.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 May 2020

	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES		
Loss before tax	**(715,451)**	(74,980)
Adjustments for:		
Depreciation of property and equipment	**15,384**	9,050
Depreciation of right-of-use assets	**73,337**	—
Loss on disposal of property and equipment	**3,032**	264
Impairment losses under expected credit loss model, net of reversal, on trade receivables	**1,566**	880
Share-based compensation expenses	**120,496**	54,221
Interest income from bank balances	**(15,821)**	(5,574)
Interest income from term deposits	**(48,855)**	—
Interest income from rental deposits	**(705)**	—
Finance costs	**10,576**	—
Gain on early termination of lease contracts	**(537)**	—
Net foreign exchange gain	**(73,175)**	(94,628)
Gain on fair value changes of financial assets at FVTPL	**(45,705)**	(41,924)
Share of results of associates	**1,796**	(3,111)
Net loss on disposal and deemed disposal of associates	**213**	—
Operating cash flows before movements in working capital	**(673,849)**	(155,802)
Increase in trade and other receivables	**(11,052)**	(3,393)
Decrease (increase) in prepayments	**1,173**	(14,471)
Increase in contract liabilities	**19,175**	67,507
Increase in refund liabilities	**17,077**	10,142
(Decrease) increase in trade payables	**(7,474)**	12,540
Increase in accrued expenses and other payables	**117,297**	62,300
Cash used in operating activities	**(537,653)**	(21,177)
Income tax refunded (paid)	**398**	(5,690)
Interest received	**15,821**	2,156
NET CASH USED IN OPERATING ACTIVITIES	**(521,434)**	(24,711)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 May 2020

	Note	2020 RMB'000	2019 RMB'000
INVESTING ACTIVITIES			
Proceeds from disposal of financial assets at fair value through profit or loss		**1,125,375**	1,000,732
Purchases of financial assets at fair value through profit or loss		**(1,041,000)**	(950,000)
Proceeds on disposal of property and equipment		**64**	37
Interest received from term deposits		**8,064**	—
Purchase of property and equipment		**(79,843)**	(20,830)
Payments for right-of-use assets		**(9,955)**	—
Proceeds from early termination of lease contracts		**2,291**	—
Payments for rental deposits		**(14,086)**	—
Refund of rental deposits		**2,008**	—
Payments for investments in associates		**—**	(14,059)
Placement of term deposits		**(1,757,450)**	—
Withdrawal of term deposits		**331,129**	—
Proceeds on disposal of an associate		**24**	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(1,433,379)**	15,880
FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares		**—**	132,211
Proceeds from issuance of ordinary shares upon listing		**—**	1,633,817
Proceeds from issuance of series A preferred shares		**—**	12
Share issuance costs		**(933)**	(63,592)
Proceeds from issuance of shares upon exercise of share options		**24,994**	—
Repayments of lease liabilities		**(65,547)**	—
Acquisition of non-controlling interest of a subsidiary	40C	**(94,000)**	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(135,486)**	1,702,448
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(2,090,299)**	1,693,617
CASH AND CASH EQUIVALENTS AT 1 JUNE		**2,497,621**	709,448
Effect of exchange rate changes		**72,929**	94,556
CASH AND CASH EQUIVALENTS AT 31 MAY, REPRESENTED BY BANK BALANCES AND CASH		**480,251**	2,497,621

1 General and Basis of Preparation of Consolidated Financial Statements

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

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

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

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

Basis of preparation of consolidated financial statements

Contractual Arrangements

Due to the restrictions imposed by the relevant laws and regulatory regime of the PRC on foreign ownership of companies engaged in the value-added telecommunications services carried out by the Group, the Group conducts a substantial portion of the business through Beijing 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;
- exercise equity holders' controlling voting rights of the Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the business support, technical and consulting services provided by Dexin Dongfang;

1 General and Basis of Preparation of Consolidated Financial Statements (Continued)

Contractual Arrangements (Continued)

- obtain an irrevocable and exclusive right to purchase all or part of equity interests in the Consolidated Affiliated Entities from the respective equity holders at nil consideration or a minimum purchase price permitted under the 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 on 10 May 2018.

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

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

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 IFRS Standards 2015–2017 Cycle

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

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

New and amendments to IFRSs that are mandatorily effective for the current year (Continued)

IFRS 16 *Leases*

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

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 IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 June 2019.

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. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

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. 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

ii. 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.

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%.

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

New and amendments to IFRSs that are mandatorily effective for the current year (Continued)

IFRS 16 *Leases* (Continued)

As a lessee (continued)

The carrying amount of lease liabilities as at 1 June 2019 comprises the following:

	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	At 1 June 2019 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

(a) Upon application of IFRS 16, prepaid lease payments amounting to RMB9,859,000 were reclassified from prepayments (Note 21) 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 under trade and other receivables. 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.

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

New and amendments to IFRSs that are mandatorily effective for the current year (Continued)

IFRS 16 *Leases* (Continued)

As a lessee (continued)

(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.

The following adjustments were made to the amounts recognised in the 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 year ended 31 May 2020, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 June 2019 as disclosed above.

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

New or revised standards that have been issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to IFRS 16	COVID-19-Related Rent Concessions[6]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 3	Reference to the Conceptual Framework[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[5]
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract[5]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020[5]

[1] Effective for annual periods beginning on or after 1 January 2023

[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for annual periods beginning on or after 1 January 2020

[5] Effective for annual periods beginning on or after 1 January 2022

[6] Effective for annual periods beginning on or after 1 June 2020

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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

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

New or revised standards that have been issued but not yet effective (Continued)

Amendment to IFRS 16 *COVID-19-Related Rent Concessions*

The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The amendment introduces a new practical expedient for lessees to elect not to assess whether a COVID-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the emergence and spread of coronavirus disease ("COVID-19") that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The directors of the Company anticipate that applying the practical expedient in the amendment may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect as the expected duration of the COVID-19 is uncertain.

3 Significant Accounting Policies

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

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

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

3 Significant Accounting Policies (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 June 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

3 Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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

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

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

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

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

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Investments in associates

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

3 Significant Accounting Policies (Continued)

Investments in associates (Continued)

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

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

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

3 Significant Accounting Policies (Continued)

Investments in associates (Continued)

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

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

Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

Contracts with multiple performance obligations

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

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

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

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

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

Refund liabilities

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

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

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

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

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

3 Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

Refund liabilities (Continued)

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

Refund liabilities (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

Other income

Interest income

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

Research and development expenses

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

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

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 2)

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 or arising from business combinations 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, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2)

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 and are accounted for by applying other applicable standards.

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 or another systematic basis over the lease term.

3 Significant Accounting Policies (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2) (Continued)

Right-of-use assets

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.

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.

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 consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 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.

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 an option to terminate the lease.

3 Significant Accounting Policies (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in Note 2) (Continued)

Lease liabilities (Continued)

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.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

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.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified 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.

The Group as a lessee (prior to 1 January 2019)

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

3 Significant Accounting Policies (Continued)

Leases (Continued)

The Group as a lessee (prior to 1 January 2019) (Continued)

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Foreign currencies

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

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

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

Government grants

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

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

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

Short-term employee benefits

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

3 Significant Accounting Policies (Continued)

Retirement benefit costs

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

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

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

Taxation

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

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

3 Significant Accounting Policies (Continued)

Taxation (Continued)

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

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

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

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

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

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

3 Significant Accounting Policies (Continued)

Taxation (Continued)

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

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property and equipment

Property and equipment other than construction in progress as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

Construction in progress represents building under construction which is carried at cost, less any recognised impairment loss. Such assets are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on property and equipment and right-of use assets

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

The recoverable amount of property and equipment and right-of-use assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

3 Significant Accounting Policies (Continued)

Impairment on property and equipment and right-of use assets (Continued)

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

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

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

Financial instruments

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

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

All other financial assets are subsequently measured at FVTPL.

(i) Amortised cost and interest income

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

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(ii) Financial assets at FVTPL

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

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

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, term deposits and bank balances) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast of future conditions at the reporting date, including time value of money where appropriate.

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

(i) Significant increase in credit risk

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

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)

(i) Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)

(iii) Credit-impaired financial assets (Continued)

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

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

3 Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)

(v) Measurement and recognition of ECL (Continued)

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Financial liabilities at amortised cost

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

Equity instruments

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

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

Critical judgements in applying accounting policies

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

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

Critical judgements in applying accounting policies (Continued)

Contractual Arrangements

The Group conducts a substantial portion of the business through the Consolidated Affiliated Entities (see Note 1) in the PRC due to regulatory restrictions on foreign ownership of companies engaged in the online education business carried out by the Group. The Group does not have any equity interest in the Consolidated Affiliated Entities. The directors of the Company assessed whether or not the Group has control over the Consolidated Affiliated Entities based on whether the Group has the power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities. After assessment, the directors of the Company concluded that the Group has control over the Consolidated Affiliated Entities as a result of the Contractual Arrangements and other measures and accordingly, the Group has consolidated the financial information of the Consolidated Affiliated Entities during the years ended 31 May 2020 and 2019.

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

Key sources of estimation uncertainty

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

Fair value of financial assets at FVTPL

Investments in unlisted equity securities are classified as financial assets at FVTPL. The fair value of these unlisted equity securities are determined using the valuation techniques. Valuation techniques are certified by independent and recognised international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by valuers make the maximum use of market inputs and rely as little as possible on the Group's specific data. For the discounted cash flow model, it mainly involves estimates on revenue growth rate, gross margin, and weighted average cost of capital ("WACC"); and for the option pricing model backsolve approach, it mainly involves the expected volatility. As at 31 May 2020, the carrying amounts of the investments in unlisted equity securities classified as financial assets at FVTPL are RMB183,328,000 (2019: RMB146,855,000). Should any of the estimates be revised, it may lead to a material change to the fair value of the financial assets at FVTPL.

