



在线学习 当然新东方在线

2021

Interim Report



Koolearn Technology Holding Limited

新东方在线科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1797



在线学习 当然新东方在线

CONTENTS

Corporate information	2
Financial highlights	4
Business overview and outlook	5
Management discussion and analysis	9
Other information	16
Report on review of condensed consolidated financial statements	24
Condensed consolidated statement of profit or loss and other comprehensive income	25
Condensed consolidated statements of financial position	26
Condensed consolidated statement of changes in equity	28
Condensed consolidated statement of cash flows	29
Notes to the condensed consolidated financial statements	30
Definitions	56





CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. SUN Dongxu (孫東旭), *Chief executive officer*
Mr. YIN Qiang (尹強)

Non-executive Directors

Mr. YU Minhong (俞敏洪), *Chairman*
Ms. SUN Chang (孫暢)
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 Zheyang (林哲瑩)

Board committees

Audit committee

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

Remuneration committee

Mr. LIN Zheyang, *Committee chairman*
Ms. SUN Chang
Mr. TONG Sui Bau

Nomination committee

Mr. YU Minhong, *Committee chairman*
Mr. TONG Sui Bau
Mr. LIN Zheyang

Company secretary

Mr. CHEUNG Kai Cheong Willie (*FCCA, FCCA*)

Authorised representatives

Mr. YIN Qiang
Mr. CHEUNG Kai Cheong Willie

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Registered office

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

Headquarters

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

Principal place of business in Hong Kong

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



Corporate Information (Continued)

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

Key financial highlights

	Six months ended 30 November 2020 RMB'000 (unaudited)	Six months ended 30 November 2019 RMB'000 (unaudited)	Period-on- period change %
Revenue	676,755	567,641	19.2
Loss for the period before tax	(667,402)	(94,863)	603.5
Income tax (expense) credit	(7,024)	7,347	(195.6)
Loss for the period	(674,426)	(87,516)	670.6
Loss for the period attributable to:			
— Owners of our Company	(674,426)	(71,282)	846.1
— Non-controlling interests	—	(16,234)	—
Loss per share:			
— Basic and diluted (RMB)	(0.72)	(0.08)	800.0
Non-IFRS measure: Adjusted Loss ⁽¹⁾	(661,413)	(56,250)	1,075.8
Non-IFRS measure: LBITDA ⁽²⁾	(507,609)	(108,829)	366.4

(1) Adjusted loss (“**Adjusted Loss**”) for a given period represents loss for the period less gain on fair value changes of financial assets at fair value through profit or loss (“**FVTPL**”) plus share-based compensation expenses for that period.

(2) Losses before interest, taxes, depreciation, and amortisation (“**LBITDA**”) represents loss for a given period plus income tax expense (credit), 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 that period.



BUSINESS OVERVIEW AND OUTLOOK

Our business

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

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

	For the six months ended 30 November 2020 Student enrolment '000	For the six months ended 30 November 2019 Student enrolment '000
Students		
College education	299	526
K-12 education	1,838	755
Pre-school education	3	36
Total	2,140	1,317

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

	For the six months ended 30 November 2020 RMB	For the six months ended 30 November 2019 RMB
Formal courses		
College education	1,282	1,128
K-12 education	892	1,040
Pre-school education ⁽¹⁾	990	(61)
Sub-total average	1,010	1,022
Entry courses	41	24
Total average	369	425

(1) There was product lines adjustment in pre-school education since financial year 2020.



Business Overview and Outlook (Continued)

Our performance overview

Despite the continued impact of the COVID-19 pandemic on the global economy, we are pleased to announce a significant increase in total student enrolments. Benefiting from our long-term growth strategies, as well as the effective measures we have taken to respond to the pandemic, the number of student enrolments continued to grow to 2.1 million, representing a period-on-period growth of 62.5%. Total net revenues increased by 19.2% from RMB567.6 million for the six months ended 30 November 2019 to RMB676.8 million over the Reporting Period. In the college education segment, we continued to experience impact from the optimisation of product lines and delay or suspension of college reopenings and overseas exams due to the pandemic and recorded a decline in net revenue and student enrolments. In the K-12 education segment, our strategy of diversifying our course offerings has started to see results. Our Koolearn K-12 large classes has become another long-term growth driver, while our unique location-based live interactive after-school DFUB small classes continued to expand its footprint in lower tier cities in China. The total net revenue and student enrolments in the K-12 segment increased period-on-period by 162.9% and 143.4%, respectively.

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 and more intensive college test preparation and overseas test preparation businesses, which increased the average spending per enrolment in formal courses from RMB1,128 for the six months ended 30 November 2019 to RMB1,282 over the Reporting Period. While in the process of designing new products and upgrading our core products, we also adjusted our marketing strategies to better meet consumer demands and maintain customer acquisition costs within a reasonable level. Due to recent changes in product and marketing strategies, as well as negative effects from the COVID-19 pandemic, we saw a significant decline in the number of students participating in our domestic and overseas test preparation courses during the Reporting Period. As a result, our student enrolments in the college segment recorded 299 thousand in the Reporting Period, compared with 526 thousand over the previous fiscal period.

K-12 education

Our comprehensive K-12 course offerings, including primarily Koolearn K-12 courses and DFUB courses, 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.



Business Overview and Outlook (Continued)

During the Reporting Period, we made impressive progress in our expansion plan and achieved outstanding operating and financial results in the K-12 education segment. Our student enrolments for overall K-12 segment recorded period-on-period growth of 143.4%. More specifically, our student enrolments for Koolearn K-12 courses recorded period-on-period growth of 134.4%, and our student enrolments for DFUB courses grew period-on-period by 170.3%. The robust growth in K-12 education during the Reporting Period was largely attributable to the successful implementation of our key initiatives in (i) upgrading our technological infrastructure; (ii) improving our online products and content; and (iii) recruiting and training teaching personnel, which drives the number, scalability and quality of our products and services and has allowed us to capture the rapidly growing demand and retain a significant number of key users who have trialed or enrolled in our courses, especially throughout the COVID-19 pandemic period. We continued to accelerate the expansion of our DFUB business during the Reporting Period and optimise the operations of DFUB courses in each city. As at 30 November 2020, DFUB had entered into 271 cities across 26 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 focused on the integration and optimisation of Donut English learning APP and recorded a decrease in student enrolment during the Reporting Period.

Strategic update and future development

Going forward, despite growing competition within the industry, we remain confident in the online education industry and our ability to continue growing and consolidating our market share in the industry. We believe that education is about consistently creating value for our staff members, our students, and society as a whole. We will continue to invest in our talent, our products and services, our technological platforms and underlying systems and our overall operations. We believe that this will help us attract, retain and develop outstanding teaching talent and be able to provide high-quality online education products and services. We will continue to adopt a “customer-focused” approach and prioritise the needs of our customers and continue to offer innovative solutions in the education sector. We believe that having a deep understanding of our consumers’ needs, behaviours and learning intentions is essential to helping us develop products and services that are specifically catered to our target audience, which will in turn, have a profound impact on our Company’s long-term viability and success. Furthermore, we will continually upgrade and improve the design and functionalities of our course offerings, after taking into account user feedback and analysing their future needs, in order to achieve our goal of making quality education accessible and affordable to more students across China.



Business Overview and Outlook (Continued)

For the college education segment, despite the cancellation and postponement of exams due to the COVID-19 pandemic, we have responded quickly to the potential challenges by introducing a series of new initiatives to stabilise our business and improve efficiency. Besides continuously optimizing our existing products and services, we will further strengthen our cooperation with New Oriental, our parent company, in respect of branding, education resources and multi-channel marketing services. We believe this will allow us to upgrade our customer acquisition channels and further expand our student base in order to offer more differentiated services and alternative solutions to our clients. For example, we can provide comprehensive course planning for students who have potential plans to go abroad after two or three years by providing extensive support and advice throughout the application and enrollment processes. At the same time, we will expand our overseas promotional efforts in order to increase our overseas user base.

