

**First High-School Education Group Co., Ltd. [FHS]  
Fiscal Year 2021 Earnings Conference Call  
Wednesday, April 13, 2022, 8:00 A.M. Eastern Time**

Executives:

Tommy Zhou, Chief Financial Officer

Shaowei Zhang, Chairman and Chief Executive Officer

**Presentation**

Operator: Good day, ladies and gentlemen. Thank you for standing by, and welcome to the First High-School Education Group Fiscal Year 2021 Earnings Conference Call. (Operator Instructions). Later we will conduct a question-and-answer session, and instructions will follow at that time. As a reminder, we are recording today's call. If you have any objections, you may disconnect at this time.

Now I will turn the call over to Mr. Tommy Zhou, Chief Financial Officer of the company. Mr. Zhou, please proceed.

Tommy Zhou: Thank you, operator, and greetings, investors and friends. Welcome to the First High-School Education Group Fiscal Year 2021 Earnings Conference Call. With us today we have Mr. Zhang Shaowei, Company Chief Executive Officer, and myself, Tommy, Chief Financial Officer.

We released our results earlier today. The press release is available on the Company's IR website at <https://ir.diyi.top>, as well as Newswire services. A replay of this call will also be available in a few hours on our IR website.

Before we continue, please note that today's discussion will contain forward-looking statements made under the Safe Harbor provisions of U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the Company's actual results may be materially different from the expectations expressed today. Further information regarding these and other risks and uncertainties is included in the Company's public filings with the SEC.

The Company does not assume any obligation to update any forward-looking statement, except as required under applicable law.

Also, please note that unless otherwise stated, all figures mentioned during the conference call today are in Chinese Renminbi.

With that, let me now turn the call over to our CEO, Mr. Zhang Shaowei, for greeting remarks, which I will then translate to English, and then followed by my highlights for fiscal year 2021.

Shaowei Zhang: (Speaking foreign language).

Tommy Zhou: So the translate follows.

(Translated). Greetings, everyone. Thank you all for joining us for the 2021 earnings release conference call. In 2021, under high market uncertainty and changing regulatory environment, First High-School Education Group achieved stable and high-quality development.

I will now introduce our CFO, Mr. Tommy Zhou, who will provide details on our business and financial performances in English.

So 2021 was certainly an uncommon year. The good news is that we, FHS, are probably one of the least adversely affected education company on the market. As suggested by our name, we mainly operate high schools, and is not greatly affected by the compulsory requirements of recent regulations.

Compared with 2020, the company's revenue from continuing operation increased 13.7% to RMB400 million. The number of schools we currently service include 14 high schools, 6 gaokao repeater schools and 2 public schools with management services. So the total number is 22 schools we're servicing right now.

The number of students enrolled include 18,686 for our high schools and gaokao repeater schools, and 2,561 for our public school management services, for a total of 21,247 students of continuing operations.

Lastly, we have approximately 54,000 boarding beds in service and in reserve, able to provide healthy and stable room for growth in the next 3 to 5 years.

In addition to the financial results, we are extremely proud of the education service -- the quality of the education service we provide. For 2021 graduation year, we were grouped top class in similar schools with students who scored above 700 or 600 in the gaokao exam. And we were also grouped top class in the schools with students of most increased scores from entering our school to graduating our school. So the great education quality proven, our teaching ability and our goal of providing the best education services to anyone and everyone who enrolls in our school programs.

The Company's fiscal year 2021 profit margin decreased comparatively with 2020. It was mainly due to non-recurring expenses that was caused by our initial public offering, which was done in 2021 March. The costs related with new school openings also decreased our margins. We want to express our thought that school management must be balanced and long-term focused. We strong believe this long-term focus business will be higher profitability in 2022 from maturing of new schools and overall improvement of our efficiency.

In order to express our determination, currently we have 20 senior management level staff of the company, including the CEO and myself. We all agreed to voluntarily reduce our salary by over

20% starting April, and our salary, reduced salary, will not resume until the 2022 school year enrollment task is completed in October. The company and our management team are very confident on our goal, and wish to express our determination to complete this year's performance goals.

Specifically in 2022, a little bit about forward-looking. The Company has 3 specific goals. First, all of our 22 school programs currently in operation must all yield improved financial results compared with last year. This will be done by some of our new schools increased recruitment and matured operation. Secondly, the Company plans to open certain new schools, both high schools and vocational school programs, which will increase our overall capacity reserve and also increase our overall enrollment number.

Third, the Company's services will fully cover the entire educational spectrum, comprising of education auxiliary materials, education human resources, education logistic and boarding services and education technology. The newly-established services will complement our existing school programs and yield greater profitability for our overall company.

The company had been performing the 4 newly-established services for many years already; it's not a complete new service that we added to our group. In 2022, these services will expand outwards and generate new income and revenue for us in the years to come.

Lastly, I want to disclose that in compliance with the requirement of the Implementation Rules for the Law of Promoting Private Education of the PRC, the company had divested its operations in primary and middle school programs after September 1, 2021, and classified them as discontinued operations.