5 Revenue

Disaggregation of revenue from contracts with customers

	Year ended 31 May	
	2020	2019
	RMB'000	RMB'000
Timing of revenue recognition		
Over time	**1,017,520**	831,408
At a point in time	**63,067**	87,503
Total	**1,080,587**	918,911
Type of customer		
Students	**966,840**	823,969
Institutional customers	**113,747**	94,942
Total	**1,080,587**	918,911
Type of service		
Pre-recorded online course services provided to students	**548,619**	517,166
Pre-recorded online education package services to institutional customers	**113,734**	85,705
Live online course services provided to students	**355,167**	228,537
Sales of online testing packages	**16,883**	14,434
Others	**46,184**	73,069
Total	**1,080,587**	918,911

During the years ended 31 May 2020 and 2019, all revenues of the Group were generated from online education services and other related services, and all revenues of the Group were generated from external customers in the PRC.

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

6 Segment Information

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

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

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

2. K-12 Education — online education service targeted to primary school, middle school and high school students.

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

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

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

For the year ended 31 May 2020

	College education RMB'000	K-12 education RMB'000	Pre-school education RMB'000	Institutional customer RMB'000	Total RMB'000
Revenue	641,691	295,135	30,014	113,747	1,080,587
Cost of revenue	(205,960)	(340,012)	(21,521)	(20,008)	(587,501)
Segment gross profit (loss)	435,731	(44,877)	8,493	93,739	493,086
Unallocated income and expenses:					
Other income, gains and losses					195,653
Impairment losses under expected credit loss model, net of reversal					(1,566)
Selling and marketing expenses					(872,293)
Research and development expenses					(317,286)
Administrative expenses					(184,692)
Other expenses					(15,981)
Share of results of associates					(1,796)
Finance costs					(10,576)
Loss before tax					(715,451)

6 Segment Information (Continued)

For the year ended 31 May 2019

	College education RMB'000	K-12 education RMB'000	Pre-school education RMB'000	Institutional customer RMB'000	Total RMB'000
Revenue	631,361	159,213	33,395	94,942	918,911
Cost of revenue	(216,904)	(143,355)	(33,696)	(18,547)	(412,502)
Segment gross profit (loss)	414,457	15,858	(301)	76,395	506,409
Unallocated income and expenses:					
Other income, gains and losses					142,728
Impairment losses under expected credit loss model, net of reversal					(880)
Selling and marketing expenses					(443,930)
Research and development expenses					(147,520)
Administrative expenses					(103,373)
Listing expenses					(31,525)
Share of results of associates					3,111
Loss before tax					(74,980)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. 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, other expenses, share of results of associates and financial costs are excluded from segment results.

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 is presented.

The Company is domiciled in the PRC and all of the Group's revenues were generated from external customers in the PRC during the years ended 31 May 2020 and 2019. The Group's non-current assets are all located in the PRC.

No service provided to a single customer exceeds 10% or more of the total revenue of the Group for the year ended 31 May 2020 (2019: Nil).

7 Other Income, Gains and Losses

	Year ended 31 May	
	2020 RMB'000	2019 RMB'000
Net foreign exchange gain	**73,175**	94,628
Interest income from term deposits	**48,855**	—
Interest income from bank balances	**15,821**	5,574
Interest income from rental deposits	**705**	—
Gain on fair value changes of financial assets at FVTPL	**45,705**	41,924
Government grants[(i)]	**3,807**	302
Additional value added tax ("VAT") input deduction and VAT exemption[(ii)]	**10,280**	62
Loss on disposal of property and equipment	**(3,032)**	(264)
Others	**337**	502
	195,653	142,728

Notes:

(i) Government grants amounted to RMB3,000,000 (2019: Nil) have been recognised for the government subsidies relating to the Listing. The amounts have been recognised as other income, and there was no unfulfilled condition attached to these government grants in the year in which they were recognised.

(ii) Additional VAT input deduction and VAT exemption, amounted to RMB2,204,000 (2019: RMB62,000) and RMB8,076,000 (2019: Nil), were recognized in profit or loss due to the VAT reform and VAT exemption caused by COVID-19 pandemic, respectively. In accordance with VAT Reformation Article No.39, the Group becomes eligible for VAT credits of 10% additional VAT input deduction from 1 April 2019 to 31 December 2021 upon meeting all applicable criteria. In addition, since January 2020, in accordance with Cai Shui [2020] No.8, VAT on certain services revenue of the Group was temporarily exempted for calendar year 2020.

8 Finance Costs

	Year ended 31 May	
	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	**10,576**	—

9 Income Tax Expense (Credit)

	Year ended 31 May	
	2020	2019
	RMB'000	RMB'000
Current tax:		
PRC enterprise income tax	**6,079**	6,015
Deferred tax (Note 29)	**36,709**	(16,886)
	42,788	(10,871)

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.

Applicable tax rates of the Group's major subsidiaries are as follows.

Under the law of the PRC on enterprise income tax (the "EIT Law") and implementation regulation of the EIT Law, the statutory tax rate of most of the PRC subsidiaries is 25% during the year ended 31 May 2020 (2019: 25%).

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

According to the EIT Law, qualified research and development expenses can be deducted at 175% of such expenses for income tax deduction purpose upon approval from the relevant tax authority for the year ending 31 December 2020 (2019: 175%).

9 Income Tax Expense (Credit) (Continued)

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

	Year ended 31 May	
	2020 RMB'000	2019 RMB'000
Loss before tax	**(715,451)**	(74,980)
Tax at applicable income tax rate of 15% (2019: 15%)	**(107,318)**	(11,247)
Tax effect of share of results of associates	**129**	(502)
Tax effect of expenses not deductible for tax purpose	**21,636**	7,725
Tax effect of 175% deduction rate on certain research and development expenses (2019: 175%)	**(23,094)**	(7,925)
Tax effect of tax losses and deductible temporary differences not recognised	**193,602**	9,133
Utilisation of tax losses previously not recognised	**—**	(117)
Effect of different tax rates of PRC subsidiaries	**(21,315)**	(21)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(20,852)**	(7,917)
Income tax expense (credit) for the year	**42,788**	(10,871)

10 Loss for the Year

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

	Year ended 31 May	
	2020 **RMB'000**	2019 RMB'000
Staff cost, including directors' and chief executives' remuneration		
— Salaries, allowances and benefits in kind	**902,360**	324,490
— Retirement benefit scheme contributions	**42,628**	34,567
— Share-based compensation expenses	**120,496**	54,221
Total staff cost	**1,065,484**	413,278
Depreciation of property and equipment	**15,384**	9,050
Depreciation of right-of-use assets	**73,337**	—
Expense of short-term leases/operating lease expense	**22,424**	32,614
Other expenses[(i)]	**15,981**	—
Auditor's remuneration	**4,000**	3,475

Note:

(i) Expenses for free course offerings, amounted to RMB15,981,000, were incurred for the Group's free online classes offered to the public during the COVID-19 pandemic.

11 Directors' and Chief Executives' Emoluments

The emoluments paid or payable to directors and chief executives during the years ended 31 May 2020 and 2019 were as follows:

For the year ended 31 May 2020

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses[i] RMB'000	Equity-settled share option expenses RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive Directors and Chief Executives					
Mr. Yin Qiang	471	—	5,063	40	5,574
Mr. Pan Xin[ii]	192	—	—	12	204
Mr. Sun Dongxu[iii]	783	468	12,604	40	13,895
Subtotal	1,446	468	17,667	92	19,673
Non-Executive Directors					
Mr. Yu Minhong[iv]&[v]	—	—	23,567	—	23,567
Ms. Sun Chang[vi]	652	450	—	30	1,132
Mr. Wu Qiang[v]	—	—	1,906	—	1,906
Ms. Leung Yu Hua Catherine[vii]	—	—	—	—	—
Subtotal	652	450	25,473	30	26,605
Independent Non-Executive Directors					
Mr. Tong Sui Bau	120	—	—	—	120
Mr. Kwong Wai Sun Wilson	120	—	—	—	120
Mr. Lin Zheying[viii]	30	—	—	—	30
Mr. Chi Yufeng[ix]	90	—	—	—	90
Subtotal	360	—	—	—	360
Total	2,458	918	43,140	122	46,638

11 Directors' and Chief Executives' Emoluments (Continued)

For the year ended 31 May 2019

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

Notes:

(i) Performance related bonuses for executive directors and chief executives were determined based on certain financial and non-financial measures including: revenue, operating profit, employee turnover rate etc.

11 Directors' and Chief Executives' Emoluments (Continued)

(ii) Mr. Pan Xin resigned in January 2020.

(iii) Mr. Sun Dongxu was appointed as the co-chief executive officer of the Company in January 2019 and appointed as the chief executive officer of the Company in January 2020.

(iv) Mr. Yu Minhong serves as the chairman of the board of directors of the Company during the years ended 31 May 2020 and 2019. He serves as the non-executive director of the Company during the years ended 31 May 2020 and 2019.

(v) Excluding the equity-settled share option expenses, the directors' emoluments were paid by New Oriental Group during the years ended 31 May 2020 and 2019.

(vi) Ms. Sun Chang was re-designated from executive director to non-executive director in January 2020. Ms. Sun Chang serves as the executive director during the year ended 31 May 2019 and co-chief executive officer of the Company during the year ended 31 May 2019.

(vii) The emoluments of Ms. Leung Yu Hua Catherine was paid by the Tencent Group during the years ended 31 May 2020 and 2019. The emoluments of Mr. Tong Taosang was paid by the Tencent Group during the year ended 31 May 2019.

(viii) Mr. Lin Zheying was appointed as the independent non-executive director in January 2020.

