

**CHINA CERAMICS CO., LTD.**

**2Q 2015 Earnings Call  
August 18, 2015  
8:00 a.m. ET**

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

**Operator:** Good morning and welcome to the China Ceramics Second Quarter 2015 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. Thank you. I'd now turn the conference over to David Rudnick.

**David Rudnick:** Thank you, Kyla. Good morning, ladies and gentlemen and good evening to those of you who are joining us from China. Welcome to China Ceramics second quarter 2015 earnings conference call. With us today are China Ceramics' Chairman and Chief Executive Officer, Mr. Jiadong Huang; and his 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. I refer to more detailed discussion of the risks and uncertainties in the Company's filings with the Securities and Exchange Commission. In addition, any projections as the Company's future performance represent management's estimates as of today

August 18, 2015. China Ceramics assumes no obligation to update these projections in the future as market conditions change.

To supplement the financial result 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 non-GAAP financial measure reconciled from net income which the company believes provide 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 Ceramic's Chairman and CEO, Mr. Jiadong Huang, and China Ceramic's CFO, Mr. Edmund Hen. Sandy Qin will be translating for Mr. Huang.

Mr. Huang, you may proceed.

Huang Jia Dong: Thank you David, on behalf of the company I would like to welcome everyone to our second quarter 2015 earnings conference call. We reported stable cash flow in the second quarter despite the challenging operating environment in China's real estate and construction markets. While our top line was marginally lower as compared to the year ago quarter continued market acceptance of our product pricing enabled us to report a 47.9% increase in gross profit. Further, the absence of several onetime acceptance incurred in the year ago quarter resulted in a more than doubling of EBITDA to \$7.1 million versus the year ago quarter.

However customer demand shrunk in the quarter as seen by the 8.7% decline in sales volume from the year ago quarter which follows the first quarter's 5.7% year-over-year declined customer demand. Given the overall market slowdown in our sector this year, we may need to engage in more intensive marketing and therefore incur additional selling expenses in the periods ahead to maintain market share as well as to sustain the current quarter's strong product pricing.

In the second quarter, we utilized plant production facilities capable of

producing 34 million square meters of ceramic tiles per year out of our total annual production capacity of 72 million square meters of ceramic tiles. This was a 20.9% decrease over what was utilized during this period last year. We hope to bring additional capacity online going forward as business conditions improve.

Despite periods of short term slowing and likely difficult market conditions ahead, we continue to believe that the long-term fundamentals for growth in the real estate and construction industries continue to be in place. In addition, we believe that an important element of our success is our ability to adapt to market conditions and to continue to provide optimal customer-centric solutions to the marketplace. While our business sector continues to be highly competitive, our brand name recognition and reputation for quality and service has enabled us to raise and maintain the average selling price of our products over the past two years. We look for market conditions to eventually improve and we intend to continue to develop closer relationships with the larger property developers and transition our product mix towards better performing, higher margin ceramic tiles.

The Company's Board of Directors have not yet made a determination as to the Company's dividend policy for 2015. However, there are concerns of a continued slowdown in China's economy as well as China's real estate sector, which would negatively impact the building materials industry. Further, Management believes that it is likely that difficult market conditions in the Company's business sector will prevail for the rest of the year. Therefore, the Board of Directors will engage in additional deliberations in the future as to the Company's dividend policy and will update the market accordingly.

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 earnings results in more detail. Thank you.

Edmund Hen: Thank you, Mr. Huang. I will now move on to a more detailed discussion of our financial results for the second quarter 2015.

Our revenue for the second quarter ended June 30, 2015 was RMB 260.0 million, or US\$ 41.9 million, a decrease of 3.2% from RMB 268.6 million, or US\$ 43.3 million in the second quarter of 2014. The year-over-year decrease in revenue was primarily due to an 8.7% decrease in sales volume to 8.4 million square meters of ceramic tiles from the year-ago quarter partially offset by a 6.5% increase in average sales price to RMB 31.0 per square meter from the year-ago quarter. From July 1, 2014, the price for all of our products was increased by 5 to 10%.

Gross profit for the second quarter ended June 30, 2015 was RMB 35.8 million, or US\$ 5.8 million, an increase of 47.9% from RMB 24.2 million, or US\$ 3.9 million the year-ago quarter. The gross profit margin was 13.8% for the second quarter ended June 30, 2015, as compared to 9.0% for the second quarter ended June 30, 2014. The year-over-year improvement in gross profit margin was primarily driven by a 6.5% increase in the average selling price.

Profit from operations before taxes for the second quarter of 2015 was RMB 26.4 million or US\$ 4.3 million, as compared to RMB 3.2 million or US\$ 0.5 million in the year-ago quarter. Excluding the non-cash RMB 3.0 million or US\$ 0.5 million fair value loss on derivative financial instruments incurred in the second quarter of 2014, the year-ago quarter profit from operations before taxation was RMB 6.2 million or US\$ 1.0 million.

