

CHINA CERAMICS CO., LTD.

**1Q 2016 Earnings Call
June 2, 2016
8:00 a.m. ET**

**Speakers:
Mr. Jaidong Huang, CEO
Mr. Edmund Hen, CFO**

Operator: Good afternoon. My name is Angie and I'll be your conference operator today. At this time, I would like to welcome everyone to the China Ceramics first quarter 2016 earnings conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you like to ask a question during this time, simply press star then the number one on your telephone keypad. If you will like to withdraw your question, press the pound key.

Thank you. I'll now turn the conference over to Mr. David Rudnick of Precept Investor Relations. Please go ahead, sir.

David Rudnick: Good morning ladies and gentlemen and good evening to those of you who are joining us from China. Welcome to China Ceramics' first quarter 2016 earnings conference call. With us today are China Ceramics Chairman and Chief Executive Officer, Mr. Jiadong Huang and its Chief Financial Officer, Mr. Edmund Hen.

Before I turn the call over to Mr. Huang, may I remind our listeners that during this call, management's prepared remarks contain forward looking statements which are subject to risks and uncertainties. And management may make additional forward looking statements in response to your questions. Therefore the company claims protection of the safe harbor for forward looking statements that is contained in the private securities litigation reform act of 1995.

Actual results may differ from those discussed today. And we refer you to a more detailed discussion of the risks and uncertainties in the company's filings with the Securities and Exchange Commission. In addition, any projections as to the company's future performance represent management's estimates as of today, June 2nd, 2016. China Ceramics assumes no obligation to update these projections in the future as market conditions change. To supplement the financial results presented in accordance with U.S. GAAP, management will make reference to “Earnings before Interest, Taxes, Depreciation and Amortization”, which we will call by its abbreviated name, EBITDA. EBITDA is a non-GAAP financial measure reconciled from net income, which the company believes provides meaningful, additional information to better understand its operating performance. A table reconciling net income to EBITDA can be found in the earnings press release issued earlier today.

And now it's my pleasure to turn the call over to China Ceramics' Chairman and CEO, Mr. Jiadong Huang and China Ceramics' CFO, Mr. Edmund Hen. Weijia Dai will be translating for Mr. Huang. Mr. Huang, you may proceed.

Jiadong Huang: (In Chinese)

Weijia Dai: Thank you, David. On behalf of the company, I would like to welcome everyone to our third 2015 earnings conference call.

Jiadong Huang: (In Chinese)

Weijia Dai: As anticipated, our first quarter 2016 revenue was substantially down from the year-ago period reflecting the currently challenging market conditions in our sector in China. However, despite a 41% contraction in sales volume compared to the first quarter of 2015, we were able to report a reasonable level of cash flow in the first quarter. In addition, a decrease in our cost of sales including lower depreciation expenses enabled us to achieve improved profitability as compared to the year-ago quarter.

Jiadong Huang: (In Chinese)

Weijia Dai: In the first quarter, we maintained a reduced utilization of existing plant capacity based on the market environment in order to keep our operating costs low. We utilized production facilities capable of producing 13 million square meters of ceramic tiles per year out of a total annual production capacity of 72 million square meters. We will bring additional capacity online as the business environment improves. Although sales volume in the first quarter was lower than in past periods, we saw sound demand for our higher margin ceramic tiles which sustained the average selling price of our products.

Jiadong Huang: (In Chinese)

Weijia Dai: We believe that while China's urbanization and demographic trends are sustainable, occasional volatility will occur due to imbalances in housing supply and demand. We continue to believe that the operating environment for the rest of the year will be challenging due to abundant real estate still in inventory and unsold. However, once the current inventory of real estate properties is worked through the sales channels, we expect that a rebound in the construction and building materials sectors will materialize.

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 quarter earnings results in more detail. Thank you!

Edmund Hen: Thank you, Mr. Huang.

Our revenue for the first quarter ended March 31, 2016 was RMB 134.2 million, or US\$ 20.8 million, a decrease of 36.0% from RMB 209.8 million, or US\$ 33.8 million in the first quarter of 2016. The year-over-year decrease in revenue was primarily due to a 41.4% decrease in sales volume to 4.1 million square meters of ceramic tiles from 7.0 million square meters of ceramic tiles in the year-ago quarter slightly offset by a 10.1% increase in average selling price to RMB 32.8 per square meter from RMB 29.8 per square meter in the year-ago quarter.