(ix) Mr. Chi Yufeng resigned in January 2020.

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

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

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

There was no arrangement under which a director or chief executive waived or agreed to waive any remuneration during the years ended 31 May 2020 and 2019.

During the year ended 31 May 2020, 1,300,000 share options under the share option scheme of the Company (2019: 28,145,285) were granted to certain directors of the Company in respect of their services provided to the Group. Details of the share option scheme are set out in Note 30.

12 Five Highest Paid Employees

The five highest paid employees of the Group during the year ended 31 May 2020 include three directors (2019: three directors), details of whose remuneration are set out in Note 11. Details of the remuneration for the year ended 31 May 2020 of the remaining two highest paid employees (2019: two) who are neither a director nor a chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	1,715	886
Performance related bonuses	1,264	785
Equity-settled share option expenses	8,548	1,862
Retirement benefits	38	109
Total	11,565	3,642

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

	2020 No. of employees	2019 No. of employees
Hong Kong dollar ("HK$")2,000,001 to HK$2,500,000	—	2
HK$4,500,001 to HK$5,000,000	1	—
HK$7,500,001 to HK$8,000,000	1	—
Total	2	2

During the year ended 31 May 2020, no emoluments were paid by the Group to any of the director and employees of the Company or the five highest paid individuals as an inducement to join or upon joining of the Group or as compensation for loss of office (2019: Nil). None of the directors and employees has waived any emoluments during the year ended 31 May 2020 (2019: Nil).

13 Loss Per Share

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

	2020 RMB'000	2019 RMB'000
Loss:		
Loss for the year attributable to owners of the Company for the purpose of calculating basic and diluted loss per share	(742,005)	(39,773)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	937,803,161	653,236,574

The calculation of basic loss per share for the years ended 31 May 2020 and 2019 was based on the loss for the year attributable to the owners of the Company.

The calculation of the number of shares for the purpose of basic loss per share for the years ended 31 May 2020 and 2019 has been 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 years ended 31 May 2020 and 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.

14 Dividends

No dividend was paid, declared or proposed for ordinary shareholders of the Company during the year ended 31 May 2020 (2019: Nil), nor has any dividend been proposed since the end of the reporting period.

15 Property and Equipment

	Electronic equipment RMB'000	Leasehold improvement RMB'000	Furniture and fixtures RMB'000	Construction in process RMB'000	Total RMB'000
COST					
At 1 June 2018	32,166	13,997	1,989	—	48,152
Additions	12,062	4,767	1,357	—	18,186
Disposals	(5,460)	(3,122)	(19)	—	(8,601)
At 31 May 2019	38,768	15,642	3,327	—	57,737
Additions	**34,116**	**10,605**	**6,130**	**19,757**	**70,608**
Disposals	**(1,023)**	**(5,730)**	**(1,184)**	**—**	**(7,937)**
At 31 May 2020	**71,861**	**20,517**	**8,273**	**19,757**	**120,408**
DEPRECIATION					
At 1 June 2018	20,879	5,974	586	—	27,439
Provided for the year	5,927	2,596	527	—	9,050
Eliminated on disposals	(5,190)	(3,092)	(18)	—	(8,300)
At 31 May 2019	21,616	5,478	1,095	—	28,189
Provided for the year	**10,645**	**3,999**	**740**	**—**	**15,384**
Eliminated on disposals	**(858)**	**(3,211)**	**(772)**	**—**	**(4,841)**
At 31 May 2020	**31,403**	**6,266**	**1,063**	**—**	**38,732**
CARRYING VALUES					
At 31 May 2020	**40,458**	**14,251**	**7,210**	**19,757**	**81,676**
At 31 May 2019	17,152	10,164	2,232	—	29,548

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

Electronic equipment	3 – 5 years
Furniture and fixtures	5 years
Leasehold improvement	shorter of the lease term or estimated useful lives

16 Right-of-Use Assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	RMB'000
Carrying amount:	
As at 1 June 2019 – restated under IFRS 16	168,223
Additions	254,197
Decreases due to terminations	(16,070)
Lease modifications	(1,891)
Depreciation charges	(73,337)
At 31 May 2020	331,122
Expense relating to short-term leases	22,424
Total cash outflow for leases	96,794

For both years, the Group leases buildings for its operations. Lease contracts were entered into for fixed terms of 1 year to 7 years. Lease terms were negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applied the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for buildings. As at 31 May 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in Note 10.

Extension and termination options

During the year ended 31 May 2020, certain lease contracts were early terminated by lessor or the Group. Upon early termination of lease contracts, penalties for terminating the lease was paid or received based on lease contracts, and the carrying amounts of lease liabilities and right-of-use assets of these leases were derecognised and related rental deposits were refunded. A net gain on early termination of lease contracts of RMB537,000 was recognised in other income, gains and losses.

Leases committed

As at 31 May 2020, the Group entered into one new lease for building that has not yet commenced, with a non-cancellable period for 3 years, with an extension option, the total future undiscounted cash flows over the non-cancellable period amounted to RMB332,000.

17 Interests in Associates

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

	2020 RMB'000	2019 RMB'000
Cost of investment in associates	76,044	87,549
Share of results and other comprehensive income (expenses)	6,414	(3,524)
	82,458	84,025

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

Name of entities	Country of incorporation	Principal place of business	Proportion of ownership interest held by the Group At 31 May		Proportion of voting rights held by the Group At 31 May		Principal activities
			2020	2019	2020	2019	
Beijing Shidai Yuntu Book Co., Ltd.[(a)&(b)] ("Shidai Yuntu") (北京時代雲圖圖書有限責任公司)	PRC	Beijing	24.75%	25%	24.75%	25%	Publisher of teaching materials
Beijing Zhishang Education Technology Co., Ltd.[(a)&(c)] ("Zhishang") (北京職尚教育科技有限公司)	PRC	Beijing	N/A	40%	N/A	40%	Provision of online education
Tianjin Xuncheng Shangyue Education and Technology Ltd.[(a)] ("Shangyue") (天津迅程尚悅教育科技有限公司)	PRC	Tianjin	49%	49%	49%	49%	Education consulting
Huoerguosi Oriental New Venture Equity Investment Partnership (L.P.)[(a)] ("New Venture") (霍爾果斯東方新創股權投資合夥企業（有限合夥）)	PRC	Huoerguosi	49%	49%	49%	49%	Equity investment fund
Hone KTHL SMA, L.P.[(d)] ("Hone")	USA	Delaware	100%	100%	(d)	(d)	Equity investment fund

Notes:

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

(b) On March 2020, a third-party contracted to inject RMB42,000 to Shidai Yuntu, resulting in a dilution of the Group's interest in Shidai Yuntu from 25% to 24.75%. The loss on deemed disposal amounting to RMB237,000 was recognised in profit or loss for the year ended 31 May 2020.

(c) In April 2020, the Group disposed of its 40% interest in Zhishang to a third party for a cash consideration of RMB24,000. A gain of RMB24,000 was recognised in profit or loss during the year ended 31 May 2020.

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

17 Interests in Associates (Continued)

Summarised financial information of Shidai Yuntu

	2020 RMB'000	2019 RMB'000
Current assets	**123,657**	70,462
Non-current assets	**1,463**	2,398
Current liabilities	**(58,883)**	(22,945)
Net assets	**66,237**	49,915

	2020 RMB'000	2019 RMB'000
Revenue	**147,849**	105,440
Profit and total comprehensive income for the year	**16,280**	19,358

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

	2020 RMB'000	2019 RMB'000
Net assets of Shidai Yuntu	**66,237**	49,915
Proportion of the Group's ownership interest in Shidai Yuntu	**24.75%**	25%
The Group's share of net assets of Shidai Yuntu	**16,394**	12,479
Goodwill[(a)]	**8,079**	8,161
Carrying amount of the Group's interest in Shidai Yuntu	**24,473**	20,640

Note:

(a) For the investment in Shidai Yuntu, the excess of the cost of the investment over the Group's share of the fair value of the identifiable assets and liabilities of the investee was recognised as goodwill, which has been included within the carrying amount of the investment. The entire carrying amount of the investment (including goodwill) was tested for impairment as a single asset . No impairment loss has been recognised during the year ended 31 May 2020 (2019: Nil).

17 Interests in Associates (Continued)

Summarised financial information of Shangyue

	2020 RMB'000	2019 RMB'000
Current assets	**1**	—
Non-current assets	**907**	1,002
Current liabilities	**(5)**	(4)
Net assets	**903**	998

	2020 RMB'000	2019 RMB'000
Revenue	**—**	—
(Loss) profit and total comprehensive (expense) income for the year	**(95)**	1

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

	2020 RMB'000	2019 RMB'000
Net assets of Shangyue	**903**	998
Proportion of the Group's ownership interest in Shangyue	**49%**	49%
Carrying amount of the Group's interest in Shangyue	**442**	489

Summarised financial information of New Venture

	2020 RMB'000	2019 RMB'000
Current assets	**84,150**	84,630
Non-current assets	**6,520**	15,520
Net assets	**90,670**	100,150

	2020 RMB'000	2019 RMB'000
Revenue	**—**	—
Loss and total comprehensive expense for the year	**(9,480)**	(276)

17 Interests in Associates (Continued)

Summarised financial information of New Venture (Continued)

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

	2020 RMB'000	2019 RMB'000
Net assets of New Venture	**90,670**	100,150
Proportion of the Group's ownership interest in New Venture	**49%**	49%
Carrying amount of the Group's interest in New Venture	**44,428**	49,074

Summarised financial information of Hone

	2020 RMB'000	2019 RMB'000
Current assets	**31**	85
Non-current assets	**13,084**	13,798
Current liabilities	**—**	(61)
Net assets	**13,115**	13,822

	2020 RMB'000	2019 RMB'000
Revenue	**—**	2
Loss and total comprehensive expense for the year	**(707)**	(253)

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

	2020 RMB'000	2019 RMB'000
Net assets of Hone	**13,115**	13,822
Proportion of the Group's ownership interest in Hone	**100%**	100%
Carrying amount of the Group's interest in Hone	**13,115**	13,822

18 Financial Assets at Fair Value Through Profit or Loss

	2020 RMB'000	2019 RMB'000
Non-current assets		
Financial assets at FVTPL		
— Unlisted equity investments[(i)]	183,328	146,855
Current assets		
Financial assets at FVTPL		
— Wealth management products[(ii)]	277,800	352,943

Notes:

(i) Included in the unlisted 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.