Net profit for the second quarter of 2015 was RMB 19.2 million or US\$ 3.1 million as compared to a net profit of RMB 0.7 million or US\$ 0.1 million in the year-ago quarter. Excluding the non-cash RMB 3.0 million fair value loss on derivative financial instruments incurred in the second quarter of 2014, the year-ago quarter net profit was RMB 3.7 million or US\$ 0.6 million.

Earnings per fully diluted share for the second quarter of 2015 were RMB 0.94 or US\$ 0.15 as compared to RMB 0.03 or US\$ 0.01 for the second quarter of 2014. Excluding the non-cash RMB 3.0 million fair value loss on derivative financial instruments incurred in the second quarter of 2014, the year-ago quarter earnings per fully diluted share was RMB 0.18 or US\$ 0.03 per share.

EBITDA for the second quarter ended June 30, 2015 was RMB 44.3 million or US\$ 7.1 million, an increase of 107.0% from RMB 21.4 million or US\$ 3.5 million for the second quarter ended June 30, 2014.

Turning to our balance sheet,

As of June 30, 2015, we had cash and bank balances of RMB 255.9 million, or US\$ 41.3 million, compared to RMB 61.2 million or US\$ 9.9 million, as of December 31, 2014. The increase in cash and bank balances was primarily the result of cash generated from operating activities of RMB 195.8 million or US\$ 31.6 million for the first six months of 2015. As of the end of the second quarter of 2015, our debt consisted of short-term bank borrowings which were RMB 84.7 million or US \$13.7 million, which is approximately the same debt level we had as of year-end fiscal 2014.

As of June 30, 2015, inventory turn was 139 days compared to 125 days as of December 31, 2014. Trade receivables turnover was 167 days compared with 156 days as of fiscal year end 2014. Prior to 2012, the Company typically offered a credit period of 90 days to our distributors, but extended it to 150 days to our distributors since the end of 2012 to address funding pressures associated with challenging real estate market conditions in China. We extended the credit period from 90 days to 120 days to direct company accounts at the end of 2014. 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.

Moving on to our business outlook, As indicated last quarter, we expect currently challenging market conditions to prevail through the second half of the year. In the second quarter of 2014, we experienced a contraction in customer demand as market conditions in China's real estate and construction sectors became challenging due to overbuilding and excess inventory in some cities. However, although our sales volume fell 8.7% from the year-ago quarter, our average selling price rose 6.5% from the year-ago quarter which we attribute to our high quality products and strong marketing efforts.

Although the slowdown is likely to continue in the short-term, in the long-term we believe that the urbanization and economic trends underlying the growth in China's real estate sector are sustainable. Since the real estate sector is estimated to comprise 15% of China's gross domestic product, the Chinese government could well continue to adopt an array of policies to stimulate the real estate sector. In June 2015, the People's Bank of China announced a cut in its one-year benchmark lending rate to 4.85%. This follows other measures such as lowering buyer minimum down payment ratios and lowering the reserve requirement ratio for banks in order to free up capital for mortgage lending. We believe that the recently released data of a 0.54% average price rise of a new home in China's major cities in July, following similarly modest increases in May and June, points to the possible resilience of the real estate sector.

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 June 30, 2015, our backlog was approximately RMB 217.3 million or US\$ 35.0 million which represents approximately the next two months of revenue as of the end of the second quarter. This compares to a backlog of approximately RMB 221.2 million or US\$ 35.7 million as of June 30, 2014, a year-over-year decrease of 1.8%. 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.

We intend to gradually shift the focus of our marketing efforts towards larger cities since we are seeing pricing increases in first-tier cities. We will also continue to market to smaller Tier cities where the government is continuing to boost infrastructure investment. The upgrading of existing housing stock in both large and smaller cities is also an important component of demand.

We reiterate our belief that smaller competitors are likely to exit our sector due to their lack of modernized production techniques and difficulty in complying with new environmental regulations. We also anticipate

consolidation among large property developers and believe that we provide quality products and optimal service to this important constituency. We continue to work closely with our customers and develop new products that we believe give us a competitive advantage. We believe that our experience, expertise and name brand recognition will enable us to ultimately weather any sector volatility in the periods ahead.

At this point, we would like to open up the call to any questions pertaining to the second quarter 2015 financial and operating performance. Operator?

### **Question-and-Answer Session**

Operator: Our first question comes from Howard Flinker of Flinker & Company.

Howard Flinker: Hello everybody. I have two questions. One I didn't hear clearly. Did you say that the prices for the second half will rise another 5% or 10%?

Edmund Hen: This is since the second quarter of 2014.