We believe that a combination of Koolearn K-12 large classes and DFUB small classes have driven the strong momentum in our recent financial and operational performance. For Koolearn K-12 courses, we continued to increase the amount of resources directed towards improving our teaching, tutoring, research and development and teacher training capabilities, which has resulted in us having a significant number of high-performing lecturers and tutors for various subjects. Leveraging on our close relationship with New Oriental as our parent company, we have incorporated their 27 years of know-how and their successful seven-step teaching methods into our businesses and have achieved continuous progress in our online teaching products, services and methodologies. We aim to capitalise on our strength in teaching English as a subject and launch a new version of AI+ online courses with both Chinese and foreign teachers teaching together to create an immersive and bilingual learning experience for students. We will utilise developed scientific and technological innovation within our courses, services and managerial systems to continually improve each student's learning efficacy and outcomes. Through both online and offline channels, we are committed to implementing a differentiated marketing strategy that optimises operational efficiency and improves brand stickiness and awareness. We will establish specialised offline experience centers and marketing teams in different cities across China. Instead of aggressive marketing or advertising messages, we believe that a combination of online and offline marketing strategies will help both existing and prospective customers form an emotional connection with our brand, and in turn, allow us to differentiate ourselves from our competitors.

For our unique DFUB small classes, we plan to further capitalise on our first-mover advantage and continue to accelerate our expansion into greater number of geographic areas. During the Reporting Period, we have entered into 99 new cities, bringing our coverage to a total of 271 cities and 26 provinces. With the introduction of low-priced multiple-subject class packages (i.e., RMB300 for three subjects), we expect to improve our operational efficiency and customer experience. We continue to invest extensively in our employees, raise overall compensation for teaching and training professionals and implement a more stringent and comprehensive internal staff performance evaluation system, in order to ensure the constant supply of excellent teachers and attract more full-time talent. As a result, with the increasing maturity of our DFUB business model, we predict that DFUB's performance in various cities across China will continue to show significant improvement, allowing us to gain greater market share and establish stronger competitive barriers. Overall, our adoption of differentiated marketing strategies and our commitment to improving teaching quality, technology infrastructure, product offerings, and operational efficiency will help ensure our long-term sustainability and success.



MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our revenue increased by 19.2% from RMB567.6 million in the six months ended 30 November 2019 to RMB676.8 million in the six months ended 30 November 2020.

College education

Revenue from our college education segment decreased by 19.1% from RMB361.4 million in the six months ended 30 November 2019 to RMB292.4 million in the six months ended 30 November 2020. The decrease was mainly due to our adjustment and upgrading of principle product lines in college education segment since the last financial year, as well as prolonged effects from the cancellation of certain domestic or overseas exams and imposition of travel restrictions since the COVID-19 pandemic outbreak. The student enrolments in the college education segment decreased from 526 thousand in the six months ended 30 November 2019 to 299 thousand in the six months ended 30 November 2020.

K-12 education

Revenue from our K-12 education segment increased by 162.9% from RMB128.2 million in the six months ended 30 November 2019 to RMB336.9 million in the six months ended 30 November 2020, mainly driven by the accelerated expansion in Koolearn K-12 courses and DFUB courses. During the Reporting Period, we continued to implement our strategy of diversifying course offerings and actively invested in both Koolearn K-12 courses and our unique DFUB small class courses. Through strengthening our teaching, tutoring, course research and product innovation capabilities, we continued to enhance the quality of products and services offered to our students and end-users. Student enrolments in the K-12 education segment increased by 143.4% from 755 thousand in the six months ended 30 November 2019 to 1.8 million in the six months ended 30 November 2020. In particular, student enrolments in Koolearn K-12 courses and DFUB courses have achieved 134.4% and 170.3% period-on-period growth, respectively.

Pre-school education

Revenue from our pre-school education segment decreased by 79.3% from RMB21.5 million in the six months ended 30 November 2019 to RMB4.4 million in the six months ended 30 November 2020, primarily due to the optimisation and upgrade of our Donut English-learning APP and the termination of live English courses for Donut online classroom in the 2020 financial year.

Institutional customers

Revenue from our institutional customers decreased by 24.0% from RMB56.6 million in the six months ended 30 November 2019 to RMB43.0 million in the six months ended 30 November 2020.

Cost of revenue, gross profit/loss and gross margin

Our total cost of revenue increased by 109.0% from RMB250.5 million in the six months ended 30 November 2019 to RMB523.6 million in the six months ended 30 November 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 73.1% and 268.3% over the previous fiscal period, respectively, as we devoted significant resources to enhance the quality of our courses and services.

Our gross profit decreased by 51.7% from RMB317.1 million in the six months ended 30 November 2019 to RMB153.1 million in the six months ended 30 November 2020. Our gross profit margin decreased from 55.9% in the six months ended 30 November 2019 to 22.6% in the six months ended 30 November 2020, primarily due to our robust development in the K-12 segment.



Management Discussion and Analysis (Continued)

College education

Cost of revenue for our college education segment decreased by 20.8% from RMB114.0 million in the six months ended 30 November 2019 to RMB90.3 million in the six months ended 30 November 2020, primarily due to a decrease in teaching materials costs and teaching staff costs.

Segment gross profit for our college education business decreased by 18.3% from RMB247.4 million in the six months ended 30 November 2019 to RMB202.2 million in the six months ended 30 November 2020, and the segment gross profit margin increased from 68.5% in the six months ended 30 November 2019 to 69.1% in the six months ended 30 November 2020.

K-12 education

Cost of revenue for our K-12 education segment increased by 281.2% from RMB111.8 million in the six months ended 30 November 2019 to RMB426.0 million in the six months ended 30 November 2020, primarily due to an enhancement of our offerings for Koolearn K-12 courses and the expansion of DFUB to more regions, which required significant upfront investment to attract qualified teachers and design high-quality courses.

The segment gross loss for our K-12 business was RMB89.1 million in the six months ended 30 November 2020, compared to a segment gross profit of RMB16.4 million in the six months ended 30 November 2019. The segment gross loss margin was 26.5% in the six months ended 30 November 2020, compared to a segment gross profit margin of 12.8% in the six months ended 30 November 2019, primarily due to the significant growth in the student enrolments from Koolearn K-12 courses during this summer and preparation for new products that will be launched in the following quarters, which required higher initial investment in teaching and course research staff costs, as we continued to enhance our course offerings and committed more resources to course development, as well as an increase in information technology support and technology costs, due to all of our Koolearn K-12 courses and DFUB courses being delivered live.

Pre-school education

Cost of revenue for our pre-school education segment decreased by 70.8% from RMB12.8 million in the six months ended 30 November 2019 to RMB3.7 million in the six months ended 30 November 2020, primarily due to a decrease in teaching staff costs and course research staff costs, as we wound-down our live English learning courses and focused on the development of our Donut English learning APP in this segment.

Segment gross profit for our pre-school education business recorded RMB0.7 million in the six months ended 30 November 2020, compared to segment gross profit of RMB8.7 million in the six months ended 30 November 2019, and the gross profit margin decreased from 40.6% to 16.2%, primarily due to a business adjustment in our Donut English learning APP.



Management Discussion and Analysis (Continued)

Institutional customers

Cost of revenue for services to institutional customers decreased by 69.6% from RMB12.0 million in the six months ended 30 November 2019 to RMB3.6 million in the six months ended 30 November 2020.

Segment gross profit for our services to institutional customers decreased by 11.7% from RMB44.6 million in the six months ended 30 November 2019 to RMB39.4 million in the six months ended 30 November 2020, and the gross profit margin increased from 78.8% to 91.5%.

Other income, gains and losses

Our other income, gains and losses decreased by 27.9% from RMB88.8 million in the six months ended 30 November 2019, to RMB64.0 million in the six months ended 30 November 2020, primarily due to a net foreign exchange loss, compared with a net foreign exchange gain recorded in the previous reporting period.

Selling and marketing expenses

Our selling and marketing expenses increased by 76.7% from RMB291.6 million in the six months ended 30 November 2019 to RMB515.3 million in the six months ended 30 November 2020, primarily due to an increase in staff costs, in particular an increased number of sales and marketing professionals, as we established multi-channel marketing teams to promote our products and stabilize the cost of customer acquisition by adopting various innovative online and offline approaches.

Research and development expenses

Our research and development expenses increased by 81.6% from RMB128.9 million in the six months ended 30 November 2019 to RMB234.1 million in the six months ended 30 November 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 62.6% from RMB78.8 million in the six months ended 30 November 2019 to RMB128.1 million in the six months ended 30 November 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 result of associates

Our share of profit of associates increased by 8.0% from RMB3.3 million in the six months ended 30 November 2019 to RMB3.5 million in the six months ended 30 November 2020, primarily due to an increase in profits from our share of the results of Beijing Shidai Yuntu Book Co. Ltd.