(ii) Wealth management products are purchased from various banks with expected rate of return ranging from 2.2% to 4.1% (2019: 2.6% to 5.5%), and maturity period ranging from 1 day to 91 days (2019: 1 day to 184 days). The principals and returns of these wealth management products are not guaranteed, except for one newly purchased wealth management product in May 2020, amounting to RMB15,000,000, with principal guaranteed and a term of conditionally early redemption.

During the year ended 31 May 2020, the Group did not make any sales to Edutainment World or EEO (2019: Nil).

During the year ended 31 May 2020, the Group made purchases from Edutainment World amounting to RMB1,338,000 (2019: RMB777,000).

During the year ended 31 May 2020, the Group made purchases from EEO amounting to RMB22,429,000 (2019: RMB15,932,000).

19 Trade and Other Receivables

	2020 RMB'000	2019 RMB'000
Trade receivables	**15,137**	9,974
Less: allowance for credit losses	**(3,743)**	(2,177)
	11,394	7,797
Other receivables:		
Receivables from third-party payment platforms	**10,112**	10,150
Rental deposits[(i)]	**7,794**	8,276
Deductible input on VAT	**6,681**	—
Institutional customer business deposits	**3,944**	4,096
Interest receivables	**—**	3,418
Advances to employees	**1,614**	1,627
Others	**454**	114
	30,599	27,681
Trade and other receivables	**41,993**	35,478

Note:

(i) Rental deposits were adjusted upon the initial application of IFRS 16. The rental deposits as at 31 May 2020 represent refundable rental deposits that due within one year. Details of the adjustments are set out in Note 2.

Settlement related to College Education, K-12 Education and Pre-school Education

Customers of College Education, K-12 Education and Pre-school Education usually settle the prepaid packages by cash or pay through third-party payment platforms. For payment through third-party payment platforms, the third-party payment platforms normally settle the amounts received, net of handling charges, within one month after the trade date. The receivables from third-party payment platforms include payments that are not yet settled by third-party payment platforms.

The directors of the Company are of the opinion that the credit risks of these receivables are minimal as these are from creditworthy third-party payment platforms with no history of defaults. No impairment is made for receivables from third-party payment platforms.

19 Trade and Other Receivables (Continued)

Trade receivables arising from institutional customers

The credit terms granted to the institutional customers entered into contracts are within 90 days from the date of invoice.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

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

	2020 RMB'000	2019 RMB'000
1–90 days	**6,880**	3,968
91–180 days	**2,890**	3,267
181 days–1 year	**1,491**	527
1–2 years	**133**	35
	11,394	7,797

Before accepting new customers, the Group assesses the potential customers' credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by management of the Group regularly.

As at 31 May 2020, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB7,815,000 (2019: RMB5,976,000) which are past due. Out of the past due balance, RMB1,703,000 (2019: RMB750,000) has been past due 90 days or more and is not considered as default as there has not been a significant change in the credit standing of the debtors. The Group did not hold any collateral over these receivables.

Included in trade receivables, RMB2,478,000 as at 31 May 2020 (2019: RMB1,179,000) were amounts due from related parties (details as set out in Note 39), which were aged 1-90 days based on the invoice date.

19 Trade and Other Receivables (Continued)

Trade receivables arising from institutional customers (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach for the years ended 31 May 2020 and 2019:

	ECL (not credit-impaired) RMB'000	ECL (credit-impaired) RMB'000	Total RMB'000
At 1 June 2018	414	883	1,297
Impairment losses (reversed) recognised	(11)	891	880
At 31 May 2019	403	1,774	2,177
Impairment losses recognised, net of reversal	244	1,322	1,566
At 31 May 2020	**647**	**3,096**	**3,743**

Details of impairment assessment of trade and other receivables for the years ended 31 May 2020 and 2019 are set out in Note 20.

20 Overview of the Group's Exposure to Credit Risk

Credit risk refers to the risk that the Group's counterparties default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables. At the end of the reporting period, the Group's maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets measured at amortised cost as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. Management uses historical credit loss experience to rate its customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

20 Overview of the Group's Exposure to Credit Risk (Continued)

The Group's internal credit risk grading assessment, which is applicable for financial assets at amortised cost excluding trade receivables, comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts or aged within 90 days	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition or aged over 90 days but less than 2 years	Lifetime ECL — not credit — impaired
In default	There is evidence indicating the asset is credit-impaired or aged over 2 years	Lifetime ECL — credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

For trade receivables, the Group has applied the simplified approach under IFRS 9 to measure the loss allowance at lifetime ECL. The Group determined ECL on these items by using a provision matrix, estimated based on the financial quality of the debtors, historical credit loss experience based on the past due status of the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort at the reporting date.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs earlier. During the year ended 31 May 2020, no trade receivables had been written off (2019: Nil).

The following consideration details the risk portfolio of trade receivables arising from institutional customers, based on the Group's provision matrix. As the Group's historical credit loss experience showed significantly different loss patterns for different customer portfolio (including normal risk, low risk type and credit-impaired), the provision for loss allowance was further distinguished between the Group's customer portfolio of different risk type.

Low risk type customers	Represent the large state-owned enterprises in the PRC, universities, public libraries and related parties
Normal risk type customers	Represent private-owned online video streaming providers and agents
Credit-impaired customers	Represent customers that have occurred defaults with lower collectability

20 Overview of the Group's Exposure to Credit Risk (Continued)

At 31 May 2020

	Expected credit loss rate %	Gross carrying amount RMB'000	Credit loss allowance RMB'000
Low risk type customers			
Trade receivables	**3.67**	**6,727**	**247**
Normal risk type customers			
Trade receivables	**7.53**	**5,314**	**400**
Credit-impaired customers			
Trade receivables	**100.00**	**3,096**	**3,096**

Note:

The Group assesses the current as well as the reasonable and supportable forward-looking information that is available without undue cost or effort at the end of the reporting period, including the adverse effect from the outbreak of COVID-19, and therefore, the expected credit loss rates for each type of customers, were increased by 5%-10% after consideration of historical credit loss rates.

At 31 May 2019

	Expected credit loss rate %	Gross carrying amount RMB'000	Credit loss allowance RMB'000
Low risk type customers			
Trade receivables	3.36	5,346	180
Normal risk type customers			
Trade receivables	7.80	2,854	223
Credit-impaired customers			
Trade receivables	100.00	1,774	1,774

20 Overview of the Group's Exposure to Credit Risk (Continued)

For the purpose of impairment assessments, other receivables are considered to have a low credit risk as the counterparties to these financial assets have a high credit rating. Accordingly, the loss allowance is measured at an amount equal to 12m ECL. In determining ECL for other receivables, the directors of the Company have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of other receivables occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the ECL allowance is insignificant at 31 May 2020 and 2019.

There has been no change in the estimation technique or significant assumptions made throughout the year ended 31 May 2020.

21 Prepayments

	2020 RMB'000	2019 RMB'000
Prepaid teachers' commission fee and course fee	**29,948**	41,585
Prepaid marketing expenses	**21,980**	5,830
Prepaid courseware production costs	**6,051**	12,624
Prepaid office system fee	**4,263**	2,684
Prepaid rental expenses[(i)]	**2,830**	15,745
Prepaid property management fee	**2,081**	1,678
Others	**3,685**	1,724
	70,838	81,870

Note:

(i) Prepaid rental payments amounting to RMB9,859,000 as at 31 May 2019 were adjusted upon the initial application of IFRS 16. Details of the adjustments are set out in Note 2. Prepaid rental expenses as at 31 May 2020 mainly represent prepayments for short-term leases under IFRS 16.

Included in prepayments, RMB399,000 (2019: RMB2,161,000) were amounts due from related parties (details as set out in Note 39) as at 31 May 2020.

22 Bank Balances and Cash and Term Deposits

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less.

As at 31 May 2020, the Group's short-term bank deposits carried at market rate ranged from 0.00% to 1.62% (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:

	2020 RMB'000	2019 RMB'000
United States dollars ("US$")	**309,278**	1,603,887
HK$	**6,705**	736,610
	315,983	2,340,497

Term deposits

Term deposits represent two certificates of deposits with a commercial bank in an amount of RMB1,470,530,000 with an original maturity of over three months that bear market rate of 3.25% per annum as at 31 May 2020 (2019: Nil).

The Group's term deposits are all denominated in US$ other than the functional currency of the respective group entities. Term deposits are subsequently matured in June 2020.

23 Contract Liabilities

	2020 RMB'000	2019 RMB'000
Contract liabilities in relation to:		
Students	378,006	321,810
Institutional customers	42,097	79,118
	420,103	400,928

The following table shows how much of the revenue recognised during the years ended 31 May 2020 and 2019 relates to carried-forward contract liabilities.

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year:		
Students	293,940	263,934
Institutional customers	67,869	46,040
Total	361,809	309,974

The following table shows the unsatisfied contracts at 31 May 2020 and 2019 and the expected timing of recognising revenue.