Our gross profit for the first quarter ended March 31, 2016 was RMB 18.0 million, or US\$ 2.8 million, an increase of 30.4% from RMB 13.8 million, or

US\$ 2.2 million in the year-ago quarter. The gross profit margin was 13.4% for the first quarter compared to a gross profit margin of 6.6% in the year-ago quarter. The improvement in gross margin was primarily driven by the 40.7% decrease in the cost of sales attributable to (i) a decrease in depreciation due to the Company's taking an asset impairment charge in the fourth quarter of 2015 that reduced the value of the Company's plant, property and equipment, and (ii) a 10.1% increase in average selling price.

The profit from operations before taxes for the first quarter of 2016 was RMB 8.5 million or US\$ 1.3 million, up 97.7% from RMB 4.3 million or US\$ 0.7 million in the year-ago quarter. The year-over-year increase in profit from operations was primarily the result of a decrease of RMB 5.9 million in depreciation and amortization in the first quarter of 2016 due to the asset impairment taken in the fourth quarter of 2015 partially offset by the year-over-year increase in selling and distribution and administrative expenses in the current period.

Net profit for the first quarter of 2016 was RMB 6.0 million or US\$ 0.9 million in the current quarter, as compared to RMB 2.8 million or US\$ 0.4 million in the first quarter 2015.

Earnings per fully diluted share for the first quarter of 2016 on a basic and fully diluted basis were RMB 0.28, or US\$ 0.04, and RMB 0.26, or US\$ 0.04, respectively, as compared to basic and fully diluted RMB 0.14, or US\$ 0.02, in the first quarter of 2015.

EBITDA was RMB 18.8 million or US\$ 2.8 million for the first quarter ended March 31, 2016, down 16.4% from EBITDA of RMB 22.5 million or US\$ 3.6 million in the first quarter of 2015. For a detailed reconciliation of EBITDA, a non-GAAP measure to its nearest GAAP equivalent, please see the financial tables at the end of this release.

Turning to our balance sheet, as of March 31, 2016, we had cash and bank balances of RMB 1.5 million, or US\$ 0.2 million, as compared to RMB 0.5 million or US\$ 0.08 million, as of fiscal year end 2015.

As of March 31, 2016, inventory turn was 226 days compared to 131 days as of December 31, 2015. The increase in inventory turnover days was primarily due to the 36.0% decrease in sales in the first quarter of 2016 from RMB 208.3 million from the fourth quarter of 2015. The Company believes that its inventory is within reasonable aging parameters and the currently challenging economic environment has caused a higher inventory turnover than normal.

Trade receivables turnover was 292 days as of March 31, 2016 compared with 163 days as of December 31, 2015. The sequential quarter-over-quarter increase in trade receivables turnover days was primarily due to the 36.0% decrease in revenue to RMB 134.2 million (US\$ 20.8 million) from RMB 208.3 million in the fourth quarter of 2015. The currently challenging economic environment has prompted us to offer extended credit terms to certain customers resulting in a higher trade receivables turnover figure than normal. The Company has sound relationships with its customers and does not believe that it will experience difficulties associated with collections from these accounts.

As a capital expenditures update, 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 2016 other than those associated with minimal upgrades, small repairs and the maintenance of equipment.

Moving on to our business outlook, in the first quarter of 2016, we experienced a substantial contraction in our sales volume compared to the first quarter of 2015 due to the effects of a slowdown in China's construction and real estate sectors. In the first quarter of 2016, the Company's sales volume was 4.1 million square meters of ceramic tiles, a decrease 41.4% as compared to sales volume of 7.0 million square meters of ceramic tiles in the year-ago quarter.