Management Discussion and Analysis (Continued)

Income tax (expenses) credit

From the six months ended 30 November 2019 to the six months ended 30 November 2020, our income tax expenses increased by 195.6%, from a credit of RMB7.3 million to an expense of RMB7.0 million, primarily due to income tax expenses incurred for the credit of the deferred tax liabilities in the reporting period, while income tax credit incurred for the debit of the deferred tax assets in the prior reporting period.

Loss for the period

As a result of the above, our loss for the period increased by 670.6% from RMB87.5 million in the six months ended 30 November 2019 to RMB674.4 million in the six months ended 30 November 2020.

Non-IFRS measures

To supplement the financial information that is prepared and presented in accordance with IFRS, we also used “adjusted loss” 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 the potential impact of items that our management do not consider to be indicative of our operating performance. We also believe that these measures provide useful information to 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 as loss for the period less gain on fair value changes of financial assets at FVTPL plus share-based compensation expenses for that period. We have defined LBITDA as loss for a given period plus income tax expense (credit), 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 period.



Management Discussion and Analysis (Continued)

The following table reconciles our net loss to Adjusted Loss:

	Six months ended 30 November 2020 RMB'000 (unaudited)	Six months ended 30 November 2019 RMB'000 (unaudited)
Reconciliation of our loss for the period to Adjusted Loss:		
Loss for the period	(674,426)	(87,516)
Less:		
Gain on fair value changes of financial assets at FVTPL — Non-current assets	134,092 ⁽¹⁾	14
Add:		
Share-based compensation expenses	147,105	31,280
Adjusted Loss for the period	(661,413)	(56,250)

The following table reconciles our loss to LBITDA:

	Six months ended 30 November 2020 RMB'000 (unaudited)	Six months ended 30 November 2019 RMB'000 (unaudited)
Reconciliation of loss for the period to LBITDA		
Loss for the period	(674,426)	(87,516)
Add:		
Income tax expense (credit)	7,024	(7,347)
Share-based compensation expenses	147,105	31,280
Finance costs	7,373	4,555
Impairment losses under expected credit loss model, net of reversal	3,145	209
Depreciation of property and equipment	17,793	6,200
Depreciation of right-of-use assets	48,335	32,544
Less:		
Other income, gain and losses	63,958	88,754
LBITDA	(507,609)	(108,829)

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.



Management Discussion and Analysis (Continued)

Liquidity and capital resources

During the Reporting Period, we met our cash requirements primarily from cash and cash equivalents and advances from shares, which have been issued on 24 December 2020. As at 30 November 2020, we had cash and cash equivalents RMB1.9 billion and term deposits RMB330.4 million, compared to cash and cash equivalents RMB480.3 million and term deposits RMB1.5 billion as at 31 May 2020. 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, net proceeds from the Company's Global Offering and from the subscription of new shares (as described in the Company's announcements dated 24 December 2020 and 8 September 2020 and further detailed in "— Events After the Reporting Period" in this report).

As at the end of the Reporting Period, our Group's gearing ratio⁽¹⁾ was 66.0% (compared with 38.9% as at 31 May 2020), calculated as total liabilities divided by total assets.

Capital expenditure

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

	Six months ended 30 November 2020 RMB'000 (unaudited)	Six months ended 30 November 2019 RMB'000 (unaudited)
Purchase of property and equipment	59,714	33,357

Our capital expenditures were primarily for purchases of property and equipment in the six months ended 30 November 2019 and 2020, respectively. Our purchases of property and equipment were RMB33.4 million and RMB59.7 million for the six months ended 30 November 2019 and 2020, respectively.

Off-balance sheet commitments and arrangements

As of 30 November 2020, we had not entered into any off-balance sheet transactions.

Future plans for material investments and capital assets

As of 30 November 2020, we did not have any other foreseeable plans for material investments and capital assets.

Note:

- (1) The increase in gearing ratio was mainly due to the subscribed amount of US\$200,000,000 (approximately RMB1,314,739,000) the company received on 25 November 2020, which was included in accrued expenses and other payables, from New Oriental with respective shares to be allotted or issued prior to 31 December 2020.



Management Discussion and Analysis (Continued)

Material acquisitions and/or disposals of subsidiaries and affiliated companies

During the Reporting Period, we did not have any other material acquisitions and/or disposals of subsidiaries and affiliated companies.

Employees and remuneration policy

As at 30 November 2020, we had 7,588 full-time employees and 5,756 part-time employees (30 November 2019: 2,813 full-time employees and 4,051 part-time employees). The number of employees employed by the Group varies from time to time depending on needs and employees are remunerated based on industry practice.

Our success depends on our ability to attract, retain and motivate qualified personnel. The remuneration policy and package of the Group's employees are periodically reviewed. Apart from pension funds and in-house training programmes, discretionary bonuses, share awards and share options may be awarded to employees according to assessment of individual performance.

The total remuneration expenses, including share based compensation expense incurred by the Group for the six months ended 30 November 2020 was RMB976.5 million, representing a period on period increase of 188.8%.

Foreign exchange risk

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

Indebtedness

During the Reporting Period, we did not incur any bank loan or other borrowings. 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 borrowings in the 12 months from the date of this report.

Pledge of assets

As at 30 November 2020, none of our Group's assets were pledged.

Contingent liabilities

As of 30 November 2020, we did not have any material contingent liabilities.



OTHER INFORMATION

DISCLOSURE OF INTERESTS

Directors and chief executives

As at 30 November 2020, the interests and short positions of our Directors and the Company's chief executive 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 the Company's chief executive do not hold any short positions in Shares.

Interest in our Shares

Name of Director or chief executive	Nature of interest	Relevant entity	Number of Shares interested	Approximate percentage of shareholding in our Company ⁽¹⁾
Mr. Sun Dongxu ⁽²⁾ ("Mr. Sun")	Beneficial owner		8,500,000	0.90%
Mr. Yu Minhong ⁽³⁾ ("Mr. Yu")	Beneficial owner		16,695,285	1.78%
	Beneficiary of a trust	Tigerstep	15,858,832	1.69%
Ms. Sun Chang ⁽⁴⁾ ("Ms. Sun")	Interest in a controlled corporation	First Bravo	14,742,640	1.57%
Mr. Yin Qiang ⁽⁵⁾ ("Mr. Yin")	Beneficial owner		2,900,000	0.31%
	Interest in a controlled corporation	Perfect Go	3,371,196	0.36%
Mr. Wu Qiang ⁽⁶⁾ ("Mr. Wu")	Beneficial owner		1,350,000	0.14%

Notes:

- (1) The percentages are calculated based on our Company's total number of issued shares, being 940,225,102 Shares, as at 30 November 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**"), a company wholly-owned by Mr. Yu. Mr. Yu is deemed to be interested in all of Tigerstep's interests in our Company. See " — Events after the reporting period" for additional shares issued to Tigerstep as part of the share subscription that closed on 24 December 2020.
- (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.



Other Information (Continued)

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	12.3%

Note:

- (1) According to the best knowledge of our Directors and publicly available information of New Oriental accessed as at the end of the Reporting Period (being the prospectus of New Oriental dated 29 October 2020 published on the Stock Exchange); represents: (i) 17,800,000 Shares held by Tigerstep Developments Limited (“**Tigerstep**”), a company wholly-owned by Mr. Yu, and (ii) 1,950,272 American depositary shares (“**ADSs**”) (representing the same number of underlying shares of New Oriental), which consist of 1,938,554 ADSs held by Tigerstep and 11,718 ADSs held by Mr. Yu.

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⁾	9,900,000	99%
	Interest in a controlled corporation	New Oriental China ⁽¹⁾	50,000,000	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 99% 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.



