

Datasea, Inc.

**Third Quarter Fiscal Year 2022 Financial Highlights and Updates
Conference Call**

May 16, 2022

CORPORATE PARTICIPANTS

Annabelle Zhang, *Principal Investor Relations Contact, U.S.*

Fu Liu, *Founder and Chairman, Board of Directors, Shuhai Beijing*

Zoe, *Translator*

Kathy Sun, *Chief Financial Officer*

PRESENTATION

Operator

Greetings and welcome to Datasea Third Quarter Fiscal Year 2022 Financial Highlights and Updates Conference Call.

A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Annabelle Zhang, the Principal Investor Relations. Thank you, and over to you.

Annabelle Zhang

Thank you so much, Helmut.

Good day, everyone and welcome to Datasea's Third Quarter Fiscal Year 2022 Financial Results Conference Call.

With us today are Fu Liu, Founder and Chairman of the Board of Directors of Shuhai Beijing; Kathy Sun, Chief Financial Officer; and Annabelle Zhang, the Principal IR contact in the U.S. This call is also being webcast from the website. A recording of the call will be available later today, so please refer to the press release for more details.

Now, allow me to go over the Safe Harbor statement. Today's discussion might contain forward-looking statements. Forward-looking statements involve inherent risks and uncertainties that may cause actual results to differ materially from our current expectations. For a detailed discussion of these risks and uncertainties, please refer to our latest quarterly report on Form 10-Q and other documents filed with the U.S. SEC.

Any forward-looking statements that we make on this call are based on our assumptions as of today and we do not undertake any obligation to upgrade or update these statements, except as required under applicable law.

In addition, during today's call Mr. Fu Liu will give the prepared remarks in Chinese first and a translator will provide conductive translation in English. Other management team members will give their prepared remarks in English. During the Q&A session, we will take questions in both English and Chinese, and a

translator will provide conductive translation. All translations are for convenience purposes only. In the case of any discrepancies, management's statements in the original language prevail.

With that, I now will turn the call over to the Chairman of the board of directors of Shuhai Beijing, Mr. Fu Liu.

Mr. Liu, please go ahead.

Fu Liu

(Chinese spoken).

Zoe

Good morning, ladies and gentlemen. My name is Fu Liu and I'm the Chairman and Founder of Datasea, Inc.. Thank you for joining us for the 2022 Third Quarter Earnings Press Conference.

Fu Liu

(Chinese spoken).

Zoe

Datasea was incorporated in Nevada in September 2014 and listed on NASDAQ in 2018. Our mission is to become a well-known multinational conglomerate with a mission to provide advanced artificial intelligence technology, including 5G messaging, acoustic intelligence, and digital smart city product and services to institutional and individual customers around the globe.

Fu Liu

(Chinese spoken).

Zoe

With 5G messaging with the wide acceptance of 5G adoption in China, especially as China's three major telecom companies have progressively launched preparations for the commercialization of 5G messaging applications since the beginning of 2022, the popularity of 5G messaging related services in the Chinese market has increased cumulatively.

Fu Liu

(Chinese spoken).

Zoe

According to a news published by Bell Inside on October 4, 2021, the 5G messaging market size of China is projected to be ¥300 billion over the next five to seven years. The equivalent in the U.S. dollars is \$46.54 billion.

Fu Liu

(Chinese spoken).

Zoe

As a leading service provider in the field of 5G messaging in China, Datasea's business model is based on convenient, fast, low cost, and high-quality technology support for corporate clients to access a terminal market. We will continue to leverage the first mover advantage of being in the industry to establish brand awareness and customer loyalty, thereby continuously increasing our market share.

Fu Liu

(Chinese spoken).

Zoe

The number of enterprise customers licensed to develop 5G messaging and provide technical support in express delivery, catering, tourism, ecommerce, finance, technology, and other industries increased from about 100 to nearly 200 in this quarter. In addition, as a member of 5G messaging working group at the Information and Communication Research Institute of the Ministry of Industry, as well as a leading enterprise in formulation of 5G messaging standards, our Company continues to improve its technical prowess and to strengthen its market share and revenue capacity.

