

ANTELOPE ENTERPRISE HOLDINGS LIMITED

Second Half Fiscal 2020 Earnings Call

April 28, 2020

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 second half and fiscal year end 2020 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. 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 2020 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 2020 earnings conference call.

Meishuang Huang: (In Chinese)

Shaoli Ge: During fiscal year 2020, we experienced challenging market conditions as the impact of the COVID-19 pandemic outbreak had a material adverse impact on the demand for our products with customers both having cancelled and delayed their purchases awaiting the normalization of business activity. We instituted a 15% price decrease in late 2019 in order to sustain our sales volume as well as retain customers for future business. This mitigated what we believe would have been a greater decline in sales as compared to the modest decrease in sales volume that occurred in the second half of the year as business conditions due to the COVID-19 pandemic began to normalize over time.

Meishuang Huang: (In Chinese)

Shaoli Ge: For fiscal year 2020, we utilized production facilities capable of producing 4.2 million square meters of ceramic tiles per year out of the Company's effective total annual production capacity of 51.6 million square meters of ceramic tiles. Consistent with our practice in past periods, we maintained a reduced utilization of existing plant capacity based on the current market environment to keep our operating costs low. We intend to bring additional capacity online as the business environment improves.

Meishuang Huang: (In Chinese)

Shaoli Ge: We remain focused on diversifying our operations to fuel our growth. While we remain committed to our core business, our two subsidiaries, Chengdu Future, which provides computer consulting, and Antelope Chengdu, which develops fintech software, generated RMB 7.2 million or US\$ 1.1 million in income in 2020.

Meishuang Huang: (In Chinese)

Shaoli Ge: China's real estate market has been resilient in the wake of the COVID-19 pandemic, and in the long-term, we believe that the building materials sector will grow due to urbanization, innovative property development and the upgrading of neglected housing stock. Further, we plan upon securing customers in the larger Southeast Asia market outside of China to

capitalize upon new building construction that is happening in this region's urban areas.

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 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 December 31, 2020.

Our revenue for the six months ended December 31, 2020 was RMB 143.2 million or US\$ 21.1 million, a 4.6% decrease from RMB 150.2 million or US\$ 21.4 million for the same period of 2019. The year-over-year increase in revenue was due to (i) the 9.1% decrease in average selling price to RMB 21.8 or US\$ 3.34 for the second six months of 2020 versus the year-ago period, which was offset by (ii) a 4.8% increase in sales volume as compared to the same period of 2019 to 6.6 million square meters for the second half of 2020. We instituted a 15% price decrease in late 2019 in order to sustain our sales volume as well as retain customers for future business. Our average selling price decreased for the second half of 2020 as compared to the same period of 2019 since the 15% price decrease was in effect for only two months in the latter period. Also, our sales volume grew sequentially from 1.8 million square meters of ceramic tiles in the first half of 2020 to 6.6 million square meters of ceramic tiles in the second half of 2020 as business conditions in China began to normalize over time.

Gross loss for the six months ended December 31, 2020 was RMB 26.9 million or US\$ 4.0 million compared to gross profit of RMB 66.0 million or US\$ 9.4 million for the same period of 2019. Taking into account a reversal of inventory impairment for both six-month periods, the gross loss margin was 20.4% the second half of 2020 as compared to a 6.2% gross profit margin for the same period of 2019.

Other income for the six months ended December 31, 2020 was RMB 12.2 million or US\$ 1.8 million, as compared to RMB 7.5 million or US\$ 1.1 million for the same period of 2019. 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 and income contributions of RMB 7.2 million or \$1.1 million from our newly incorporated subsidiaries, Chengdu Future and Antelope Chengdu, who engage in computer consulting and software development, respectively.

Selling and distribution expenses for the six months ended December 31, 2020 were RMB 4.2 million or US\$ 0.6 million, a slight decrease RMB 5.6 million or US\$ 0.8 million for the same period of 2019.