	2020 RMB'000	2019 RMB'000
Expected to be recognised within one year:		
Students	364,449	293,940
Institutional customers	36,276	67,869
Expected to be recognised over one year:		
Students	13,557	27,870
Institutional customers	5,821	11,249
Total	420,103	400,928

Included in contract liabilities, RMB212,000 as at 31 May 2019 (2020: nil) were amounts due to related parties (details as set out in Note 39).

24 Refund Liabilities

	2020 RMB'000	2019 RMB'000
Refund liabilities		
Arising from right of refund	**36,491**	19,414

The refund liabilities relate to customers' right of refund prepaid course fee or in some case refund course fee where related service is already provided. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method.

25 Trade Payables

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

	2020 RMB'000	2019 RMB'000
1–90 days	**24,156**	32,263
91–180 days	**6,333**	5,423
181 days–1 year	**2,014**	2,064
1 year–2 years	**241**	720
>2 years	**1,323**	1,071
	34,067	41,541

Included in trade payables, RMB895,000 as at 31 May 2020 (2019: RMB494,000) were amounts due to related parties (details as set out in Note 39), among which RMB353,000 were aged 1–90 days, RMB182,000 were aged 91–180 days, RMB358,000 were aged 181days–1year, RMB2,000 were aged 1year–2 years based on the invoice date.

26 Accrued Expenses and Other Payables

	2020 RMB'000	2019 RMB'000
Accrued payroll and welfare	**143,706**	63,337
Accrued marketing expenses	**81,697**	4,779
Accrued teachers' commission fees and course fees	**63,134**	74,270
Advance payments received from students	**14,252**	12,420
Accrued office expenses	**11,024**	8,196
Other tax payables	**7,487**	10,900
Social insurance expenses payable	**6,843**	2,058
Refundable business deposits received from sales agents	**6,267**	4,642
Advance payments received from sales agents	**4,301**	28,800
Accrued listing expenses	**—**	4,963
Accrued issue costs	**—**	933
Others	**5,041**	4,347
	343,752	219,645

Included in other payables, RMB2,487,000 as at 31 May 2020 (2019: RMB2,615,000) were amounts due to related parties (details as set out in Note 39).

Accrued lease liabilities were adjusted upon the initial application of IFRS 16. Details of the adjustments are set out in Note 2.

27 Lease Liabilities

	2020 RMB'000
Lease liabilities payable:	
Within one year	**77,263**
Within a period of more than one year but not more than two years	**83,029**
Within a period of more than two years but not more than five years	**155,608**
Within a period of more than five years	**9,583**
Less: Amount due for settlement with 12 months shown under current liabilities	**(77,263)**
Amount due for settlement after 12 months shown under non-current liabilities	**248,220**

28 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 2018	580,774,838			11,615	73,000
Issuance of ordinary shares[(i)]	13,858,832	0.00002	0.00013	277	2,000
Issuance of new shares upon listing[(ii)]	186,889,500	0.00002	0.00013	3,738	25,000
Conversion of convertible redeemable preferred shares to ordinary shares[(iii)]	154,812,432	0.00002	0.00013	3,096	20,000
At 31 May 2019	936,335,602			18,726	120,000
Exercise of share options[(iv)]	3,129,000	0.00002	0.00014	63	442
At 31 May 2020	**939,464,602**			**18,789**	**120,442**

Notes:

(i) On 15 June 2018, the Company issued 13,858,832 ordinary shares with par value US$0.00002 each at a price of US$1.4914 per share for a total cash consideration of US$20,668,712 (RMB132,201,000) to Tigerstep.

(ii) Upon completion of the IPO, the Company issued 186,889,500 new shares (including shares issued on exercise of over-allotment option) with par value of US$0.00002 for consideration of HK$10.20 each. The proceeds of HK$29,000 (equivalent to RMB25,000) representing par value of the new ordinary shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$1,906,244,000 (equivalent to RMB1,633,792,000) were credited to the Company's share premium reserve.

(iii) Upon completion of the IPO, the Series A Preferred Shares and the Series B Preferred Shares were converted into 154,812,432 ordinary shares of the Company at an conversion ratio of 1:1. Upon the conversion of the preferred shares, RMB20,000 and RMB590,010,000 were credited to share capital and share premium, respectively.

(iv) In the current year, as a result of exercise of share options, 3,129,000 ordinary shares were issued by the Company. Upon the exercise of share options, RMB35,442,000 was credited to share premium and RMB10,326,000 was debited to share option reserve.

29 Deferred Tax Assets and Liabilities

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Deferred tax assets	—	27,591
Deferred tax liabilities	(25,648)	(16,530)
	(25,648)	11,061

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior year:

	Accrued expenses RMB'000	Deductible advertising expenses without expiry date RMB'000	Provision for credit losses RMB'000	Change in fair value of financial assets at FVTPL RMB'000	Total RMB'000
At 1 June 2018	3,903	1,057	264	(11,049)	(5,825)
Credited (charged) to profit or loss	3,376	18,838	153	(5,481)	16,886
At 31 May 2019	7,279	19,895	417	(16,530)	11,061
Charged to profit or loss	(7,279)	(19,895)	(417)	(9,118)	(36,709)
At 31 May 2020	—	—	—	(25,648)	(25,648)

As at 31 May 2020, the Group has deductible temporary differences of RMB576,008,000 (2019: RMB7,922,000). No deferred tax assets have been recognised in relation to such deductible temporary differences as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

As at 31 May 2020, the Group has unused tax losses of RMB609,546,000 (2019: RMB72,806,000), which are available for offset against future profits. No deferred tax asset has been recognised in relation to these unused tax losses due to the unpredictability of future profit streams. Certain tax losses will expire in the following years, which represent deductible tax losses determined for each of the financial year ended 31 May, and are different from tax loss filed with tax authority for each calendar year ended 31 December and the remaining tax losses would not have any expiry date.

29 Deferred Tax Assets and Liabilities (Continued)

	2020 RMB'000	2019 RMB'000
2022	**2,434**	2,434
2023	**17,408**	17,408
2024	**52,964**	52,964
2025	**519,510**	—
	592,316	72,806

Note:

During the year ended 31 May 2019, the Group has utilised tax losses accumulated from prior years amounting to RMB779,000 (2020: Nil).

30 Share-Based Payment Transactions

Pre-IPO Share Option Scheme

On 13 July 2018, the board of directors of the Company approved an employee's share option plan (the "Pre-IPO Share Option Scheme"). The details of the Pre-IPO Share Option Scheme are as follows:

Eligibility:

Any director, employee or contractor or affiliate of the Group (including nominees and/or trustees of any employee benefit trusts established for them) who the board of directors of the Company considers, in its sole discretion, to have contributed or will contribute to the Group.

Maximum number of Shares:

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme at any time must not exceed 47,836,985 (representing approximately 5.23% of the total number of shares in issue immediately before the date of the commencement of dealings in the shares on the Stock Exchange (without taking into account any shares that may be issued upon the Listing and any over-allotment option).

Grant of options

On and subject to the terms of the Pre-IPO Share Option Scheme, the board of directors of the Company shall be entitled (but shall not be bound) at any time within the scheme period to make an offer to any participant, as the board of directors of the Company may in its absolute discretion select, to take up an option pursuant to which such participant may, during the option period, subscribe for such number of shares as the board of directors of the Company may determine at the subscription price as defined in the scheme. The offer shall specify the terms on which the option is to be granted. Such terms may include, but are not limited to, any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the board of directors of the Company such other terms either on a case by case basis or generally.

30 Share-Based Payment Transactions (Continued)

Pre-IPO Share Option Scheme (Continued)

Grant of options (Continued)

On 7 March 2019, pursuant to the list of grantees and respective numbers of options approved by the board of directors of the Company, the Company granted a total of 47,836,985 options to 144 grantees, including the directors, senior management of the Company and other employees of the Group.

Details of the outstanding share options as at 31 May 2020 under the Pre-IPO Share Option Scheme held by grantees are set out below:

Number of shares underlying the share options	Grant date	Exercise period	Exercise price (HK$)	Grant date average fair value (RMB)	Vesting dates
47,836,985	7 March 2019	From the Listing Date to the six anniversary of the Listing Date	8.88	3.50	25% vested on the Listing Date, 25% vested on the first anniversary of the Listing Date, 25% vested on the second anniversary of the Listing Date, 25% vested on the third anniversary of the Listing Date

The movements of share options under the Pre-IPO Share Option Scheme are summarised as follows:

	Number of share options	Weighted average exercise price per option (HK$)
Granted on 7 March 2019	47,836,985	8.88
Forfeited during the year	(3,065,500)	8.88
Cancelled during the year	(31,000)	8.88
Outstanding as at 31 May 2019	44,740,485	8.88
Forfeited during the year	(2,360,000)	8.88
Exercised during the year	(3,129,000)	8.88
Outstanding as at 31 May 2020	39,251,485	8.88

On 7 March 2019, 47,836,985 share options were granted. The estimated fair value of the share options granted on that date was RMB169,656,000.

30 Share-Based Payment Transactions (Continued)

Pre-IPO Share Option Scheme (Continued)

Grant of options (Continued)

Fair value of share options under the Pre-IPO Share Option Scheme:

The Group has used the discounted cash flow method to determine the fair value of underlying ordinary shares of the Company with the assistance of a third party valuation firm. Based on the fair value of the underlying ordinary shares of the Company, the Group has used binomial option-pricing model to determine the fair value of the share option as of the grant date. Option valuation model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying shares, and changes in the subjective input assumptions can materially affect the fair value estimate of share options.

	7 March 2019 Pre-IPO Share Option Scheme
Weighted average share price	HK$9.34
Exercise price	HK$8.88
Expected volatility	46.8%
Expected life	6 years
Risk-free rate	2.49%
Expected dividend yield	0.00%

The Group recognised the total expense of RMB55,652,000 (2019: RMB54,221,000) for the year ended 31 May 2020 in relation to Pre-IPO share options granted by the Company.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise was RMB19.11 (2019: Not applicable).