Fu Liu

(Chinese spoken).

Zoe

For the acoustic intelligence business, first of all according to the *Feasibility Study Report on China's Acoustic Device Market 2021-2025* released by Newsijie Research Center, China's acoustic device market is expected to grow at a compound annual growth rate of 15.6% and reach ¥46 billion, approximately US\$7.23 billion by 2025.

Fu Liu

(Chinese spoken).

Zoe

In terms of industrial planning, Datasea and the state (phon) Key Artificial Intelligence Laboratory at the Chinese Academy of Information and Communications Technology have jointly released China's first white paper on market development and technology application of acoustic intelligence in China.

Fu Liu

(Chinese spoken).

Zoe

This shows that there is great potential and tremendous value in many perspectives. Acoustic intelligence related products will become the global mainstream.

Fu Liu

(Chinese spoken).

Zoe

For core technologies and flagship products, our acoustic intelligence COVID-19 ultrasonic sterilization product is already in production. Its disinfecting rate is at 99.99%.

Fu Liu

(Chinese spoken).

Zoe

This disinfection rate is the most advanced around the world. During pandemic, such products will bring huge value to our societies, thereby allowing Datasea to rapidly improve its capacity in international (inaudible).

Fu Liu

(Chinese spoken).

Zoe

In addition, the application fields of acoustic intelligence technology products are very wide, and the Company's technical advantages in ultrasonic and infrasound will lead the Company's market acquisition and positioning as a leading high-tech company.

Fu Liu

(Chinese spoken).

Zoe

The Company will continue to produce application products such as sound effect agriculture to expel insects and increase production and sound effects beautification, sound effects refreshing other products.

Fu Liu

(Chinese spoken).

Zoe

We will make better use of key technologies such as acoustic intelligence ultrasound and infrasound to resolve our market demand in different fields, such as healthcare, agriculture, and environmental production, and continue to tap the commercial potential of acoustic intelligence technology, thereby increasing the Company's greater revenue and enhance their stronger development of the Company and to give greater benefits to shareholders and investors.

Fu Liu

(Chinese spoken).

Zoe

More importantly, in order to speed up the building of both an international brand, as well as the sale of products in the international market, my Company plans to rely on the registered business subsidiary of Datasea listed company in the United States to achieve a localized processing and production of acoustic

intelligence related ultrasonic sterilization and antivirus products, as well as ultrasonic agricultural products and beautification products, as well as like mind refreshing other products.

Fu Liu

(Chinese spoken).

Zoe

We will build a global business structure and sell products into the world's largest consumer group, which can change the currently single structure and single source (inaudible) of having our current business income from the Chinese market, thereby improving the ability of the single market to resist the risks brought by changes and impacts, such as policy, epidemics, and inflation, and increasing the transparency of the Company's market-oriented information.

Fu Liu

(Chinese spoken).

Zoe

In order to effectively achieve the strategic objective of the Company patent level design, our management has the following plan.

Number one, strengthen the business operations of acoustic intelligence hardware products. In terms of sales design, market management and design, supply chain cooperation design, sales and capitalization of acoustic intelligence hardware products in the U.S. market and to design the ability to enter the global market by reducing the business risk of being in a single Chinese market.

Fu Liu

(Chinese spoken).

Zoe

We will also actively promote and seize the market share of 5G messaging, develop and upgrade in wider range of technology product application layers, formulate and improve the partner market system, and partner equity incentives, accelerating the development of market channels and increasing the market revenue by a large margin.

Fu Liu

(Chinese spoken).

Zoe

We will also strengthen comparative advantage of ours, especially in differentiation strategy by fully matching internal resources and team abilities with external opportunities.

Fu Liu

(Chinese spoken).

Zoe

We will continue to cooperate with key, high level technological institutions at home and abroad, stimulating demand through (phon) supply side innovation and continuing to adhere to the growth stage of the industrial life cycle and expand global sales and localize core products to better meet customer needs.

Fu Liu

(Chinese spoken).

Zoe

Protocol integration will be done through the establishment of five production lines to take advantage of the cost advantages of economic scale and scope.