Administrative expenses for the six months ended December 31, 2020 were RMB 11.9 million or US\$ 1.8 million as compared to RMB 9.2 million or US\$ 1.3 million for the same period of 2019. The increase in administrative expenses was primarily due increased start-up and related expenses from our newly incorporated entities.

Bad debt expense for the six months ended December 31, 2020 entailed bad debt of RMB 48.5 million or US\$ 7.2 million, as compared to bad debt expense of RMB 125.2 million or US\$ 17.8 million for the same period of 2019. 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.

Loss per basic and fully diluted share for the six months ended December 31, 2020 were RMB 24.85 or US\$ 3.67 as compared to profit per basic and fully diluted share of RMB 92.01 or US\$ 13.08 for the same period of 2019.

Turning to our balance sheet, as of December 31, 2020, we had cash and bank balances of RMB 12.3 million or US\$ 1.9 million, as compared to RMB 8.2 million or US\$ 1.2 million as of December 31, 2019.

As of December 31, 2020, our inventory turn was 242 days as compared to 194 days as of December 31, 2019. Our trade receivables turnover, net of value added tax, as of December 31, 2020 was 242 days compared to 194 days as of December 31, 2019. Our trade payables turnover, net of value added tax, was 22 days as of December 31, 2020 compared with 30 days as of December 31, 2019.

In terms of our plant utilization and capex, we utilized plant capacity capable of producing 1.5 million square meters of ceramic tiles for the six months ended December 31, 2020 and 4.2 million square meters of ceramic tiles for fiscal 2020 out of a total annual production capacity of 51.6 million square meters.

For the six months ended December 31, 2020, we utilized production capacity at our Hengda facility capable of producing 0.8 million square meters of ceramic tiles, and we utilized production capacity at our

Hengdali facility capable of producing 0.7 million square meters of ceramic tiles.

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

Moving on to our business outlook, for the second half and the full fiscal year of 2020, the Company's operating results were severely impacted by the COVID-19 pandemic. Due to the pandemic, there was a nationwide slowdown in production as a result of facilities closures and the disruption in supply chains as well as travel restrictions and related public health orders. This caused China's GDP growth in 2020 to fall to 2.2%, the slowest rate in four decades. The COVID-19 pandemic resulted in a high number of our customers' cancelling or delaying their purchases awaiting the resumption of normal economic activity. However, our sales volume grew sequentially from 1.8 million square meters of ceramic tiles in the first half of 2020 to 6.6 million square meters of ceramic tiles in the second half of 2020 as business conditions in China began to normalize over time.

Looking forward, China's real estate market has been resilient in the wake of the COVID-19 pandemic. The sector continues to be important to China's economic growth as the sector and its impact on other business activities is estimated to comprise 25% of China's GDP. As the macroeconomic environment began to normalize in China, the central government has resumed its strategy of imposing measures to cool speculative behavior. These include lending curbs, constraints on mortgage lending, higher down payments and restrictions on the number of homes that families can buy. In addition, the Chinese government appears intent upon reducing debt in the highly leveraged property developer sector which could stem land purchases and real estate development. A new land policy authorized by the central government and enacted by some municipalities that is intended improve transparency and prevent real estate speculation could also result in reducing new land sales. 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 growth. The upgrading of neglected housing stock, innovative property development and the renovation of existing homes are additional factors which could

lead to higher demand for building materials. We plan upon expanding our footprint domestically while also increasing our efforts to secure customers in the larger Southeast Asia market outside of China and capitalize upon new building construction occurring in many of the region's urban areas.

We also remain focused on diversifying our operations to fuel our growth as we recently formed two subsidiaries in the computer consulting and fintech software development sectors. While these new businesses contributed modestly to earnings in 2020, we anticipate further growth from these new ventures in the years ahead.

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 2020 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. 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 and fiscal year end 2020 earnings call. Thank you.

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