We view the current quarter's decrease in sales volume as due to difficult macroeconomic and real estate conditions in China as evidenced by an increase in unsold housing, a reduction in new construction and a decrease in residential properties sold in recent months. However, the average selling price for our products increased from the first quarter, which we believe is

attributable to our strong brand name and quality of products and service. In the first quarter, the Company's average selling price per square meter was RMB 32.8, an increase of 10.1% as compared to an average selling price to RMB 29.8 per square meter of ceramic tile in the year-ago quarter.

We expect the currently challenging market conditions to continue for the rest of 2016 as housing construction has recently recorded its first ever declines. Further, as of the end of the first quarter, the number of homes are remain unsold rose 7.4% year-over-year. However, we believe that in the long-term the economic fundamentals for growth are still in place, as the real estate and construction sectors continue to be essential to China's economy.

Over the last two years, the Chinese government has taken a variety of actions to stimulate the real estate sector. The most recent measure was the lowering the reserve requirement ratio for banks of 50 basis points in February 2016 to stimulate the economy as well as to spur mortgage lending. These include lowering the reserve requirement ratio for banks, cutting interest rates repeatedly, reducing the minimum mortgage down payment for first-time buyers and lowering the minimum capital ratio for fixed asset investments. However, there is no assurance that the Chinese government will continue to adopt these or similar measures.

We typically receive orders from customers two months in advance of production on a rolling basis. We enter into a dealership agreement with customers and a sales or purchase contract each time a customer places an order. As of March 31, 2016, our backlog was approximately RMB 136.2 million (US\$ 21.1 million), which represents the next two months of revenue as of the end of the first quarter. This compares to a backlog of two months' revenue of RMB 165.6 million as of March 31, 2015, a year-over-year decrease of 17.7%. Under normal circumstances, our backlog is an indicator of revenues that might be expected in the next quarter, though it is subject to change as a result of unforeseen business conditions and events including credit payment terms.

In our view, the real estate and construction sector will continue to exhibit sound fundamentals long-term due China's urbanization trend and a shift towards a more consumer-led economy. Government support for both

affordable and senior housing is also expected to generate opportunities for real estate companies. We believe that our ability to offer our customers' a wide breadth of customized products that include new roofing products gives us a competitive advantage as does our state-of-the-art manufacturing facilities.

As an update to the class action litigation, the Company previously disclosed that it had reached an agreement to settle the outstanding class action litigation brought against the Company for \$850,000, consisting of \$310,000 payable in cash and \$540,000 to be issued in the Company's common shares. On January 6, 2016, the United States District Court for the Southern District of New York held a final hearing to consider approval of the settlement and on April 22, 2016, it issued a final order approving the settlement.

Under the terms of Court's final order approving the settlement issued on April 22, 2016, the number of common shares issuable by the Company is determined by the dividing \$540,000 by the average closing price of the Company's common shares on the ten days preceding the final approval hearing, which would result in the Company being obligated to issue 554,415 common shares, all of which would be freely tradeable.

Since January 6, 2016, the market value of the Company's common stock has dropped substantially. Counsel for the Lead Plaintiffs in the litigation has sought to renegotiate the date for the determination of the number of shares issuable in the settlement. The Company believes that the settlement is final and binding, and cannot be modified without the Company's consent, and the Company has refused to agree to such a modification.

More recently, Lead Plaintiffs have notified the Court of their intention to ask the Court to modify the formula governing the number of shares issuable by the Company in the settlement, such that the number of shares would be determined by the dividing \$540,000 by the average closing price of the Company's common shares on the ten days preceding the final approval order, which would increase the number of shares issuable by the Company in the settlement by 734,368 common shares.

The Company is resisting Lead Plaintiffs efforts to modify the settlement but there can be no assurance that the Company's position will be sustained.

At this point, we would like to open up the call to any questions pertaining to the first quarter 2016 financial and operating performance. Operator?

Operator: Ladies and gentlemen as a reminder, to ask an audio question, please press star one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Again, to ask an audio question, please press star one on your telephone keypad.

As there are no questions, I will pass the call on to David Rudnick.

David Rudnick: Thank you. On behalf of the entire China Ceramics management team we want to thank up all of you for the interest and participation on this call. This concludes China Ceramics' first quarter 2016 earnings conference call. Thank you all very much.

Operator: Thank you, ladies and gentlemen. You may disconnect at this time.

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