Post-IPO Share Option Scheme

On 30 January 2019, the board of directors of the Company approved an employee's share option plan (the "Post-IPO Share Option Scheme"). The details of the Post-IPO Share Option Scheme are as follows:

Eligibility:

Any director, employee or contractor or affiliate of the Group (including nominees and/or trustees of any employee benefit trusts established for them) who the board of directors of the Company considers, in its sole discretion, to have contributed or will contribute to the Group.

30 Share-Based Payment Transactions (Continued)

Post-IPO Share Option Scheme (Continued)

Maximum number of Shares:

The overall limit on the number of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Group (collectively, "All Share Option Schemes") must not exceed 30% of the Company's total issued share capital from time to time, and upon exercise of all options granted under All Share Option Schemes must not exceed 10% (being 91,395,910 shares) of the total number of share in issue on the Listing Date (being 913,959,102 shares).

Grant of options

On and subject to the terms of the Post-IPO Share Option Scheme, the board of directors of the Company shall be entitled (but shall not be bound) at any time within the scheme period to make an offer to any participant, as the board of directors of the Company may in its absolute discretion select, to take up an option pursuant to which such participant may, during the option period, subscribe for such number of shares as the board of directors of the Company may determine at the subscription price as defined in the scheme. The offer shall specify the terms on which the option is to be granted. Such terms may include, but are not limited to, any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the board of directors of the Company such other terms either on a case by case basis or generally.

On 29 January 2020, pursuant to the list of grantees and respective numbers of options approved by the board of directors of the Company, the Company granted a total of 40,000,000 options to 552 grantees, including the directors, senior management of the Company and other employees of the Group.

Details of the outstanding share options as at 31 May 2020 under the Post-IPO Share Option Scheme held by grantees are set out below:

Number of shares underlying the share options	Grant date	Exercise period	Exercise price (HK$)	Grant date average fair value (RMB)	Vesting dates
40,000,000	29 January 2020	From the first anniversary to the 10 anniversary of the Grant Date	25.35	10.74	One third vested on the first anniversary of the Grant Date, One third vested on the second anniversary of the Grant Date, One third vested on the third anniversary of the Grant Date

30 Share-Based Payment Transactions (Continued)

Post-IPO Share Option Scheme (Continued)

Grant of options (Continued)

The movements of share options under the Post-IPO Share Option Scheme are summarised as follows:

	Number of share options	Weighted average exercise price per option (HK$)
Granted on 29 January 2020	40,000,000	25.35
Forfeited during the year	(1,801,000)	25.35
Outstanding as at 31 May 2020	38,199,000	25.35

The estimated fair value of the 40,000,000 share options granted on 29 January 2020 was RMB429,734,000.

Fair value of share options under the Post-IPO Share Option Scheme:

The Group has used the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the grant date as the fair value of underlying ordinary shares of the Company. Based on the fair value of the underlying ordinary shares of the Company, the Group has used binomial option-pricing model to determine the fair value of the share option as of the grant date with the assistance of a third party valuation firm. Option valuation model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying shares, and changes in the subjective input assumptions can materially affect the fair value estimate of share options.

	29 January 2020 Post-IPO Share Option Scheme
Weighted average share price	HK$27.15
Exercise price	HK$25.35
Expected volatility	52%
Expected life	10 years
Risk-free rate	1.44%
Expected dividend yield	0.00%

The Group recognised the total expense of RMB64,844,000 (2019: Nil) for the year ended 31 May 2020 in relation to Post-IPO share options granted by the Company.

31 Retirement Benefits Plans

Employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefit scheme.

The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income of RMB42,628,000 for the year ended 31 May 2020 (2019: RMB34,567,000), represent contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 May 2020, contributions of RMB1,278,000 (2019: RMB3,125,000) were due in respect of the year then ended, which had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

32 Operating Leases

The Group as leasee

	2019 RMB'000
Minimum lease payments paid under operating leases during the year	32,614

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2019 RMB'000
Within one year	48,796
In the second to fifth year inclusive	126,744
	175,540

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 2 years and rentals are fixed for an average period of 2 years.

33 Capital Commitments

	2020 RMB'000	2019 RMB'000
Capital commitments in respect of the acquisition of property and equipment contracted for but not provided in the consolidated financial statements	**25,035**	7,392

34 Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising share capital and reserves in the consolidated statement of changes in equity.

35 Categories of Financial Instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at amortised costs	**2,001,489**	2,533,099
Financial assets at FVTPL — current	**277,800**	352,943
Financial assets at FVTPL — non-current	**183,328**	146,855
	2,462,617	3,032,897
Financial liabilities		
Financial liabilities measured at amortised cost	**219,783**	186,949
Lease liabilities	**325,483**	—

36 Reconciliation of Liabilities Arising From Financing Activities

The table below details major changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities RMB'000	Accrued issue costs RMB'000	Total RMB'000
At 1 June 2018	—	2,318	2,318
Financing cash flows	—	(63,592)	(63,592)
Share issue costs	—	62,207	62,207
At 31 May 2019	—	933	933
Adjustment upon application of IFRS16	156,397	—	156,397
As at 1 June 2019 (restated)	156,397	933	157,330
Financing cash flows	(65,547)	(933)	(66,480)
New leases entered/lease modified/lease terminated	224,057	—	224,057
Interest expenses	10,576	—	10,576
At 31 May 2020	**325,483**	**—**	**325,483**

37 Financial Risk Management Objectives and Polices

The Group's major financial instruments include financial assets at FVTPL, trade and other receivables, term deposits and bank balances and cash, lease liabilities, trade payables and accrued expenses and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include currency risk, interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group has foreign currency denominated accrued listing expenses, issue costs, term deposits and bank balances which expose the Group to foreign currency risk. In addition, The Company has intra-group balances with several subsidiaries denominated in foreign currencies which also expose the Group to foreign currency risk.

37 Financial Risk Management Objectives and Polices (Continued)

Currency risk (Continued)

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities, as at 31 May 2020 and 2019 are set forth as follows:

	2020 RMB'000	2019 RMB'000
Assets		
US$	1,824,000	1,619,993
HK$	6,705	737,744
	1,830,705	2,357,737
Liabilities		
US$	40	759
HK$	27	5,125
	67	5,884

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. The sensitivity analysis also includes intra-group balances where the denomination of the balances is in a currency other than the functional currency of the group entities. For the years ended 31 May 2020 and 2019, a negative number below indicates an increase in post-tax loss, where RMB strengthens against the relevant foreign currency. For a weakening of RMB against the relevant foreign currency, there would be an equal and opposite impact on the profit or loss.

	2020 RMB'000	2019 RMB'000
US$	(90,417)	(78,765)
HK$	(334)	(36,631)

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the years ended 31 May 2020 and 2019.

37 Financial Risk Management Objectives and Polices (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate term deposits (Note 22) and lease liabilities (Note 27). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate wealth management products. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on wealth management products.

The Group currently does not have an interest rate hedging policy to mitigate interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to variable interest rates for both derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease in wealth management products are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 May 2020 would decrease/increase by RMB1,138,000 (2019: decrease/increase by RMB1,488,000). This is mainly attributable to the Group's exposure to interest rates on its wealth management products.

Other price risk

The Group is exposed to other price risk through its investments in wealth management products measured at FVTPL. The management considers the other price risk of the Group on its investments in the wealth management products is limited as the maturity periods of these investments are short. Therefore, no sensitivity analysis is presented.

Credit risk and impairment assessment

At 31 May 2020, the Group's maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets measured at amortised cost as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade and other receivables.

37 Financial Risk Management Objectives and Polices (Continued)

Credit risk and impairment assessment (Continued)

In order to minimise the credit risk on trade and other receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at 31 May 2020 and 2019 and performs impairment assessment under the ECL model on trade and other receivables. Details of impairment assessment of trade and other receivables are set out in Note 19 and Note 20. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances and cash, term deposits and wealth management products is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Trade and other receivables consist of a large number of customers, the Group does not have any significant concentration of credit risk on trade and other receivables.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of bank balances and cash deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

	Weighted average incremental borrowing rates %	On demand or within 3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	>5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at 31 May 2020 RMB'000
As at 31 May 2020							
Non-derivative financial liabilities							
Trade payables	–	34,067	–	–	–	34,067	34,067
Accrued expenses and other payables	–	185,716	–	–	–	185,716	185,716
Lease liabilities	4.60%-4.70%	16,750	73,748	255,754	9,843	356,095	325,483
		236,533	73,748	255,754	9,843	575,878	545,266

37 Financial Risk Management Objectives and Polices (Continued)

Liquidity risk (Continued)

	Weighted average incremental borrowing rates %	On demand or within 3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	>5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at 31 May 2019 RMB'000
As at 31 May 2019							
Non-derivative financial liabilities							
Trade payables	—	41,541	—	—	—	41,541	41,541
Accrued expenses and other payables	—	145,408	—	—	—	145,408	145,408
		186,949	—	—	—	186,949	186,949

38 Fair Value Measurements of Financial Instruments

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at 31 May 2020 and 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 31 May 2020

	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL			
Unlisted equity securities	—	183,328	183,328
Financial assets at FVTPL			
Wealth management products	277,800	—	277,800
	277,800	183,328	461,128

38 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)

Fair value hierarchy as at 31 May 2019

	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL			
Unlisted equity securities	—	146,855	146,855
Financial assets at FVTPL			
Wealth management products	352,943	—	352,943
	352,943	146,855	499,798

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 or option pricing analysis, with the most significant input being the WACC that reflects the credit risk of the counterparties or the expected volatility that reflects the price risk of the counter parties.