And we will optimize capital structure and reduce financing costs by using different monetary policies of different countries around the world according to dynamic economic conditions.

Fu Liu

(Chinese spoken).

Zoe

And establish strategic alliances with potential partners to achieve mutual agility in the form of mergers and acquisitions, or joint ventures.

Fu Liu

(Chinese spoken).

Zoe

And enhance brand awareness through marketing and obtain TCT international patents and enhance the value of intangible assets.

Fu Liu

(Chinese spoken).

Zoe

We'll maintain customer loyalty by providing excellent customer service, unique service experience, and appropriate transparency and publicity.

Fu Liu

(Chinese spoken).

Zoe

Our management believes that the Chinese market has a lot of policy support for the continuous development of many industries, which are extremely beneficial to my Company's 5G messaging and

acoustic intelligence business. At the same time, the global pandemic has generated a large amount of global demand for novel coronavirus microbial disinfection and sterilization products.

Fu Liu

(Chinese spoken).

Zoe

These products can effectively disinfect and sterilize in the air. These are undoubtedly a very important source to promote for the domestic and international market demand for several areas, enhancing the driving force of my Company's international market.

Fu Liu

(Chinese spoken).

Zoe

With a strong force for such a development of our international scale, Datasea Inc. will drive the demand side for the supply side and strive to solve the relevant pain points of global customers, continuing the rapid growth period of the industrial life cycle for a long time through targeted R&D and internationalization strategies, continuously improve the wealth of shareholders, create value for our society, provide convenience for the world, and finally, become a well-known century old enterprise.

Fu Liu

(Chinese spoken).

Zoe

Before I hand over the phone to my CFO, I would like to have our public relations head to give an overview on the Company's important progress in 5G messaging, acoustic intelligence, and other business areas in the third quarter of Fiscal Year 2022. Thank you.

Annabelle Zhang

Thank you, Mr. Liu and thank you, Zoe (phon).

Mr. Liu just discussed Datasea's business landscape and also long-term development strategies, so I'm going to dive deeper into the recent business developments in the third quarter and address questions investors may be interested under the current environment.

This quarter continues to demonstrate the robust growth in the 5G messaging business and marked a significant inflection point to scale and transform Datasea, underscoring our continued diversification and also competitiveness really across 5G messaging, acoustic intelligence, and smart city businesses. Behind our recent developments in core business are three business initiatives Datasea value a lot, which I will give a detailed discussion below.

The first initiative is our products are positioned to be widely applicable and we use technology to form sustainable, competitive advantage. Datasea is firmly believing using the innovation to provide convenience and choice to customers and commit to staying ahead of the emerging market trends. We keep investing in the R&D and work with the best-in-class research institutes to match our innovative

drive. This effort has been taken into fruition, as you can find our new launches and upgrade our products in all of the business areas: 5G messaging, acoustic intelligence, and also smart city.

In 5G messaging, Datasea provides solutions designed to meet the marketing needs of all types of companies, regardless of their size and industry. While we do work with the industry leading companies, we also serve small to medium sized companies, and that is what differentiates us with our peer competitors.

In acoustic intelligence, Datasea commits to tap acoustic intelligence for business potential and the world's acoustic intelligence across industries in meaningful ways. This technology can be applied in so many different scenarios, no matter it is health, security, environment protection, (inaudible). But that's just the beginning. In this quarter, our cooperation with Canbo on disinfection cabinet and also Shanghai Zhuifeng on promoting the acoustic intelligence model products in vehicle application scenarios are all examples of wide applications of acoustic intelligence.

Though all three business lines may seem convergent, but the synergies they create together can be very impressive. With integrating 5G messaging solutions with a smart city solution, we aggregate our smart city solutions and bring in new customers successfully.

The second business initiative we value a lot is being the fast market movers, but with great execution. Datasea's strategic business expansion to 5G messaging and also acoustic intelligence all prove that we can identify great opportunities in the market and grasp them with execution. The recent color, Datasea has been engaged by nearly 200 enterprises in terms of 5G messaging with over more than \$17.5 million worth of 5G messaging business contracts that have been set aside. It is also awarded as a Top 10 Enterprises of 5G Messaging in 2021 in China.