Other Information (Continued)

Substantial shareholders

As at 30 November 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	505,480,500	53.76%
Image Frame ⁽²⁾	Beneficial interest	90,416,181	9.62%
Tencent ⁽²⁾	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 940,225,102 Shares, as at 30 November 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

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



Other Information (Continued)

Pre-IPO ESOP

As at 30 November 2020, (a) our Directors held unexercised options under the Pre-IPO ESOP to subscribe for a total of 28,145,285 Shares, representing approximately 3.0% of the issued share capital of our Company (being 940,225,102 Shares), and (b) the other grantees held unexercised options under the Pre-IPO ESOP to subscribe for a total of 9,845,700 Shares, representing approximately 1.05% of the issued share capital of our Company (being 940,225,102 Shares), details of which are as follows:

Name or category of grantee	Date of grant	Vesting period	Maximum period during which options are exercisable	Exercise price	Outstanding as at 1 June 2020	Number of options			
						Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at 30 November 2020
Mr. Yu	6 March 2019	Three years from Listing Date	From the commencement of the first vesting period to the day prior to the sixth anniversary of the Listing Date	HK\$8.88 per Share	16,695,285	Nil	Nil	Nil	16,695,285
Mr. Sun	6 March 2019	Three years from Listing Date	From the commencement of the first vesting period to the day prior to the sixth anniversary of the Listing Date	HK\$8.88 per Share	8,000,000	Nil	Nil	Nil	8,000,000
Mr. Yin	6 March 2019	Three years from Listing Date	From the commencement of the first vesting period to the day prior to the sixth anniversary of the Listing Date	HK\$8.88 per Share	2,100,000	Nil	Nil	Nil	2,100,000
Mr. Wu	6 March 2019	Three years from Listing Date	From the commencement of the first vesting period to the day prior to the sixth anniversary of the Listing Date	HK\$8.88 per Share	1,350,000	Nil	Nil	Nil	1,350,000
Other grantees (in aggregate)	6 March 2019	Three years from Listing Date	From the commencement of the first vesting period to the day prior to the sixth anniversary of the Listing Date	HK\$8.88 per Share	11,106,200	760,500	Nil	500,000	9,845,700
Total					39,251,485	760,500	Nil	500,000	37,990,985

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



Other Information (Continued)

Post-IPO ESOP

As at the end of 30 November 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 498 grantees held unexercised options under the Post-IPO ESOP to subscribe for a total of 58,956,000 Shares, representing approximately 6.27% of the issued share capital of our Company, the details of which are set out below:

Name or category of grantee	Date of grant	Vesting period	Exercisable period	Exercise price	Outstanding as at 1 June 2020	Number of options				Outstanding as at the end of the Reporting Period	Closing price of the Shares immediately before the date of grant
						Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period		
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 ");	Ten years from the date of grant	HK\$25.35 per Share	500,000	—	Nil	Nil	Nil	500,000	HK\$25.35
Mr. Yin	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 ");	Ten years from the date of grant	HK\$25.35 per Share	800,000	—	Nil	Nil	Nil	800,000	HK\$25.35
Other grantees (in aggregate)	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 "); and (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.	Ten years from the date of grant	HK\$25.35 per Share	36,899,000	—	Nil	30,000	2,493,000	34,376,000	HK\$25.35
Other grantees (in aggregate)	25 August 2020	25 August 2020 to 24 August 2024 (both dates inclusive)	Ten years from the date of grant	HK\$34.00 per Share	—	25,000,000	Nil	Nil	420,000	24,580,000	HK\$33.35
Total					38,199,000	25,000,000	Nil	30,000	2,913,000	60,256,000	

EVENTS AFTER THE REPORTING PERIOD

During the Reporting Period, the Company entered into the Share Subscription with New Oriental and Tigerstep. For further details of the Share Subscription, please see the announcements of the Company dated 8 September and 28 September 2020, and the circular of the Company dated 14 October 2020. The Share Subscription was completed on 24 December 2020 (please see our announcement of 24 December 2020). On 22 January 2021, the Board updated its use of proceeds from the Global Offering; see "Use of Proceeds from our Global Offering" and our announcement of 22 January 2021.

Save as disclosed in this interim report, no other significant events affecting our Company have occurred since the end of the Reporting Period to the date of this interim report.



Other Information (Continued)

CORPORATE GOVERNANCE PRACTICES

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

OUR DIRECTORS' COMPLIANCE WITH THE MODEL CODE

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

AUDIT COMMITTEE

We have established an audit committee (the "**Audit Committee**") in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system (including risk management) of our Group, to review and approve connected transactions and to provide advice and comments to the Board. The Audit Committee consists of three members: Mr. TONG Sui Bau (as the Audit Committee's chairperson), Mr. WU Qiang and Mr. KWONG Wai Sun Wilson.

The Audit Committee, together with the external auditor, Deloitte Touche Tohmatsu, has reviewed our Group's unaudited condensed consolidated financial statements for the six months ended 30 November 2020. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by our Company and internal control measures with senior management members.

OTHER BOARD COMMITTEES

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

PURCHASE, SALE OR REDEMPTION OF OUR COMPANY'S LISTED SECURITIES

See "Events after the Reporting Period" for information on the Share Subscription. Save as disclosed in this interim report, during the Reporting Period, neither our Company nor any of its subsidiaries purchased, sold or redeemed any of our Company's securities listed on the Stock Exchange.

MATERIAL LITIGATION

As at 30 November 2020, our Company was not involved in any material litigation or arbitration. Nor were the Directors of our Company aware of any material litigation or claims that were pending or threatened against our Company.

INTERIM DIVIDEND

Our Board does not recommend the distribution of an interim dividend for the Reporting Period (six months ended 30 November 2019: nil).



Other Information (Continued)

CHANGES IN THE INFORMATION OF DIRECTORS

On 9 November 2020, our parent company, New Oriental, listed on the Stock Exchange under Chapter 19C of the Listing Rules. Mr. Yu, our Chairman and Director is also the executive chairman and director of New Oriental. As at the date of this report, New Oriental is listed on the New York Stock Exchange (Ticker Symbol: EDU) and the Stock Exchange in Hong Kong (Stock Code: 9901). Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

USE OF PROCEEDS FROM OUR GLOBAL OFFERING

Our Shares were listed on the Main Board of the Stock Exchange on 28 March 2019. Net proceeds received from our Global Offering aggregated to HK\$1.8 billion. As of 30 November 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. On 22 January 2021, the Board has resolved to change the use of the remaining net proceeds (the “**Change in Use of Proceeds**”). The utilisation of the net proceeds and the latest change in the use of net proceeds from the Global Offering were summarised as follows:

	Net proceeds from Global Offering	Utilised as at 30 November 2020 ⁽²⁾	Utilised during the six months ended 30 November 2020 ⁽²⁾	Remaining amount ⁽³⁾	Proposed change of use of the remaining net proceeds
HK\$ million⁽¹⁾					
Staff recruitment and training activities	533.4	533.4	389.9	—	533.4
Acquisitions and/or investments	533.4	—	—	533.4	—
Course development	177.8	167.6	149.1	10.2	10.2
Technology infrastructure	177.8	177.8	19.7	—	—
Marketing activities	177.8	177.8	19.7	—	—
Working capital and general corporate purposes	177.8	177.8	106.0	—	—

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:RMB0.83461, being the midpoint rate of HKD to RMB published by the People’s Bank of China on the 21 January 2020. The figures presented in this table are approximations and subject to currency exchange fluctuation and rounding.
- (3) We will gradually utilise the net proceeds within three years from 22 January 2021.



Other Information (Continued)

REASONS FOR THE CHANGE IN USE OF PROCEEDS

The Change in Use of Proceeds reflects our Company's long-term strategy to recruit more talented teaching and engineering staff, which we view as essential for sustained long-term growth of our key business segments in the online education industry. Investing in human resources has been a key focus since the Listing, reflecting one of our founding principles — training teachers to be the best that they can be. Furthermore, since the Listing, the Board has not identified any suitable business targets to acquire or in which to materially invest. Given that the global economic climate is still dealing with, or in the early stages of recovering from, the COVID-19 pandemic, we propose to continue focusing on consolidating and expanding our existing business and customer base and improving our existing platforms, products and services, which means continuing to invest in human resources and staff retention, development and recruitment. The Board believes that the Change in Use of Proceeds is consistent with our Company's long-term strategy and founding principles and in the best interests of our Company and shareholders as a whole.

USE OF PROCEEDS FROM THE SHARE SUBSCRIPTION

The Share Subscription was completed after the Reporting Period and raised HK\$1.8 billion in net proceeds. No net proceeds from the Share Subscription were used during the Reporting Period. We propose to use the net proceeds from the Share Subscription in the manner and within the time periods set out in our circular dated 14 October 2020, and expect to use the net proceeds from the Share Subscription within three years of the completion (being 24 December 2020).



