

ANTELOPE ENTERPRISE HOLDINGS LIMITED

Second Half Fiscal 2021 Earnings Call

May 2, 2022

8:00 a.m. ET

Speakers:

Ms. Meishuang Huang, CEO

Mr. Edmund Hen, CFO

Operator: Welcome to the Antelope Enterprise second half and fiscal year end 2021 earnings conference call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. I would now like to hand the conference call over to your speaker for today, David Rudnick. Please go ahead, sir.

David Rudnick: Thank you, Julienne. Good morning ladies and gentlemen and good evening to those of you who are joining us from China. Welcome to Antelope Enterprise Holding Limited's second half 2021 earnings conference call. With us today are Antelope Enterprise's Chief Executive Officer, Ms. Meishuang Huang and its Chief Financial Officer, Mr. Edmund Hen.

Before I turn the call over to Ms. Huang, I would like to address forward-looking statements that may be discussed on the call. Forward-looking statements involve risks and uncertainties and include, among others, those regarding revenue, operating expenses, other income and expense, taxes, and future business outlook. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements. The Company claims the safe harbor protections for such forward-looking statements as contemplated under the Private Securities Litigation Reform Act of 1995. Please refer to the documents filed by the Company with the SEC, specifically the most recent reports on Forms 20-F and 6-K, which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements. We assume no obligation to update any forward-looking statements or information, which speak as of their respective dates.

And now it's my pleasure to turn the call over to Antelope Enterprise's CEO, Ms. Meishuang Huang and Antelope Enterprise's CFO, Mr. Edmund Hen. Shaoli Ge be translating for Ms. Huang. Ms. Huang, you may proceed.

Meishuang Huang: (In Chinese)

Shaoli Ge: Thank you, David. On behalf of the Company, I would like to welcome everyone to our **second half and fiscal year end 2021 earnings** conference call.

Meishuang Huang: (In Chinese)

Shaoli Ge: During fiscal year 2021, we continued to experience challenging market conditions for our ceramic tile products sales due to the slowdown of the real estate sector in China which was still being impacted by the continued effects of the COVID-19 pandemic. To mitigate these challenging conditions, in 2021 we continued to execute our strategic plan to diversify our business and fuel our growth by incorporating several new technology sector subsidiaries.

Meishuang Huang: (In Chinese)

Shaoli Ge: These new subsidiaries are engaged in selected markets in China which we believe have strong growth potential. These include business management, information system consulting; and social media, online social commerce and live streaming. We are pleased that these new business segments contributed 38% of revenue to our financial performance for the second half of 2021 and 33% for the full year 2021 which shows that our strategic plan is on course.

Meishuang Huang: (In Chinese)

Shaoli Ge: Due to the continued challenging conditions for real estate and building materials in China, in November 2021 we entered into a five-year lease agreement to lease out the entire Hengdali facility with the same lessee that had been leasing out just a portion of the plant. However, we are secure in terms of having ample unused production capacity at our Hengda facility for when the real estate market turns around, and this decision is consistent with our resolve to pivot towards technology growth sectors.

Meishuang Huang: (In Chinese)

Shaoli Ge: We are committed to diversifying the Company into growth technology sectors and are encouraged by the strong contribution from our new technology subsidiaries to date. In particular, we believe that social media,

online social commerce and live streaming in China will experience sustained growth in the years to come.

Meishuang Huang: (In Chinese)

Shaoli Ge: With that, I would like to turn over the call to the Company's Chief Financial Officer, Mr. Edmund Hen, who will discuss the Company's second half 2021 earnings results in more detail. Thank you!

Edmund Hen: Thank you Ms. Huang! I will now move on to a more detailed discussion for the six months ending December 31, 2021.

Our Revenue for the six months ended December 31, 2021 was RMB 166.2 million or US\$ 25.8 million, a 16.0% decrease from RMB 143.2 million or US\$ 21.1 million for the same period of 2020. The year-over-year increase in revenue was due to the generation of RMB 63.6 million or US\$ 9.9 million in business management, information system consulting, and online social commerce and live streaming operations revenue from Chengdu Future, Antelope Chengdu and Hainan Kylin Cloud Services, new operating subsidiaries of the Company, which accounted for 38.3% of the Company's total revenue in the current period. However, this contribution was partly offset by an RMB 40.6 million or US\$ 6.3 million decrease in ceramic tile sales.

Gross loss for the six months ended December 31, 2021 was RMB 73.8 million or US\$ 11.5 million compared to gross loss of RMB 26.9 million or US\$ 4.0 for the same period of 2020. The gross profit margin was 44.4% as compared to a gross loss margin 18.8% for the same period of 2020.

Other income for the six months ended December 31, 2021 was RMB 2.3 million or US\$ 0.4 million, as compared to RMB 12.2 million or US\$ 1.8 million for the same period of 2020. Other income consists of rental income the Company received by leasing out one of the production lines from its Hengdali facility pursuant to an eight-year lease contract.

Selling and distribution expenses for the six months ended December 31, 2021 were RMB 3.1 million or US\$ 0.5 million, a decrease from RMB 4.2 million or US\$ 0.6 million for the same period of 2020.

Administrative expenses for the six months ended December 31, 2021 were RMB 15.2 million or US\$ 2.4 million as compared to RMB 11.9 million or US\$ 1.8 million for the same period of 2020. The increase in

administrative expenses was primarily due to an increase in consulting and professional fees.