In acoustic intelligence, Datasea forges relationships with new clients and partners, not only makes progress in sales perspective, but also expands our market distribution in domestic and also our global markets, including South and also North America.

The third business initiative we value a lot is diversified revenue sources and continuous business model improvements. Similar to the importance of diversification to investors, having a diversified product solution can be also used to offset risks and make the Company more resilient. Datasea tapped into three different business areas, but with great synergies among them, and also the underlying technologies. Meanwhile, we provide a combination of software and also hardware solutions, which can have the flexibility to meet with clients of different needs, but also we can serve customers at scale.

Datasea also keeps improving our business model, which now includes not only an expansion of the sales team for direct sales, but also we build partner and broker mode, like the joined marketing mode and also the enterprise key customer project cooperation mode so that we can leverage our resources to generate the recurring revenue and improve the profit margin.

Last, I'd like to address some questions that we have been asked a lot by the investors recently. We understand that our investors are very worried about the inflation, raising costs, and also economic growth. Datasea's focus on the improvements of our own business fundamentals. Our business is also not sensitive to the current manufacturers. Investors may worry, but we do keep tracking of the macroeconomy and its influence on our business. As our business is mainly operated in China, the inflation problem is quite different, and we don't see it as a significant challenge to our business. China's factory date inflation is to a one-year low in April, as the state driven production efforts supported by supply and also COVID-19 lockdowns giving policy makers more room for the stimulus to shore up the economy.

In terms of the Company's supply chain and also costs, so far we haven't seen any significant challenge arising from this area. But yes, for example, Datasea's acoustic intelligence business is operating in

Shenzhen. During COVID, Shenzhen adopted a daily COVID testing and a closed loop measurement model so to ensure the Company's production and also supply chain safety. As Shenzhen has nearly zero case, we don't expect the delayed production of our cost any time soon.

Finally, the external environment may even fuel the growth of our certain business. For example, our 5G messaging solutions provide clients with efficiency to convert their clients to in detail or in scale and also nurture buying relationships at an attractive pricing. Also, our ultrasonic sound sterilization and also antivirus equipment which can also benefit from the COVID (inaudible) sterilization equipment market world.

In (inaudible) the management team do believe that our business development is on track and is supported by a strong product portfolio. Moving forward, (inaudible) momentum from increased customer wins, dealership expansion with synergies among the business lines and strong business resilience, Datasea is well positioned for future growth.

Now, I will turn the call to Kathy, who will walk you through the details of the financial results.

Kathy, please go ahead.

Kathy Sun

Good morning, everyone.

My name is Kathy Sun, and I am the CFO of Datasea Inc. It's my pleasure to discuss our Q3 financial highlights.

We had a revenue of \$16.29 million for the nine months ended March 31, 2022, which shows a 10,555% increase by comparing with the same period of last fiscal year. The increase in revenues was mainly due to the expansion of the Company's business towards 5G messaging in Fiscal Year 2021, especially 5G SMS, integrated 5G IMMCP, and the 5G multimedia video messaging technology system.

On top of that, blue chip customers are accumulated exponentially business model was well proven and the strong cash flow was generated. As a result, the net income turned positive first time ever in the most recent three months period. At present, the Company has completed the new strategic positioning and the business laid out by 2022, forming three main businesses and the long-term development plan in 5G messaging, acoustic intelligence, and the smart city.

According to the plan, in 2022 with the introduction of acoustic intelligent hardware products and the solutions into the market and the comprehensive commercialization of China's 5G messaging services in the Chinese market. The Company has signed a service agreement with mobile operators and the development of 5G messaging applications by leading companies in express delivery, catering, medical, and the tourism industry. More than \$17.05 million worth of 5G messaging business contracts have been signed.

Datasea established the leadership position in the acoustic intelligence industry globally by the ramp in innovation and the results of location. Ever since the white paper was jointly released with the partnership of the top R&D institutions, new products on sterilization, agriculture, environmental protection, and the sound security are successfully published to market for meeting clients' demand precisely.