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Koolearn Technology Holding Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 25 to 55, which comprise the condensed consolidated statement of financial position as of 30 November 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

22 January 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 November 2020

	NOTES	Six months ended 30 November	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue	4	676,755	567,641
Cost of revenue		(523,621)	(250,535)
Gross profit		153,134	317,106
Other income, gains and losses	6	63,958	88,754
Impairment losses under expected credit loss model, net of reversal	14	(3,145)	(209)
Selling and marketing expenses		(515,316)	(291,553)
Research and development expenses		(234,100)	(128,883)
Administrative expenses		(128,095)	(78,797)
Share of results of associates		3,535	3,274
Finance costs		(7,373)	(4,555)
Loss before tax		(667,402)	(94,863)
Income tax (expense) credit	7	(7,024)	7,347
Loss for the period	8	(674,426)	(87,516)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		—	124
Total comprehensive expense for the period		(674,426)	(87,392)
Loss for the period attributable to:			
Owners of the Company		(674,426)	(71,282)
Non-controlling interests		—	(16,234)
		(674,426)	(87,516)
Total comprehensive expense for the period attributable to:			
Owners of the Company		(674,426)	(71,158)
Non-controlling interests		—	(16,234)
		(674,426)	(87,392)
Loss per share			
— Basic and diluted (RMB)	9	(0.72)	(0.08)



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 November 2020

		30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
	NOTES		
Non-current Assets			
Property and equipment	11	152,857	81,676
Right-of-use assets	11	329,354	331,122
Interests in associates		85,993	82,458
Financial assets at fair value through profit or loss	12	317,420	183,328
Deposits for acquisition of property and equipment		4,810	13,852
Refundable rental deposits		16,605	15,396
		907,039	707,832
Current Assets			
Trade and other receivables	13	40,942	41,993
Prepayments		48,272	70,838
Financial assets at fair value through profit or loss	12	764,064	277,800
Term deposits	15	330,438	1,470,530
Bank balances and cash	15	1,852,839	480,251
		3,036,555	2,341,412
Current Liabilities			
Lease liabilities		93,915	77,263
Contract liabilities	16	492,141	420,103
Refund liabilities		65,857	36,491
Trade payables	17	23,905	34,067
Accrued expenses and other payables	23	1,660,663	343,752
		2,336,481	911,676
Net Current Assets		700,074	1,429,736
Total Assets less Current Liabilities		1,607,113	2,137,568



Condensed Consolidated Statement of Financial Position (Continued)
At 30 November 2020

	NOTES	30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
Capital and Reserves			
Share capital	18	121	120
Reserves		1,342,274	1,863,580
Total Equity		1,342,395	1,863,700
Non-current Liabilities			
Deferred tax liabilities	20	32,751	25,648
Lease liabilities		231,967	248,220
		264,718	273,868
		1,342,395	1,863,700



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 November 2020

	Attributable to owners of the Company									
	Share capital	Share premium	Statutory reserve	Translation reserve	Share option reserve	Other reserve	Retained profits/ losses accumulated	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 June 2019 (audited)	120	2,456,221	23,978	—	51,513	946	68,808	2,601,586	(31,479)	2,570,107
Loss for the period	—	—	—	—	—	—	(71,282)	(71,282)	(16,234)	(87,516)
Other comprehensive income for the period	—	—	—	124	—	—	—	124	—	124
Total comprehensive income (expense) for the period	—	—	—	124	—	—	(71,282)	(71,158)	(16,234)	(87,392)
Recognition of equity-settled share-based payments	—	—	—	—	31,280	—	—	31,280	—	31,280
Acquisition of non-controlling interests	—	—	—	—	—	(141,713)	—	(141,713)	47,713	(94,000)
Exercise of share options (Note 18)	—	23,868	—	—	(6,966)	—	—	16,902	—	16,902
At 30 November 2019 (unaudited)	120	2,480,089	23,978	124	75,827	(140,767)	(2,474)	2,436,897	—	2,436,897
At 1 June 2020 (audited)	120	2,491,663	23,978	220	161,683	(140,767)	(673,197)	1,863,700	—	1,863,700
Loss and total comprehensive expense for the period	—	—	—	—	—	—	(674,426)	(674,426)	—	(674,426)
Recognition of equity-settled share-based payments	—	—	—	—	147,105	—	—	147,105	—	147,105
Exercise of share options (Note 18)	1	8,525	—	—	(2,510)	—	—	6,016	—	6,016
At 30 November 2020 (unaudited)	121	2,500,188	23,978	220	306,278	(140,767)	(1,347,623)	1,342,395	—	1,342,395

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 November 2020

	Six months ended 30 November	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(403,226)	(53,355)
INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at fair value through profit or loss	232,216	350,000
Purchases of financial assets at fair value through profit or loss	(710,500)	(208,000)
Proceeds on disposal of property and equipment	30	53
Interest received from term deposits	46,773	7,879
Purchase of property and equipment	(59,714)	(33,357)
Payments for right-of-use assets	(213)	(8,217)
Payments for rental deposits	(1,512)	(10,489)
Refund of rental deposits	193	—
Placement of term deposits	(353,953)	(1,757,450)
Withdrawal of term deposits	1,413,859	—
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	567,179	(1,659,581)
FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	—	16,902
Advances from a related party for ordinary shares to be issued (Note 23)	1,314,739	—
Payment of issue costs relating to ordinary shares to be issued	(132)	—
Proceeds from issuance of shares upon exercise of share options	6,114	—
Repayment of lease liabilities	(52,881)	(26,339)
Acquisition of non-controlling interest of a subsidiary	—	(94,000)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	1,267,840	(103,437)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,431,793	(1,816,373)
CASH AND CASH EQUIVALENTS AT 1 JUNE	480,251	2,497,621
Effect of exchange rate changes	(59,205)	35,283
CASH AND CASH EQUIVALENTS AT 30 NOVEMBER, REPRESENTED BY BANK BALANCES AND CASH	1,852,839	716,531



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 November 2020

1. GENERAL

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. New Oriental Education & Technology Group Inc. is the ultimate controlling shareholder of the Company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (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 provides education and related services to institutional customers such as public libraries and universities.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 28 March 2019.

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

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



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

- exercise equity holders' controlling voting rights of the Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the business support, technical and consulting services provided by Dexin Dongfang;
- obtain an irrevocable and exclusive right to purchase all or part of equity interests in the Consolidated Affiliated Entities from the respective equity holders at nil consideration or a minimum purchase price permitted under PRC Laws. Dexin Dongfang may exercise such options at any time until it has acquired all equity interests and/or all assets of the Consolidated Affiliated Entities. In addition, the Consolidated Affiliated Entities are not allowed to sell, transfer, or dispose any assets, or make any distributions to their equity holders without prior consent of Dexin Dongfang; and
- obtain a pledge over the entire equity interest of Beijing Xuncheng from their equity holders as collateral security for all of Beijing Xuncheng's and Kuxue Huisi's payments due to Dexin Dongfang and to secure performance of Beijing Xuncheng's and Kuxue Huisi's obligations under the Contractual Arrangements.

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

Other than changes in accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 November 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 May 2020.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs Standards and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 or 1 June 2020 for the preparation of the Group's condensed consolidated financial statements.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 And IFRS 7	Interest Rate Benchmark Reform
Amendment to IFRS 16	COVID-19-Related Rent Concessions



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to IFRSs (Continued)

The application of the Amendments to References to the Conceptual Framework in IFRSs Standards and the amendments to IFRSs in the current period has had no material impact on the Group's financial position and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended 30 November	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Timing of revenue recognition		
Over time	650,729	534,256
A point in time	26,026	33,385
Total	676,755	567,641
Type of customer		
Students	633,726	511,056
Institutional customers	43,029	56,585
Total	676,755	567,641
Type of service		
Live online course services provided to students	381,302	140,007
Pre-recorded online course services provided to students	226,425	337,677
Pre-recorded online education package services to institutional customers	43,002	56,572
Sales of online testing package	9,110	15,289
Others	16,916	18,096
Total	676,755	567,641

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



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

5. SEGMENT INFORMATION

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

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

1. College Education — online education service targeted to college and above students and adults.
2. 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 six months ended 30 November 2020 (unaudited)

	College Education	K-12 Education	Pre-school Education	Institutional customers	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Revenue	292,419	336,860	4,447	43,029	676,755
Cost of revenue	(90,253)	(425,996)	(3,725)	(3,647)	(523,621)
Segment gross profit (loss)	202,166	(89,136)	722	39,382	153,134
Unallocated income and expenses:					
Other income, gains and losses					63,958
Impairment losses under expected credit loss model, net of reversal					(3,145)
Selling and marketing expenses					(515,316)
Research and development expenses					(234,100)
Administrative expenses					(128,095)
Share of results of associates					3,535
Finance costs					(7,373)
Loss before tax					(667,402)



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

5. SEGMENT INFORMATION (Continued)

For the six months ended 30 November 2019 (unaudited)

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

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, share of results of associates and finance costs are excluded from segment result.