Bad debt expense for the six months ended December 31, 2021 entailed bad debt of RMB 75.7 million or US\$ 11.8 million, as compared to bad debt expense of RMB 48.5 million or US\$ 7.2 million for the same period of 2020. We recognized a loss allowance for an expected credit loss on financial assets, primarily on our trade receivables, which are subject to impairment under International Financial Reporting Standards. We believe that we have undertaken appropriate measures to resolve the bad debt expense going forward. We will continue to review credit worthiness of each of our customers and continuously test our trade receivables balance in each upcoming fiscal period.

Net loss for the six months ended December 31, 2021 was RMB 19.3 million or US\$ 3.0 million as compared to a net loss of RMB 81.6 million or US\$ 12.0 million for the same period of 2020. The decrease in net loss was primarily due to an increase in gross profit, a decrease in bad debt expense and a substantial increase in the reversal of the inventory impairment provision in the current period.

Loss per basic and fully diluted share for the six months ended December 31, 2021 were RMB 3.75 or US\$ 0.58 as compared to loss per basic and fully diluted share of RMB 24.85 or US\$ 3.67 for the same period of 2020.

As of December 31, 2021, our inventory turn was 183 days as compared to 190 days as of December 31, 2020.

Our trade receivables turnover of ceramic tile products, net of value added tax, was 168 days as of December 31, 2021 compared to 242 days as of December 31, 2020. Trade receivables turnover of our business management and consulting segment was 11 days as of December 31, 2021.

Our trade payables turnover of ceramic tile products, net of value added tax, was 20 days as of December 31, 2021 compared with 22 days as of December 31, 2020. Trade payables turnover of our business management and consulting segment was 7 days as of December 31, 2021.

In terms of our plant utilization and capex, we utilized plant capacity that produced 1.2 million square meters of ceramic tiles for the six months ended December 31, 2021, as compared to 1.5 million square meters of ceramic tiles for the same period of 2021, with all of the current period's production attributable to our Hengda facility. Our reduced utilization during the current period was primarily attributable to the continued slowdown of the real estate industry in China which was still being impacted by the continued effects of the Covid-19 pandemic.

Effective November 1, 2021, we entered into a new lease agreement with the same lessee that had been leasing one of the production lines at the Hengdali facility. The new lease is for Hengdali in its entirety which includes building, plant and facilities, and which contains all of its machinery, equipment and production lines. The new lease has a term of five years, from November 1, 2021 through October 31, 2026, for an annual rent of RMB 18.0 million.

Therefore, the Company's total annual production capacity is 22.8 million square meters of ceramic tiles which is solely attributable to its Hengda facility. We intend to bring unused production capacity at Hengda online as customer demand dictates and when there are signs of improvement in China's real estate and construction sectors.

We review the level of capital expenditures throughout the year and make adjustments subject to market conditions. Although business conditions are subject to change, we anticipate a modest level of capital expenditures for 2022 other than those associated with minimal upgrades, small repairs and the maintenance of equipment.

Moving on to our business outlook, in terms of our ceramic tile business, for fiscal year 2021, the Company's operating results continued to be impacted by the slowdown of China's real estate sector due to the continued effects of the COVID-19 pandemic. After a rise in property prices month-over-month for the first six months of 2021, average new home prices in China's 70 major cities fell month-over-month for the second six months of 2021, and early 2022 data shows the weakest rise in new home prices since November 2015. Due to these challenging market conditions, we enacted a plan to work ceramic tile products already in inventory through our sales channels although we continued to engage in marketing for our products for when the real estate market turns around.

Looking forward, China's central government indicated that it would invigorate the economy, as it has in the past, which would include helping to support China's real estate sector. In early 2022, the People's Bank of China cut its reserve requirement ratio which freed up more loan capital for home buyers. Due to weakened market demand, banks have lowered mortgage rates by an average of 20 to 60 basis points, and some provinces have loosened some of their policies which include removing restrictions on home purchases for those without full local residency status. Real estate continues to be a vital component of China's economic growth as real estate and its related business activities is estimated to comprise 25% of China's GDP.

We believe that the demand for our ceramic tile products will mostly come from Tier 3 and lower-tier cities as well as coastal cities over the next few years and we will be increasing our efforts to secure customers in the larger Southeast Asia market.

In terms of our new technology business development activities, during fiscal 2021, we continued to execute on our strategic plan to diversify our operations with new technology sector operations as we generated RMB 71.5 million or US\$ 11.0 million in revenue from our new subsidiaries in business management, information system consulting which includes the sales of software use rights for digital data deposit platforms and asset management systems, and an online social media platform including live streaming and e-commerce platform development and consulting. These new business segments enabled us to realize an 18.2% increase in total revenue for fiscal 2021 as compared to fiscal 2020.

This business outlook reflects the Company's current and preliminary views and is based on the information currently available to us, which are subject to change, and is subject to risks and uncertainties, as well as risks and uncertainties identified in the Company's public filings.

At this point, we would like to open up the call to any questions pertaining to our second half 2021 financial results. Operator?

Operator:

As a reminder, to ask a question, you need to press star one on your telephone. That is star one to ask a question. Please standby. Again, to ask a question press start one on your telephone keypad. As there are no questions at this time. Mr. David Rudnick, please continue.

David Rudnick: Thank you. On behalf of the entire Antelope Enterprise management team, I want to thank all of you for your interest and participation on this call. This concludes Antelope Enterprise's second half 2021 earnings conference call. Thank you.

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