In order to diversify the portfolio while establishing a world class branding, the international strategy is (inaudible) which included design innovation, supply chain management, marketing, sales and the capitalization in the United States.

The total revenue of \$16.29 million was generated for the nine months ended March 31, 2022, which shows a 10,555% increase by comparing with the same period of last fiscal year. The increase in revenue for the nine months ended March 31, 2022, was mainly due to the expansion of 5G messaging business, consisting of 5G message with amount of \$15 million, including \$11 million from 5G SMS, \$3 million from 5G IMMCP mobile project on the cloud, \$1.1 million from advertising service, and \$3,600 from smart city purchase.

The Company's three major business lines have started a full operation. From July to March 2022, the overall growth profit margin was 5.51%, including 5.43% for 5G SMS. The Company's smart city business continues to develop as the top three tech (inaudible) China Mobile and the China Telecom subsidiary.

As the Company proceeds into the later stage of the 5G messaging business, three factors will have equipped the Company with more flexibility in pricing and the improving the gross margin. Cost will be reduced by economies of scale over large number of customer bases and the increase of production by adopting differentiation strategies, growing brand recognition, and the customer loyalty will transcend the company's pricing price power after the commercialization of 5G messaging in the Chinese market.

Expected in the second quarter of 2022, the target customers on the products forms will be expanded. For example, the Company will provide the 5G IMMCP (inaudible), customization and value-added service to improve profit margin.

As of March 31, 2022, accounts receivable is \$5.5 million and accounts payable is \$4.8 million. The amount of accounts payable is approximately the same as accounts receivable, which means the weighted average of cost of capital is the optimal level for financing current exercise and the maturity matching of short-term debt is perfectly achieved.

Going forward, the Company will continue to improve the margin expansion of its main business based on existing contracts including smart campers, (inaudible) systems, smart community systems, 5G messaging, and the market launch of acoustic smart hardware products. The Company's objective is to expand our revenue streams and achieve annual profit in the new fiscal year.

Okay, that's all. Annabelle Zhang.

Annabelle Zhang

Okay, thank you, Kathy.

And now we can start the Q&A session. Investors, you are always welcome to submit your questions and now I can see one question about the revenue, so I repeat the question from Robin. A question of revenue. "This quarter, revenue is impressive year-on-year, but declined compared to the last quarter, so can you explain why?" CFO, firstly, to answer the question directly, or we can—Zoe can translate for you. You can answer in Chinese, whatever way you want.

Kathy Sun

The reason the revenue increased rapidly is because investment R&D for providing a wide range of products to solve the problems of the customer needs. Also, the high growth artificial intelligence adoption penetration rate creates a tremendous (phon) demand for 5G messaging. In addition, the Company's market strategy is effectively and efficiently for reaching the target customers from different industries. Even more, the brand recognition with strong customer loyalty is so helpful to retain all the customer, meanwhile developing the new market across the country.

Annabelle Zhang

Okay, thank you Kathy. I think the second part of the question is the revenue declined compared to the last quarter. Can you explain why?

Kathy Sun

Yes, sure. (Chinese spoken).

Zoe

This is pretty much seasonal. For Q3, compared to Q2, Q3 has less short-term income, but there is like nothing, there's no special reason behind it. The number of our customers and clients are still increasing, so it's just seasonal.

Annabelle Zhang

Okay, thank you. I'll hand it—are we running out of time? Because I think we're approaching the end of the schedule, right?

Operator

Yes, so should we announce for the questions, or?

Annabelle Zhang

Yes, I think we're good for the Q&A session and also like yes, we can do the ending remarks.

Operator

Okay, great. Thank you. Ladies and gentlemen, since there are no questions as of now, I'm going to hand it over, the call, back to Annabelle Zhang for closing remarks. Thank you.

Annabelle Zhang

Okay, thank you all for joining the call. We really appreciate your time. Whenever you have questions, you can find the (inaudible) always listed with our contact details. Feel free to reach out. We are happy to address any questions you may have, and see you next quarter. Thank you for tuning in today. Thank you. Have a nice day.

Operator

Thank you. This concludes today's conference. Thank you for your participation.