Financial assets	Fair value as at 31 May 2020	Fair value as at 31 May 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Wealth management products issued by banks classified as financial asset at FVTPL	Wealth management products issued by banks — RMB277,800,000;	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

38 Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at 31 May 2020	Fair value as at 31 May 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Private equity investments classified as financial assets at FVTPL	24.5% equity investment in Edutainment World which engaged in education research, product development and education service — RMB64,427,000;	25.02% equity investment in Edutainment World which engaged in education research, product development and education service — RMB62,659,000;	Level 3	Income approach 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% (2019: 3%) (note I). WACC determined using a Capital Asset Pricing Model is 21% (2019: 22%) (note II). Discount for lack of marketability, determined by reference to the share price of listed entities in similar industries is 20% (2019: 21%) (note III).

38 Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at 31 May 2020	Fair value as at 31 May 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Private 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 — RMB118,901,000.	—	Level 3	Market approach — the option pricing model ("OPM") backsolve approach was used to calculate the implied equity value of the firm. Once an overall equity value was determined, amounts were allocated to the various classes of equity based on the security class preferences. The inputs to the OPM backsolve approach are the recent transaction price for one component of the capital structure, expected time to exit, the risk-free interest rate and expected volatility.	Expected volatility of 57% taking into account peer companies' volatility used by market participants when pricing the investment (note IV).

38 Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at 31 May 2020	Fair value as at 31 May 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Private 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 — RMB84,196,000.	Level 3	Income 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% (note V). WACC determined using a Capital Asset Pricing Model is 25% (note VI). Discount for lack of marketability, determined by reference to the share price of listed entities in similar industries is 13% (note VII).

38 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)

Notes:

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 private equity investments by RMB1,886,000 as at 31 May 2020 (2019: RMB1,642,000).

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 RMB6,521,000 as at 31 May 2020 (2019: RMB5,973,000).

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 RMB3,984,000 as at 31 May 2020 (2019: RMB3,912,000).

IV. An increase in the expected volatility 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 expected volatility holding all other variables constant would decrease/increase the carrying amount of the private equity investments by RMB1,205,000/RMB1,398,000 as at 31 May 2020.

V. 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 private equity investments by RMB1,455,000 as at 31 May 2019.

VI. An increase in the WACC used in isolation would result in a decrease in the fair value of the private equity investments, and vice versa. A 3% increase/decrease in the WACC holding all other variables constant would decrease/increase the carrying amount of the private equity investments by RMB7,611,000 as at 31 May 2019.

VII. An increase in the discount for lack of marketability used in isolation would result in a decrease in the fair value of the private equity investments, and vice versa. A 5% increase/decrease in the discount for lack of marketability holding all other variables constant would decrease/increase the carrying amount of the private equity investments by RMB4,839,000 as at 31 May 2019.

38 Fair Value Measurements of Financial Instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

The following table represents the reconciliation of level 3 fair value measurements during the years ended 31 May 2020 and 2019.

	2020 RMB'000	2019 RMB'000
At the beginning of the year	**146,855**	124,929
Changes in fair value	**36,473**	21,926
At the end of the year	**183,328**	146,855

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities at amortised cost recognised in the consolidated financial statements approximate their fair values.

39 Related Party Transactions

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

		Trade sales		**Trade purchases**	
	Relationship	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
New Oriental Group	Controlling shareholder of the Company and its fellow subsidiaries	**17,127**	14,776	**9,255**	8,884
Metropolis Holding	A company wholly owned by the Chairman of the Company	**—**	—	**11,147**	10,467
Tencent Group	Non-controlling shareholder of the Company and its fellow subsidiaries	**—**	—	**13,937**	6,525
Shidai Yuntu	Associate	**1,861**	1,542	**17,321**	18,875

39 Related Party Transactions (Continued)

The following balances represent outstanding amounts due from related parties at 31 May 2020 and 2019:

	Amounts due from related parties	
	2020	2019
	RMB'000	RMB'000
New Oriental Group	**—**	673
Metropolis Holding(i)	**2,776**	989
Shidai Yuntu	**2,478**	506
Tencent Group	**357**	1,172

The following balances represent outstanding amounts due to related parties at 31 May 2020 and 2019:

	Amounts due to related parties	
	2020	2019
	RMB'000	RMB'000
New Oriental Group	**3,120**	3,294
Tencent Group	**262**	27

Amounts due from related parties of RMB2,877,000 (2019: RMB3,340,000) as of 31 May 2020, are trade in nature included in trade and other receivables and prepayments, amounts due from related parties of RMB2,734,000 (2019: Nil) as of 31 May 2020, are refundable rental deposits.

Amounts due to related parties as of 31 May 2020 are trade in nature included in trade and other payables of RMB3,382,000 (2019: contract liabilities of RMB212,000, and trade and other payables of RMB3,109,000), which are unsecured, interest-free and repayable on demand.

Note:

(i) The Group has entered into several lease agreements with Metropolis Holding (Tianjin) Co., Ltd. ("Metropolis Holding"), a company controlled by Mr. Yu Minhong, the chairman of the board of directors of the Company. The terms and conditions, including rental rates of the lease agreements are generally the same as other tenants in the same building. The lease agreements are typically of one to three years and can be renewed at the end of the lease term upon mutual agreement between the two contract signing parties. The lease arrangements were approved by the board of directors of the Company. During the year ended 31 May 2020, the Group recorded lease payments and property management fee of RMB11,147,000 (2019: rental expenses of RMB10,467,000) in relation to such leases. As at 31 May 2020, the amount due from Metropolis Holding was RMB2,776,000(2019: RMB989,000), which represents rental deposit and prepaid property management fee (2019: rental deposit and prepaid rentals).

39 Related Party Transactions (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the years ended 31 May 2020 and 2019 are as follows:

	2020 RMB'000	2019 RMB'000
Short-term benefits	**3,376**	3,709
Retirement benefits	**122**	190
Equity-settled share option expenses	**43,140**	35,812
	46,638	39,711

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.

40 Particulars of Subsidiaries of the Company

A. General information of subsidiaries

Details of the subsidiaries directly and indirectly held by the Company as at 31 May 2020 are set out below:

Name of subsidiaries	Place of incorporation/ registration/ operation	Date of incorporation/ establishment	Paid up issued/ registered capital	Proportion ownership interest held by the Company 2020 %	2019 %	Proportion of voting power held by the Company 2020 %	2019 %	Principal activities
Subsidiaries Directly held:								
New Oriental Xuncheng Technology (HK) Limited	Hong Kong	2 Mar 2018	HK$1	100	100	100	100	Investment holding
Dexin Dongfang	PRC	21 Mar 2018	RMB300,000,000	100	100	100	100	Provision of software and technology services
Tianjin Kuxue Oriental Network Technology Co., Ltd.	PRC	10 Dec 2018	RMB10,000,000	100	100	100	100	Provision of software and technology services
Dong Fund Co. Ltd	Cayman	13 Aug 2018	US$1,000,000	100	100	100	100	Equity investment fund
Zhuhai Chongsheng Heli Network Technology Co., Ltd.	PRC	23 July 2019	RMB30,000,000	100	—	100	—	Provision of software and technology services
Xi'An Ruiying Huishi Network Technology Co., Ltd.	PRC	03 April 2020	RMB50,000,000	100	—	100	—	Provision of education advisory services
Subsidiaries Structured entities(i):								
Beijing Xuncheng	PRC	11 Mar 2005	RMB164,242,000	100	100	100	100	Provision of online education
Kuxue Huisi	PRC	01 Feb 2013	RMB10,000,000	100	100	100	100	Provision of online education
Dongfang Youbo (Note 40C)	PRC	23 Jun 2016	RMB10,000,000	100	51	100	51	Provision of online education

40 Particulars of Subsidiaries of the Company (Continued)

A. General information of subsidiaries (Continued)

Note:

(i) As described in Note 1, the Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the equity holders of these structured entities, the Company and its legal owned subsidiaries have power over these structured entities, have rights to variable returns from its involvement with these structured entities and has the ability to affect those returns through its power over these structured entities and is considered to have control over these structured entities. Consequently, the Company regards these structured entities as indirect subsidiaries of the Company.

There are no statutory requirements for subsidiaries to issue statutory audited financial statements.

None of the subsidiaries had any debt securities as at 31 May 2020 and 2019.

B. Details of non-wholly-owned subsidiary that has material non-controlling interest

The table below show details of non-wholly-owned subsidiary of the Group that has material non-controlling interest for the years ended 31 May 2020 and 2019:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests as at		Loss allocated to non-controlling interests for the year ended		Accumulated non-controlling interests as at	
		31 May 2020	31 May 2019	**31 May 2020**	31 May 2019	**31 May 2020**	31 May 2019
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Dongfang Youbo	PRC	**–**	49	**(16,234)**	(24,336)	**–**	(31,479)

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31 May 2019 RMB'000
Current assets	33,627
Non-current assets	5,106
Current liabilities	103,115
Equity attributable to owners of the Company	(32,903)
Non-controlling interest of Dongfang Youbo	(31,479)

40 Particulars of Subsidiaries of the Company (Continued)

B. Details of non-wholly-owned subsidiary that has material non-controlling interest (Continued)

	Period from 1 June to 16 August 2019 RMB'000	2019 RMB'000
Revenue	29,900	56,858
Expenses	(63,031)	(106,523)
Loss for the period/year	(33,131)	(49,665)
Loss attributable to owners of the Company	(16,897)	(25,329)
Loss attributable to the non-controlling interests of Dongfang Youbo	(16,234)	(24,336)

	Period from 1 June to 16 August 2019 RMB'000	2019 RMB'000
Dividend paid to non-controlling interests	—	—
Net cash outflow from operating activities	(21,479)	(16,805)
Net cash outflow from investing activities	(1,641)	(3,881)
Net cash (outflow) inflow from financing activities	(2,033)	35,000
Net cash (outflow) inflow	(25,153)	14,314

C. Change in ownership interest in a subsidiary

On 16 August 2019, the Group entered into a purchase agreement with the 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 a debit balance of RMB47,713,000 and the difference of RMB141,713,000 between the consideration paid and the balance of non-controlling interests adjusted has been recorded as other reserve.