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

The Company is domiciled in the PRC and all of the Group's revenue were generated from external customers in the PRC during the six months ended 30 November 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 six months ended 30 November 2020 (Six months ended 30 November 2019: nil).



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

6. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 November	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Gain on fair value changes of financial assets at fair value through profit or loss ("FVTPL")	142,072	6,891
Net foreign exchange (loss)/gain	(97,031)	45,243
Additional value added tax ("VAT") input deduction and VAT exemption ⁽ⁱ⁾	9,542	1,647
Interest income from term deposits	4,412	24,871
Government grants	2,538	762
Interest income from bank balances	1,766	8,732
Interest income from rental deposits	404	330
Gain on lease termination	222	2,672
Loss on disposal of property and equipment	(1)	(2,533)
Others	34	139
	63,958	88,754

Note:

- (i) Additional VAT input deduction and VAT exemption amounted to RMB4,284,000 (Six months ended 30 November 2019: RMB1,647,000) and RMB5,258,000 (Six months ended 30 November 2019: nil), were recognized in profit or loss due to the VAT reform and VAT exemption caused by the 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.



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

7. INCOME TAX EXPENSE (CREDIT)

	Six months ended 30 November	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Current tax:		
PRC enterprise income tax	(79)	—
Deferred tax (Note 20)	7,103	(7,347)
	7,024	(7,347)

The Company and Dong Fund Co., Ltd. were incorporated in the Cayman Islands. Both are tax exempted under the tax laws of the Cayman Islands, as no business is carried out in the Cayman Islands. There were no material change of tax status of the Group from 31 May 2020. 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 tax rate of the PRC subsidiaries is 25% during the six months ended 30 November 2020 (Six months ended 30 November 2019: 25%).

The Group's subsidiaries operating in the PRC are eligible for certain tax concessions. In 2017, Beijing Xuncheng obtained the "high and new technology enterprise" (the "HNTE") status and enjoy the preferential tax rate of 15% from calendar year 2017 to 2019. 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 2020, Beijing Xuncheng renewed the certificate and continues to enjoy the preferential tax rate from calendar year 2020 to 2022. In 2018, Kuxue Huisi obtained the HNTE status and enjoy the preferential tax rate of 15% from calendar year 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%). The Group's subsidiaries operating in Hainan and Zhuhai are eligible for local tax concessions. According to the local tax policies, Hainan Haiyue Dongfang Network Technology Co., Ltd. and Zhuhai Chongsheng Heli Network Technology Co., Ltd., subsidiaries of the Group, meet the relevant criteria and can enjoy a preferential tax rate of 15%.



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

8. LOSS FOR THE PERIOD

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

	Six months ended 30 November	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Depreciation of property and equipment	17,793	6,200
Depreciation of right-of-use assets	48,335	32,544
Total depreciation and amortisation	66,128	38,744

9. LOSS PER SHARE

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

	Six months ended 30 November	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Loss:		
Loss for the period attributable to owners of the Company for the purpose of calculating basic and diluted loss per share	(674,426)	(71,282)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	939,928,452	936,852,651

The calculation of basic loss per share for the six months ended 30 November 2020 and 2019 was based on the loss for the period attributable to the owners of the Company.

The calculation of the number of shares for the purpose of basic loss per share for the six months ended 30 November 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 six months ended 30 November 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.



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

10. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 November 2020 (Six months ended 30 November 2019: nil). The directors of the Company have determined that no dividend will be paid in respect of the six months ended 30 November 2020 (Six months ended 30 November 2019: nil).

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

During the current interim period, the Group disposed of certain office equipment with an aggregate carrying amount of RMB31,000 (Six months ended 30 November 2019: RMB2,586,000) for cash proceeds of RMB30,000 (Six months ended 30 November 2019: RMB53,000), resulting in a loss on disposal of RMB1,000 (Six months ended 30 November 2019: RMB2,533,000).

During the current interim period, the Group entered into several new lease agreements with lease terms ranged from one year to five years (Six months ended 30 November 2019: one year to three years). On lease commencement date, the Group recognised right-of-use assets of RMB47,157,000 (Six months ended 30 November 2019: RMB130,896,000) and lease liabilities of RMB46,716,000 (Six months ended 30 November 2019: RMB121,660,000) after consideration of lease payments made at or before the commencement date.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
Non-current assets		
Financial assets at FVTPL		
— unlisted equity investments ^(a)	317,420	183,328
Current assets		
Financial assets at FVTPL		
— wealth management products ^(b)	764,064	277,800

(a) Included in the equity investments are the Group's investments in preferred shares of Beijing Edutainment World Education Technology Co., Ltd. ("Edutainment World") and EEO Group ("EEO") incorporated in the PRC and Cayman Islands, respectively.

(b) Wealth management products are purchased from various banks with expected rate of return ranging from 0.30% to 3.80% per annum, and maturity period ranging from 1 day to 97 days. The principals and returns of these wealth management products are not guaranteed.

During the six months ended 30 November 2019, the Group made purchases of online course services and referral services from Edutainment World amounting to RMB1,338,000 (Six months ended 30 November 2020: nil).

During the six months ended 30 November 2020, the Group made purchases of online classroom related services from EEO amounting to RMB9,176,000 (Six months ended 30 November 2019: RMB9,215,000).



Notes to the Condensed Consolidated Financial Statements (Continued)
For the six months ended 30 November 2020

13. TRADE AND OTHER RECEIVABLES

	30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
Trade receivables	20,298	15,137
Less: allowance for credit losses	(6,888)	(3,743)
	13,410	11,394
Other receivables	27,532	30,599
Trade and other receivables	40,942	41,993

Trade receivables arising from institutional customers

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

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

	30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
1–90 days	7,932	6,880
91–180 days	3,873	2,890
181 days–365 days	1,193	1,491
over 365 days	412	133
	13,410	11,394



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

14. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS MODEL

	Six months ended 30 November	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Impairment loss recognised in respect of:		
Trade receivables	3,145	209

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 November 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 May 2020.

15. 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 30 November 2020, the Group's short-term bank deposits carried at market rate ranged from 0.00% to 1.62% (31 May 2020: 0.00% to 1.62%) per annum.

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

	30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
US\$	475,968	309,278
HK\$	1,323,303	6,705
	1,799,271	315,983



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

15. BANK BALANCES AND CASH AND TERM DEPOSITS (Continued)

Term deposits

Term deposits represent two certificates of deposits with a commercial bank in an amount of RMB330,438,000 (31 May 2020: RMB1,470,530,000) with an original maturity of over three months and less than one year that bear market rate of 1.05% (31 May 2020: 3.25%) per annum as at 30 November 2020.

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 December 2020.

16. CONTRACT LIABILITIES

	30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
Contract liabilities in relation to:		
Students	455,878	378,006
Institutional customers	36,263	42,097
	492,141	420,103

The following table shows the unsatisfied contracts at the end of the reporting period and the expected timing of recognising revenue.

	30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
Expected to be recognised within one year		
Students	425,675	364,449
Institutional customers	30,090	36,276
Expected to be recognised over one year		
Students	30,203	13,557
Institutional customers	6,173	5,821
Total	492,141	420,103



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

17. TRADE PAYABLES

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

	30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
1–90 days	17,135	24,156
91–180 days	5,446	6,333
181 days–1 year	412	2,014
1 year–2 years	84	241
> 2 years	828	1,323
	23,905	34,067

Included in trade payables, RMB2,373,000 as at 30 November 2020 (31 May 2020: RMB895,000), were amounts due to related parties (details as set out in Note 23), which were aged within 90 days based on the invoice date.