Howard Flinker: And the second relates to your cash and your working capital. What do you plan to do with it before somebody comes along, your cash including restricted cash is about 225, or more than twice your share price. And your net working capital or net net as it sometimes called, is almost \$6. So what do you do before somebody comes along and says I'm going to buy the whole company? What are your plans for the cash?

Edmund Hen: The management is still thinking about the current cash balances. As you know, the current business environment is not in a good way now. And we always prepare for the worst with our limited cash. And we also think also about our share price. Let`s see what can we do with our cash. But at this moment we are still under discussion and thoughts on all the possibilities. So I think at this point we will hold the cash for a while.

Howard Flinker: And under the discussion, you mean about a potential buyback?

Edmund Hen: Any possibility.

Howard Flinker: Thank you.

Operator: The next question is from John Sheehy, a private investor.

John Sheehy: Hello, everybody, congratulations on the good results. And thank you for taking my call. Is the recently reported increase in home sales providing more cash for your customers and improving your collection of accounts receivable?

Edmund Hen: Not for the short term, relatively as you can see the business environment is still not very good. And we also need to support our distributors and our network. So what we think is we will have to see for the environment for short term of period before we change the credit payment terms to our current customers.

John Sheehy: Okay, and can you describe the strategy you are using for marketing and distribution of interior tiles and give some comments on how that business is developing for the company?

Edmund Hen: Yes, right now, of course, will give high quality of products to provide to our customers. But the strategy and distribution network is also important. According to our Chairman, we have set up our new strategy department to focus on the new network for this on the new future and also we will tend to strengthen our export to overseas to see if any overseas market can be used for this.

John Sheehy: Okay, and can you give examples of any particular products where demand is good right now?

Edmund Hen: Of course as you know we are the exterior wall ceramics producers, still the exterior ceramic is the first major contribution on the revenue. And on our exterior wall ceramics, the new type of porcelain ceramics are still the strongest product in the market. For the interior wall ceramics tiles, we will plan to produce some high quality floor ceramics in the future to meet the market demand.



John Sheehy: So if I heard you correctly, I think you said that new type exterior ceramic tiles, what does that mean?

Edmund Hen: We will produce some new environmentally friendly products. For example, in the past we have already produced a light weight tile and in the future we will provide more kinds for different texture and style for the market developed from these tiles or new tiles.

John Sheehy: Okay, and my last question, does the company have any goals that hopes to achieve over the remainder of this year?

Edmund Hen: Of course, at least we hope we can do better than last year, this is our major hope at this moment.

John Sheehy: Okay, thank you very much and congratulations on the good results.

Edmund Hen: Thank you.

Operator: The next question is from James Kahn of Oppenheimer.

James Kahn: I want to add my congratulations what I consider to be great results. You earned \$3.6 million in six months during a very bad period and if you can earn this much when times are bad, imagine how much you can earn when times get better. So I think this is one of the most amazingly well run companies I've ever seen and I am astonished that it's also one of the most cheapest stocks I have ever seen, those two usually don't go together.

To Mr. John Sheehy who just asked the question, I hope you will write up something on Seeking Alpha. So Edmund, back to you, I want to address what Mr. Flinker asked about the possibility of someone wanting to buy this company which would be only natural because it is such a great company and so abnormally cheap.

They probably won't succeed because you will block it, but it might require litigation, that is if it put in an offer for \$6 a share it will be difficult to save that fee other shareholders other than the two of you would not benefit from accepting that, it would be bad to sell the company obviously because you are

the ones running it and you should be the ones running it. But when the company is this cheap it seems only natural to consider ways to raise the share price and I understand you're reluctant to use your cash. So, my solution is this, you have 41 million in cash, one-tenth or 1% of that is \$41,000. \$41,000, I hope you'll admit is a drop in the bucket as we say in the U.S. compared to 41 million.

If you simply announce, I would say this would impress Americans, if you simply announce, we are going to take \$41,000 to buy back our own shares because sheer arithmetic tells us it will make the remaining shares more valuable, and further more we intend to keep doing this until the valuation disparity is rectified, if you were to use words like that, until the valuation disparity is rectified, believe me, I know Americans, this would get their attention and suddenly your share price might come back to something approaching its true value.

I know that wasn't a question, that was really a comment, I am sorry, but do you have any comments about my comment?

Edmund Hen: Thank you for your suggestion and this is a very good suggestion and I think Management will take into consideration seriously for your suggestion like this, and but at this time, at this moment, I cannot tell anything about or too much on the decision which is not yet decided from the Board of Directors. So, if we have any decision or consideration we will announce to the public as soon as possible.

James Kahn: Okay, thank you.

Operator: There are no further questions. I will now turn the call back over to David Rudnick.

David Rudnick: Thank you, Kyla. On behalf of the entire China Ceramics management team, we would like to thank all of you for interest and participation in this call. This concludes China Ceramics second quarter 2015 earnings conference call. Thank you all very much.

Operator:        You may now disconnect.

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