41 Event After the Reporting Period

Saved as disclosed in the consolidated financial statements, the Group has no other significant events took place subsequent to the end of the reporting period that needs to be disclosed.

42 Statement of Financial Position and Reserves of the Company

	2020 RMB'000	2019 RMB'000
Non-current Assets		
Amounts due from subsidiaries	**902,209**	588,440
Interests in subsidiaries	**133,146**	6,863
	1,035,355	595,303
Current Assets		
Other receivables	**123**	3,418
Prepayments	**114**	12
Term deposits (Note 22)	**1,470,530**	—
Bank balances and cash	**156,386**	1,809,417
	1,627,153	1,812,847
Current Liability		
Accrued expenses and other payables	**9,530**	22,098
Net current assets	**1,617,623**	1,790,749
Net assets	**2,652,978**	2,386,052
Capital and Reserves		
Share capital	**120**	120
Reserves	**2,652,858**	2,385,932
Total Equity	**2,652,978**	2,386,052

42 Statement of Financial Position and Reserves of the Company (Continued)

The movement in the reserves of the Company is shown as follows:

	Share premium RMB'000	Preferred shares RMB'000	Share option reserve RMB'000	Other reserve RMB'000	(Accumulated losses) retained profits RMB'000	Total RMB'000
At 31 May 2018	—	590,030	—	—	(6,553)	583,477
Profit and total comprehensive income for the year	—	—	—	—	46,285	46,285
Issuance of ordinary shares	132,199	—	—	—	—	132,199
Recognition of equity-settled share-based payments	—	—	54,221	—	—	54,221
Forfeiture and cancellation of share options	—	—	(2,708)	—	2,708	—
Issue of new shares upon listing	1,633,792	—	—	—	—	1,633,792
Share issuance costs	(64,022)	—	—	—	—	(64,022)
Conversion of convertible redeemable preferred shares to ordinary shares	590,010	(590,030)	—	—	—	(20)
Change in equity for the year	2,291,979	(590,030)	51,513	—	2,708	1,756,170
At 31 May 2019	2,291,979	—	51,513	—	42,440	2,385,932
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**121,314**	**121,314**
Recognition of equity-settled share-based payments	**–**	**–**	**120,496**	**–**	**–**	**120,496**
Exercise of share options	**35,442**	**–**	**(10,326)**	**–**	**–**	**25,116**
Change in equity for the year	**35,442**	**–**	**110,170**	**–**	**–**	**145,612**
At 31 May 2020	**2,327,421**	**–**	**161,683**	**–**	**163,754**	**2,652,858**

DEFINITIONS

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

"Articles of Association"	the second amended and restated memorandum and articles of association of our Company adopted on 6 March 2019 with effect from the Listing Date, as amended from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Beijing Xuncheng" or "Operating Entity"	Beijing New Oriental Xuncheng Network Technology Inc. (北京新東方迅程網絡科技股份有限公司), a company established under the Laws of the PRC on 11 March 2005 and a Consolidated Affiliated Entity
"Board"	the board of directors of our Company
"business day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
"China" or "the PRC"	the People's Republic of China, and for the purposes of this annual report only, except where the context requires otherwise, excluding Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
"Companies Ordinance"	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "we", "us", or "our"	Koolearn Technology Holding Limited (新東方在綫科技控股有限公司), an exempted company with limited liability incorporated under the Laws of the Cayman Islands on 7 February 2018
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Consolidated Affiliated Entity"	an entity controlled by the Company through the Contractual Arrangements; one or more of which is known as "Consolidated Affiliated Entities"
"Contractual Arrangements"	the series of contractual arrangements, as amended from time to time, entered into by and among our wholly-foreign owned entities, the Consolidated Affiliated Entities and the Registered Shareholders, details of which are described in the section headed "Contractual Arrangements" of the Prospectus and "Directors' report" in this annual report

"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to New Oriental
"Corporate Governance Code"	the *Corporate Governance Code and Corporate Governance Report* set out in Appendix 14 to the Main Board Listing Rules
"Dexin Dongfang"	Beijing Dexin Dongfang Network Technology Co., Ltd. (北京德信東方網絡科技有限公司), a company incorporated under the Laws of the PRC on 21 March 2018 and a wholly-owned subsidiary of our Company
"DFUB"	an online education platform operating by Dongfang Youbo, including the website at http://dfub.xdf.cn/ and related apps
"Director(s)"	the director(s) of our Company
"Dongfang Youbo"	Beijing Dongfang Youbo Network Technology Co., Ltd. (北京東方優播網 絡科技有限公司), a company incorporated under the Laws of the PRC on 23 June 2016 and a Consolidated Affiliated Entity
"FY"	financial year ended 31 May
"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
"Independent Third Party"	any entity or person who is not a connected person of our Company within the meaning ascribed to it under the Listing Rules
"Kuxue Huisi"	Beijing Kuxue Huisi Network Technology Co., Ltd. (北京酷學慧思網絡科技有限公司), a company established under the Laws of the PRC on 1 February 2013 and a Consolidated Affiliated Entity
"Laws"	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any government or regulatory authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions, whether at the city, provincial, state or federal level (as appropriate)

"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	28 March 2019
"Listing Rules"	the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited,* as amended, supplemented or otherwise modified from time to time
"Model Code"	the *Model Code for Securities Transactions by Directors of Listed Issuers* set out in Appendix 10 to the Main Board Listing Rules
"New Oriental"	New Oriental Education & Technology Group Inc., a company incorporated under the Laws of the Cayman Islands on 16 March 2006, the American depository shares of which are listed on the New York Stock Exchange under the symbol "EDU" and our Controlling Shareholder
"New Oriental China"	New Oriental Education & Technology Group Co., Ltd. (新東方教育科技 集團有限公司), a company incorporated under the Laws of the PRC on 2 August 2001 and one of our Registered Shareholders
"New Oriental Framework Agreement"	a framework agreement dated 13 March 2019 between our Company (for itself and on behalf of the remaining members of our Group) and New Oriental (for itself and on behalf of the remaining members of the Retained New Oriental Group) as described in the section headed "Connected transactions — New Oriental Framework Agreement" in the Prospectus
"Nomination Committee"	the nomination committee of the Board
"Pre-IPO ESOP"	share option scheme adopted by our Board on 13 July 2018 and subsequently amended on 29 September 2018
"Post-IPO ESOP"	share option scheme adopted by our Board on 30 January 2019 and amended from time to time
"Prospectus"	the prospectus of the Company in relation to the Listing and the Global Offering dated 15 March 2019
"Registered Shareholders"	New Oriental China, Linzhi Tencent Technology Co., Ltd. (林芝騰訊科技有限公司), and the Tianjin Limited Partnerships
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	FY2020

"Retained New Oriental Group"	New Oriental and its subsidiaries from time to time (including its consolidated affiliated entities but excluding our Group)
"RMB" or "Renminbi"	Renminbi, the lawful currency of China
"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	*Securities and Futures Ordinance* (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of our Company currently with a par value of US$0.00002 each
"Shareholder(s)"	holder(s) of our Share(s)
"Shenzhen Tencent Computer"	Shenzhen Tencent Computer Systems Co., Ltd. (深圳市騰訊計算機系統有限公司), a subsidiary of Tencent
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed to it in the Listing Rules and includes our Consolidated Affiliated Entities; one or more of which is known as "Subsidiaries"
"substantial shareholder"	has the meaning ascribed to it in the Listing Rules
"Tencent"	Tencent Holdings Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700)
"Tencent Framework Agreement"	a framework agreement dated 13 March 2019 between our Company (for itself and on behalf of the remaining members of our Group) and Shenzhen Tencent Computer (for itself and on behalf of the remaining members of the Shenzhen Tencent Computer) as described in the section headed "Connected transactions — Tencent Framework Agreement" in the Prospectus
"Tencent Group"	Tencent and its subsidiaries from time to time (see pages 106, 146-147)

"Tianjin Limited Partnerships"	the limited partnerships that hold interests in our Operating Entity, namely Tianjin Xuncheng Yiyue Technology Partnership (L.P.) (指天津迅程壹月科技合夥企業（有限合夥）), Tianjin Xuncheng Luyue Technology Partnership (L.P.) (天津迅程陸月科技合夥企業（有限合夥）, Tianjin Bayue Technology Partnership (L.P.) (天津迅程捌月科技合夥企業（有限合夥）), Tianjin Xuncheng Jiuyue Technology Partnership (L.P.) (天津迅程玖月科技合夥企業（有限合夥）), Tianjin Xuncheng Shiyue Technology Partnership (L.P.) (天津迅程拾月科技合夥企業（有限合夥）), Tianjin Xuncheng Shieryue Technology Partnership (L.P.) (天津迅程拾貳月科技合夥企業（有限合夥）), and Tianjin Xuncheng Shisanyue Technology Partnership (L.P.) (天津迅程拾叁月科技合夥企業（有限合夥）)
"Tigerstep"	Tigerstep Developments Limited, a company incorporated under the Laws of the British Virgin Islands, and one of our Pre-IPO Investors and connected persons of the Company
"United States" or "U.S."	United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States
"Xuncheng HK"	New Oriental Xuncheng Technology (HK) Limited (新東方迅程科技（香港）有限公司), a company incorporated under the Laws of Hong Kong on 2 March 2018 and a wholly-owned subsidiary of our Company
"%"	Per cent