18. SHARE CAPITAL

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

Issued and fully paid	Number of ordinary shares	Par value per ordinary share		Share capital	
		US\$	RMB	US\$	RMB
At 1 June 2019	936,335,602			18,726	120,000
Exercise of share options ^(a)	2,111,000	0.00002	0.00014	42	298
At 30 November 2019 (unaudited)	938,446,602			18,768	120,298
At 1 June 2020	939,464,602			18,789	120,442
Exercise of share options ^(a)	760,500	0.00002	0.00014	15	105
At 30 November 2020 (unaudited)	940,225,102			18,804	120,547

(a) As a result of exercise of share options, 760,500 ordinary shares were issued during the six months ended 30 November 2020 (Six months ended 30 November 2019: 2,111,000) by the Company. Upon the exercise of share options, RMB8,525,000 (Six months ended 30 November 2019: RMB23,868,000) was credited to share premium and RMB2,510,000 (Six months ended 30 November 2019: RMB6,966,000) was debited to share option reserve.



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

19. SHARE-BASED PAYMENTS

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") for the purpose of providing incentives to directors and eligible employees. The options will expire on 28 March 2025.

The table below discloses movement of the Company's share options under the Pre-IPO Share Option Scheme:

	Number of share options
Outstanding as at 1 June 2019	44,740,485
Forfeited during the period	(2,152,500)
Exercised during the period	(2,111,000)
Outstanding as at 30 November 2019 (unaudited)	40,476,985
Outstanding as at 1 June 2020	39,251,485
Forfeited during the period	(500,000)
Exercised during the period	(760,500)
Outstanding as at 30 November 2020 (unaudited)	37,990,985

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was RMB29.12 during the six months ended 30 November 2020 (Six months ended 30 November 2019: RMB12.88).

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") for the purpose of providing incentives to directors and eligible employees. On 29 January 2020, the Company granted a total of 40,000,000 options (the "Post-IPO Share Option I") to directors and employees, pursuant to the Post-IPO Share Option Scheme. The Post-IPO Share Option I will expire on 28 January 2030.



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

19. SHARE-BASED PAYMENTS (Continued)

Post-IPO Share Option Scheme (Continued)

The table below discloses movement of the Company's Post-IPO Share Option I:

	Number of share options
Outstanding as at 1 June 2020	38,199,000
Forfeited during the period	(2,493,000)
Cancelled during the Period	(30,000)
Outstanding as at 30 November 2020 (unaudited)	35,676,000

On 25 August 2020 (the "Grant Date"), the Company further granted 25,000,000 options (the "Post-IPO Share Option II") for the purpose of providing incentives to employees, pursuant to the Post-IPO Share Option Scheme. The Post-IPO Share Option II has two kind of vesting schedule: schedule A and schedule B. For schedule A, 30% of the shares vested on the first anniversary of the Grant Date, 30% of the shares vested on the second anniversary of the Grant Date, 30% of the shares vested on the third anniversary of the Grant Date and 10% of the shares vested on the fourth anniversary of the Grant Date. For schedule B, 20% of the shares vested on the second anniversary of the Grant Date, 40% of the shares vested on the third anniversary of the Grant Date and 40% of the shares vested on the fourth anniversary of the Grant Date. The Post-IPO Share Option II will expire on 24 August 2030. The estimated fair values of the Post-IPO Share Option II determined at the Grant Date were RMB369,814,000.

The following assumptions were used to calculate the grant date fair values of Post-IPO Share Option II:

	25 August 2020
Grant date share price	HK\$35.05
Exercise price	HK\$34.00
Exercise life	10 years
Expected volatility	49.5%
Dividend yield	0.00%
Risk-free interest rate	0.44%

The binomial option-pricing model has been used to estimate the fair value of the Post-IPO Share Option II. 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.



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

19. SHARE-BASED PAYMENTS (Continued)

Post-IPO Share Option Scheme (Continued)

The table below discloses movement of the Company's Post-IPO Share Option II:

	Number of share options
Granted on 25 August 2020	25,000,000
Forfeited during the period	(420,000)
Outstanding as at 30 November 2020 (unaudited)	24,580,000

20. DEFERRED TAX ASSETS AND LIABILITIES

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

	Accrued expenses RMB'000	Deductible advertising expenses without expiry date RMB'000	Provision for credit losses RMB'000	Right-of-use assets and lease liabilities RMB'000	Changes in fair value of financial assets at FVTPL RMB'000	Total RMB'000
At 1 June 2019	7,279	19,895	417	—	(16,530)	11,061
(Charged) credited to profit or loss	(458)	7,543	31	235	(4)	7,347
At 30 November 2019 (unaudited)	6,821	27,438	448	235	(16,534)	18,408
Charged to profit or loss	(6,821)	(27,438)	(448)	(235)	(9,114)	(44,056)
At 1 June 2020	—	—	—	—	(25,648)	(25,648)
Charged to profit or loss	—	—	—	—	(7,103)	(7,103)
At 30 November 2020 (unaudited)	—	—	—	—	(32,751)	(32,751)

The following is the analysis of the deferred tax balances for financial reporting purposes:



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

20. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

	30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
Deferred tax assets	—	—
Deferred tax liabilities	(32,751)	(25,648)
	(32,751)	(25,648)

21. CAPITAL COMMITMENTS

	30/11/2020 RMB'000 (unaudited)	31/05/2020 RMB'000 (audited)
Capital commitments in respect of the acquisition of office equipment	29,151	25,035



Notes to the Condensed Consolidated Financial Statements (Continued)
For the six months ended 30 November 2020

22. 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 the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used) as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Fair value hierarchy as at 30 November 2020 (unaudited)

	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL			
Unlisted equity securities	—	317,420	317,420
Financial assets at FVTPL			
Wealth management products	764,064	—	764,064
	764,064	317,420	1,081,484

Fair value hierarchy as at 31 May 2020 (audited)

	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



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30 November 2020 (unaudited)	31 May 2020 (audited)			
Wealth management products issued by banks classified as financial asset at FVTPL	Wealth management products issued by banks — RMB764,064,000	Wealth management products issued by banks — RMB277,800,000;	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
Private equity investments classified as financial assets at FVTPL	24.02% equity investment in Edutainment World which engaged in education research, product development and education service RMB77,783,000	—	Level 3	Market approach — the option pricing model ("OPM") backsolve approach was used to calculate the implied equity value of the investee. 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.	Estimated volatility of 64% taking into account peer companies' volatility used by market participants when pricing the investment (Note I).



Notes to the Condensed Consolidated Financial Statements (Continued)
For the six months ended 30 November 2020

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30 November 2020 (unaudited)	31 May 2020 (audited)			
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;	Level 3	Income approach — in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of this investee, based on an appropriate WACC.	<p>Long-term revenue growth rates, taking into account management's experience and knowledge of market conditions of the specific industries of 3% (Note II).</p> <p>WACC determined using a Capital Asset Pricing Model is 21% (Note III).</p> <p>Discount for lack of marketability, determined by reference to the share price of listed entities in similar industries is 20% (Note IV).</p>



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30 November 2020 (unaudited)	31 May 2020 (audited)			
Private equity investments classified as financial assets at FVTPL	7.36% equity investment in EEO which engaged in development of computer platforms used in online education services — RMB239,637,000	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 investee. 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.	Estimated volatility of 61%(31 May 2020: 57%) taking into account peer companies' volatility used by market participants when pricing the investment (Note V).

Note I: An increase in the estimated volatility used in isolation would result in an increase in the fair value of the private equity investments, and vice versa. A 5% increase/decrease in the estimated volatility holding all other variables constant would increase/decrease the carrying amount of the private equity investments by RMB229,000/RMB466,000 as at 30 November 2020.

Note II: An increase in the long-term revenue growth rates used in isolation would result in an increase in the fair value of the private equity investments, and vice versa. A 1% increase/decrease in the long-term revenue growth rates holding all other variables constant would increase/decrease the carrying amount of the shares by RMB1,886,000 as at 31 May 2020.

Note III: 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.



Notes to the Condensed Consolidated Financial Statements (Continued)
For the six months ended 30 November 2020

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Note IV: 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.

Note V: An increase in the estimated volatility used in isolation would result in an increase in the fair value of the private equity investments, and vice versa. A 5% increase/decrease in the estimated volatility holding all other variables constant would increase/decrease the carrying amount of the private equity investments by RMB6,914,000/RMB7,924,000 as at 30 November 2020 (31 May 2020: RMB1,205,000/RMB1,398,000).

The following table represents the reconciliation of level 3 fair value measurements of private equity investments during the six months ended 30 November 2020 and 2019.

