

ANTELOPE ENTERPRISE HOLDINGS LIMITED

**First Half Fiscal 2021 Earnings Call
September 30, 2021
8:00 a.m. ET**

Speakers:

**Ms. Meishuang Huang, CEO
Mr. Edmund Hen, CFO**

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Antelope Enterprise Holdings first half 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. To ask a question during this session, you would need to press star one on your telephone. Please be advised that today's call is being recorded. If at any time you need assistance, please press zero. I would now like to hand the conference call over to your speaker for today, Mr. David Rudnick. Please go ahead, sir.

David Rudnick: Thank you, Alyssa. 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 first 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 first half 2021 earnings conference call.

Meishuang Huang: (In Chinese)

Shaoli Ge: For the first half of 2021, we experienced challenging market conditions 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. Our sustained marketing efforts during this period enabled us to realize an 11% increase in sales volume in the first half of fiscal 2021 as compared to the same period of 2021. We made a strategic decision to sell products already in inventory at available market prices that sell below our costs of production which hindered our profitability for the first half of 2021. However, this will help us to shift the momentum of the company towards future growth.

Meishuang Huang: (In Chinese)

Shaoli Ge: For the first half of 2021, we utilized production facilities capable of producing 1.1 million square meters of ceramic tiles per year out of effective annual production capacity of 51.6 million square meters of ceramic tiles. We took production offline at our Hengdali facility for the first half of 2021, exempting what we lease to a third party, since we determined that we had ample inventory available to work through our sales channels.

Meishuang Huang: (In Chinese)

Shaoli Ge: While we are committed to our core business, we are also focused upon diversifying our business lines to fuel our growth. We are encouraged that Antelope Chengdu, one of our subsidiaries in the financial technology sector, contributed a significant level of revenues to our financial performance for the first half of 2021.

Meishuang Huang: (In Chinese)

Shaoli Ge: We believe that our building materials sector will continue to benefit from the importance of the real estate sector to the Chinese economy. We believe that the Chinese government's renewed efforts to promote affordable housing, projected growth in lower Tier cities and the

upgrading of existing housing stock are potential catalysts that could benefit our business.

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 first half 2020 earnings results in more detail. Thank you!

Edmund Hen: Thank you Ms. Huang! I will now move on to a more detailed discussion of our financial results for the six months ending June 30, 2021.

Our revenue for the six months ended June 30, 2021 was RMB 50.1 million (US\$ 7.7 million), a 25.9% increase from RMB 39.8 million or US\$ 5.6 million for the same period of 2020. The increase in revenue was due (1) a 6.0% increase in the sale of ceramic tiles to \$42.2 million or US\$ 6.5 million for the six months of 2021 as compared to RMB 39.8 million or US\$ 5.6 million for the same period of 2020, and (2) RMB 7.9 million or US\$ 1.2 million in software rights revenue from Antelope Chengdu. The increase in the sales of ceramic tiles was due to an 11.1% increase in our sales volume to 2.0 million square meters of ceramic tiles for the six months ended June 30, 2021 compared to 1.8 million square meters of ceramic tiles for the same period of 2020, which was partially offset by an 8.6% decrease in our average selling price to RMB 20.6 or US\$ 3.20 from RMB 22.6 or US\$ 3.19 for the same period of 2020.

Gross loss for the six months ended June 30, 2021 was RMB 6.5 million or US\$ 1.0 million, as compared to gross profit of RMB 0.9 million or US\$ 0.1 million for the same period of 2020. The gross loss margin was 13.0% as compared to a gross profit margin 2.4% for the same period of 2020.

Other income for the six months ended June 30, 2021 was RMB 7.2 million or \$1.1 million, compared to the RMB 9.8 million or \$1.4 million for the comparable period of 2020. Other income primarily consists of rental income that the Company received by leasing out one of its production lines from its Hengdali facility pursuant to an eight-year lease contract. In addition, we realized RMB 2.4 million or US\$ 0.3 million in technology consulting income from our newly incorporated subsidiary, Chengdu Future, during the six months ended June 30, 2020.

Selling and distribution expenses for the six months ended June 30, 2021 were RMB 3.2 million or US\$ 0.5 million, a decrease from RMB 5.2 million US\$ 0.7 million for the comparable period of 2020.

Administrative expenses for the six months ended June 30, 2021 were RMB 17.2 million or US\$ 2.7 million, as compared to RMB 14.7 million US\$ 2.1 million, for the same period of 2020.

Bad debt expense for the six months ended June 30, 2021 was RMB 49.8 million or US\$ 7.7 million, as compared to bad debt expense of RMB 101.8 million or US\$ 14.4 million for the same period of 2020. We recognize a loss allowance for expected credit loss on our financial assets, primarily on trade receivables, which are subject to impairment under IFRS 9, Financial Instruments. We believe that we have undertaken appropriate measures to resolve our bad debt expense. We will continue to review each of our customers for credit quality as well as assiduously test their accounts receivables balances in each upcoming fiscal period.

Net loss for the six months ended June 30, 2021 was RMB 70.8 million or US\$ 10.9 million, as compared to a net loss of RMB 111.5 million or US\$ 15.8 million for the same period of 2020. The decrease in net loss was mainly due to the decrease in bad debt expense, which was partially offset by an increase in gross loss and an increase in administrative expenses.

Loss per basic and fully diluted share for the six months ended June 30, 2021 was RMB 16.24 or US\$ 2.51, as compared to loss per basic and fully diluted share of RMB 40.82 US\$ 5.77 for the same period of 2020, with the latter figures retroactively presented for the 3:1 reverse stock split effective on September 3, 2020.

Turning to our balance sheet, as of June 30, 2021, we had cash and bank balances of RMB 34.0 million or US\$ 5.3 million compared to RMB 12.3 million or US\$ 1.9 million as of December 31, 2020.

As of June 30, 2021, our inventory turn was 128 days as compared to 190 days as of December 31, 2020. The decrease in inventory turnover days was primarily due to the cessation of production at our Hengdali facility during the six months ended June 30, 2021 due to our plan to primarily utilize current inventory in stock. We believe that the value of our current inventories is realizable.

Our trade receivables turnover, net of value added tax, as of June 30, 2021 was 253 days as compared to 242 days as of December 31, 2020. The increase in trade receivables turnover was primarily due to the slow collection of our trade receivables as a result of tight cash flow as reported by our customers due to the COVID-19 pandemic.

Our trade payables turnover, net of value added tax, was 17 days as of June 30, 2021 as compared to 22 days as of December 31, 2020. The average turnover days was within the normal credit period of one to four months granted by our suppliers.

In terms of our plant utilization and capex, we utilized plant capacity capable of producing 1.1 million square meters of ceramic tiles for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, when we utilized production facilities capable of producing 2.6 million square meters.

Our Hengda facility has an annual production capacity of 22.8 million square meters of ceramic tiles and we utilized production capacity at the facility capable of producing 1.1 million square meters of ceramic tiles for the six months ended June 30, 2021.

Our Hengdali facility has an annual production capacity of 28.8 million square meters, which excludes our leasing out 10 million square meters of production capacity to a third party, and we utilized no production capacity at our Hengdali facility for the six months ended June 30, 2021 due to our having utilized current inventory in stock.

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 the remainder of 2021 other than those associated with minimal upgrades, small repairs and the maintenance of equipment.

Moving on to our business outlook, for the first half of 2021, the Company's operating results were impacted by the continued slowdown of China's real estate sector which was still being impacted by the continued effects of the COVID-19 pandemic. Although we realized a 6.0% period-over-period increase in revenue from sales of ceramic tiles, we made a strategic decision to sell products already in inventory at available market prices that fell below our costs of production which resulted in a gross loss. However, the generation of RMB 7.9 million or US\$ 1.2 million in revenue from one of our new subsidiaries in the financial technology sector enabled us to realize a 26.9% increase in total revenue for the six months ended June 30, 2021 as compared to the same period of 2020.

Looking forward, China's real estate sector continues to be a vital component of China's economic growth as the sector and its impact on other business activities is estimated to comprise 25% of China's GDP. However, certain factors could potentially limit the growth of the real estate sector. For example, in order to stem real estate speculation and tighten credit, the Chinese government has outlined measures placing a ceiling on debt relative to property developers' cash flows, assets and capital levels. The effect of such credit tightening measures on the property developer sector could reduce land purchases and real estate development.

In addition, as it has in the past, the central government could impose lending curbs such as constraints on mortgage lending and restrictions on the number of homes that families can buy. Further, certain municipalities have halted land auctions in order to cool what have been excessive price bidding at land auctions. We anticipate that these trends could potentially limit new project development which could make the business conditions for the construction and building materials sectors challenging.

We believe that the real estate and construction sectors will continue to grow in the long-term which is of key importance to the building materials sector, and that urbanization continues to be a key driver for construction activity. In addition, the Chinese government has announced that it intends to promote the construction of one million affordable housing units in 2021. This, along with the upgrading of neglected housing stock and the renovation of existing homes, could lead to a higher demand for building materials.

We believe that the demand for our products will mostly come from Tier 3 and lower-tier cities as well as coastal cities over the next few years. However, we will also market our products to Tier 1 and Tier 2 cities as opportunities arise, and we will be increasing our efforts to secure customers in the larger Southeast Asia market. We remain focused on diversifying our operations to fuel our growth as a new subsidiary in the financial technology sector contributed a significant level of revenue to our financial performance in the first half of 2021.

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 first 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 star 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 first half 2021 earnings call. Thank you.

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