During the fiscal year of 2021, revenue for the discontinued operations was RMB104.2 million, which is roughly US\$16.4 million. The net loss from the discontinued operations was about RMB7.5 million, which was about US\$1.2 million, which had only minor impact on the Company's profitability overall.

So now with the brief business operation remarks completed, I will go through our financial highlights for fiscal year 2021. Please again note that all numbers presented below are in RMB, unless otherwise stated. All percentage changes are on a year-over-year basis unless otherwise specified. Detailed analysis is contained in our earnings press release, which is already available on our IR website.

Our total revenues were RMB400.2 million, equivalent of US\$62.8 million, an increase of 13.7% from RMB351.9 million in 2020. The increase was primarily driven by greater student enrollment due to opening of new schools and the increased number of students enrolled in our existing schools, along with the higher tuition income and boarding fees.

Within the total revenue, revenue from customers was RMB349.3 million, equivalent of US\$54.8 million, an increase of 12.4% from RMB310.6 million in 2020, last year. The increase was primarily driven by greater student enrollment due to the opening of new schools and the increased number of students enrolled in our existing schools, along with higher tuition income and boarding fees.

Revenues from government cooperative agreements were RMB50.9 million, US\$8 million, an increase of 23.4% from RMB41.3 million in 2020, primarily due to increased number of publicly-sponsored students served.

Cost of revenues was RMB273.7 million, an increase of 38.7% from RMB197.4 million in 2020. The increase was primarily due to the increased staffing cost from opening of our new schools and enlarged curriculum, which includes coverage in arts and sports.

Gross profit was RMB126.5 million, a decrease of 18.1% from RMB154.5 million in 2020.

Gross margin was 31.6%, compared with 43.9% in 2020. The decreased gross margin was primarily due to the higher cost of revenues resulted from, one, increased staffing costs due to the increased number of employees and increased compensation level to attract more talent; and two, increased school operating expenses, especially for new schools with relatively lower cost efficiency than our existing mature schools.

Net operating expenses. Net operating expenses was RMB66.0 million, an increase of 20.1% from RMB54.9 million in 2020.

So selling and marketing expenses was RMB7.1 million, an increase of 8.6% from RMB6.5 million in 2020. The increase was primarily due to the increased expenses in brand promotion and marketing activities in relation to the opening of new schools and assertive school opening plan made in 2021.

General and administrative expenses was RMB61.8 million, an increase of 17.4% from RMB52.7 million in 2020. The increase was primarily due to the certain non-recurring expenses in relation to the Company's initial public offering in March 2021.

Government grants was RMB2.9 million, a decrease of 31.1% from RMB4.2 million in 2020, primarily due to certain delay in payments from governments in 2021.

Income from operations was RMB60.5 million, a decrease of 39.2% from RMB99.6 million in 2020.

And our income from continuing operation was RMB50.7 million, a decrease of 37.9% from RMB81.7 million in 2020.

Loss from discontinued operation. Loss of discontinued operation was RMB10.9 million, compared with an income of RMB0.1 million in 2020.

Our net income for the year 2021 was RMB39.9 million, a decrease of 51% from RMB81.9 million in 2020.

Adjusted net income on a non-GAAP measure was RMB39.9 million, a decrease of 51.3% from RMB81.9 million in 2020.

So our business outlook for the year -- full fiscal year of 2022, the Company expects a total revenue of continuing operations to be between RMB480 million to RMB520 million,

representing an increase of 15% to 24% on a year-over-year basis. This outlook reflects the Company's current and preliminary view on the market and operational conditions. The outlook ranges for fiscal year 2022 reflect a number of assumptions that are subject to change based on uncertainties.

So the above is my financial highlight briefing, and both Mr. Zhang and myself wish to thank everyone for participating. And we want to leave more time for calls and questions.

Operator, please go ahead and proceed with the Q&A.

## **Questions and Answers**

Operator: We will now begin the question-and-answer session. (Operator Instructions). This concludes our question-and-answer session.

I would like to turn the call back over to Mr. Zhou for any closing remarks.

Tommy Zhou: Thank you, operator. I think some of our listeners maybe a bit shy to give a public question-and-answer session, but that's okay. Most of them know me personally, and can reach me any time after the conference call.

So again, both Mr. Zhang and I want to thank everyone for participating on today's call and for everyone's further support. We appreciate everyone's interest in our company and greatly look forward to reporting to you again next quarter. And I will turn over to Mr. Zhang for any closing remarks, if he has, and I will translate.

Shaowei Zhang: (Speaking foreign language).

Tommy Zhou: So Mr. Zhang said again, thank you, everyone, for their time today. 2021 was certainly an unusual year, and we will have to make sure and be certain that in 2022, we will have a very good report for everyone to be satisfied with. Okay. Thank you again, operator.

Operator: Thank you all again. This concludes the call. You may now disconnect.