	Six months ended 30 November	
	2020	2019
	RMB'000 (unaudited)	RMB'000 (unaudited)
At the beginning of the period	183,328	146,855
Changes in fair value	134,092	14
At the end of the period	317,420	146,869

The total gains or losses for the period included an unrealised gain of RMB134,092,000 relating to private equity investments that are measured at fair value at the end of each reporting period (Six months ended 30 November 2019: an unrealised gain of RMB14,000). Such gains on fair value changes are included in "other income, gains and losses".



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

23. RELATED PARTY TRANSACTIONS

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

	Relationship	Nature of transactions	Six months ended 30 November	
			2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
New Oriental	Controlling shareholder of the Company and its fellow subsidiaries	Trade sales	9,314	15,454
		Trade purchases	6,390	6,641
Metropolis Holding (Tianjin) Co., Ltd. ("Metropolis Holding") ^(a)	A company wholly owned by the Chairman of the Company	Interest expenses on lease liabilities	627	121
		Management fee expenses	644	456
Tencent Holdings Limited ("Tencent" and with its subsidiaries the "Tencent Group")	Non-controlling shareholder of the Company and its fellow subsidiaries	Trade purchases	10,760	5,044
Beijing Shidai Yuntu Book Co., Ltd. ("Shidai Yuntu")	Associate	Trade sales	550	131
		Trade purchases	4,197	10,893



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

23. RELATED PARTY TRANSACTIONS (Continued)

The following balances represent outstanding balance with related parties at the end of the reporting period:

Trade nature

		30/11/2020	31/05/2020
		RMB'000	RMB'000
		(unaudited)	(audited)
	Nature of Balance		
New Oriental	Amount due from related parties	3,871	—
	Amount due to related parties	3,775	3,120
Metropolis Holding ^(a)	Leases liabilities	27,520	28,378
	Amount due from related parties	4,580	2,776
Tencent Group	Amount due to related parties	2,372	262
	Amount due from related parties	228	357
Shidai Yuntu	Amount due from related parties	529	2,478

Amounts due from related parties as of 30 November 2020 are trade in nature including trade and other receivables and prepayments of RMB4,835,000 (31 May 2020: RMB2,877,000), and refundable rental deposits of RMB4,373,000 (31 May 2020: RMB2,734,000).

Amounts due to related parties as of 30 November 2020 amounting to RMB6,147,000 (31 May 2020: RMB3,382,000) included in trade and other payables are trade in nature, unsecured, interest-free and repayable on demand.

- (a) During the six months period ended 30 November 2020, the Group entered into several lease agreements for the use of buildings with Metropolis Holding, a company controlled by Mr. Yu Minhong, the chairman of the board of directors of the Company. The terms and conditions, including rental rates of the lease agreements are generally the same as other tenants in the same building. The lease agreements are typically of one to three years term 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 six months ended 30 November 2020, the Group has recognised an addition of right-of-use assets and lease liabilities of RMB5,753,000 and RMB5,688,000 (Six months ended 30 November 2019: nil). As at 30 November 2020, amount due from Metropolis Holding was RMB4,580,000 (31 May 2020: RMB2,776,000), which represents rental deposit and prepaid property management fee.



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

23. RELATED PARTY TRANSACTIONS (Continued)

Non-trade nature

Nature of Balance	30/11/2020	31/05/2020	
	RMB'000 (unaudited)	RMB'000 (audited)	
New Oriental	Amount due from related parties	1,314,739	—

The Company entered into a subscription agreement with New Oriental and Tigerstep Developments Limited, a company wholly-owned by Mr. Yu Minhong, the Chairman of the board of directors of the Company, (“the Subscribers”) on 8 September 2020 (the “Subscription Agreement”), pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue to the Subscribers, an aggregate of 59,432,000 new ordinary shares at a subscription price of US\$3.87 (approximately RMB26.48) per share, with an aggregate subscription amount of US\$230,000,000 (approximately RMB1,573,729,000).

On 25 November 2020, the Company received a total subscribed amount of US\$200,000,000 (approximately RMB1,314,739,000), included in accrued expenses and other payables, from New Oriental with respective shares to be allotted or issued prior to 31 December 2020.

Compensation of key management personnel

The remuneration of directors and other members of key management during the six months ended 30 November 2020 and 2019 are as follows:

	Six months ended 30 November	
	2020	2019
	RMB'000 (unaudited)	RMB'000 (unaudited)
Short-term benefits	1,584	2,350
Retirement benefits	46	79
Equity-settled share-based expense	15,499	22,295
	17,129	24,724

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.



Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 November 2020

24. EVENT AFTER THE REPORTING PERIOD

On 24 December 2020, an aggregate of 59,432,000 ordinary shares have been duly allotted and issued in accordance with the terms and conditions of the Subscription Agreement as disclosed in Note 23. Immediately after the completion of the subscription, the total number of issued ordinary shares of the Company were 999,677,102.



DEFINITIONS

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

“Beijing Xuncheng”	Beijing New Oriental Xuncheng Network Technology Inc. (北京新東方迅程網絡科技股份有限公司), a company incorporated under the Laws of the PRC on 11 March 2005 and a wholly-owned subsidiary of our Company
“Board”	the board of directors of our Company
“China” or “the PRC”	the People’s Republic of China, and for the purposes of this interim report only, except where the context requires otherwise, excluding Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Company”, “we”, “us”, or “our”	Koolearn Technology Holding Limited 新東方在綫科技控股有限公司, an exempted company with limited liability incorporated under the Laws of the Cayman Islands on 7 February 2018
“DFUB”	an online education platform operating by Dongfang Youbo, including the website at http://dfub.xdf.cn/
“Director(s)”	the director(s) of our Company
“Dongfang Youbo”	Beijing Dongfang Youbo Network Technology Co., Ltd. (北京東方優播網絡科技有限公司), a company incorporated under the Laws of the PRC on 23 June 2016 and a wholly-owned subsidiary of our Company
“Global Offering”	the Hong Kong Public Offering and the International Offering (each as defined in the Prospectus and set out in the section headed “Structure of the Global Offering” therein)
“Group” or “our Group”	the Company and its subsidiaries from time to time or, where the context requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board



Definitions (Continued)

“Laws”	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any government or regulatory authority (including, without limitation, the Stock Exchange and the Securities and Futures Commission of Hong Kong) of all relevant jurisdictions, whether at the city, provincial, state or federal level (as appropriate)
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	28 March 2019
“Listing Rules”	the <i>Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited</i> , as amended, supplemented or otherwise modified from time to time
“Model Code”	the <i>Model Code for Securities Transactions by Directors of Listed Issuers</i> set out in Appendix 10 to the Main Board Listing Rules
“New Oriental” or “Controlling Shareholder”	New Oriental Education & Technology Group Inc., a company incorporated under the Laws of the Cayman Islands on 16 March 2006, which is dual listed on the New York Stock Exchange (NYSE: EDU) and the Stock Exchange (HKEX: 9901) our Controlling Shareholder (as defined in the Listing Rules)
“Post-IPO ESOP”	the share options scheme adopted by our Company on 30 January 2019 and amended from time to time, the details of which are set out in the section headed “Statutory and general information” in Appendix IV to the Prospectus
“Pre-IPO ESOP”	the share options scheme adopted by our Company on 13 July 2018 and amended from time to time, the details of which are set out in the section headed “Statutory and general information” in Appendix IV to the Prospectus. The Pre-IPO ESOP is not subject to Chapter 17 of the Listing Rules
“Prospectus”	the prospectus of our Company dated 15 March 2019 issued in relation to the listing of our Shares on the Main Board of the Stock Exchange
“Reporting Period”	the six months ended 30 November 2020
“RMB” or “Renminbi”	Renminbi, the lawful currency of China



Definitions (Continued)

“SFO”	<i>Securities and Futures Ordinance</i> (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)
“Share Subscription”	the subscription of an aggregate of 59,432,000 Shares by New Oriental and Tigerstep for a subscription price of HK\$30.00 per subscription share, which was completed on 24 December 2020, pursuant to the subscription agreement dated 8 September 2020, the further details of which are contained in the Company’s circular dated 14 October 2020
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in the Listing Rules and includes consolidated affiliated entities controlled by our Group through the Contractual Arrangements (as defined in the Prospectus and set out in the section headed “Contractual Arrangements” therein)
“United States”	United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent