

CHINA CERAMICS CO., LTD.

**2Q 2016 Earnings Call
June 28, 2016
8:00 a.m. ET**

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

Operator: Good afternoon. My name is Leya and I'll be your conference operator today. At this time, I would like to welcome everyone to the China Ceramics second 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' second 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 28th, 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 second quarter 2016 earnings conference call.

Jiadong Huang: (In Chinese)

Weijia Dai: For the second quarter of 2016, we experienced continued challenging market conditions due to the continued slowing in the real estate and building materials sectors. Sales volume declined 21% as compared to the year-ago quarter and fell 31% for the first six months of 2016 as compared to the year-ago six months. However, income derived from a lease contract and a lower tax rate enabled us to achieve a 22% increase in net profit in the second quarter as compared to the second quarter of 2015. Further, our cash flow remained reasonable as we continue to operate in a lean manner and are more focused than ever on generating income.

Jiadong Huang: (In Chinese)

Weijia Dai: During the second quarter, we utilized production facilities capable of producing 27 million square meters of ceramic tiles per year out of a total annual production capacity of 72 million square meters. However, in order to generate cash flow, we have entered into a contract to lease out an idle production line in our Hengdali facility that has the capacity to produce 10 million square meters of ceramic tiles. As we have in past quarters, we maintained a reduced utilization of existing plant capacity based on the current market environment in order to keep our operating costs low, and we will bring additional capacity online as the business environment improves.

Jiadong Huang: (In Chinese)

Weijia Dai: For the remainder of 2016, we anticipate a slowdown as compared to last year. In our view, the building materials sector has become more cyclical than usual as unsold real estate has yet to be worked through their distribution channels which has limited new construction projects. In the long-term, we believe that real estate will continue to be vital to China's economy as it is underpinned by urbanization which is essential for domestic growth. We are well positioned to capitalize on an eventual rebound in the sector as many smaller competitors have exited the space.

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 quarter earnings results in more detail. Thank you!

Edmund Hen: Our revenue for the second quarter ended June 30, 2016 was RMB 206.5 million, or US\$ 31.1 million, a decrease of 20.6% from RMB 260.0 million, or US\$ 41.9 million in the second quarter of 2015. The year-over-year decrease in revenue was primarily due to a 21.2% decrease in sales volume to 6.6 million square meters of ceramic tiles from 8.4 million square meters of ceramic tiles in the year-ago quarter. This was slightly offset by a 0.6% increase in average selling price to RMB 31.2 per square meter from RMB 31.0 per square meter in the year-ago quarter.

Gross profit for the second quarter ended June 30, 2016 was RMB 32.2 million, or US\$ 4.8 million, a decrease of 10.1% from RMB 35.8 million or US\$ 5.8 million in the year-ago quarter. The gross profit margin was 15.6% for the second quarter compared to a gross profit margin of 13.8% in the year-ago quarter. The improvement in gross margin was primarily driven by a 22.3% 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 0.6% increase in average selling price.

Other income for the second quarter ended June 30, 2016 was RMB 5.3 million or US\$ 0.8 million, as compared to RMB 0.3 million or US\$ 0.04 million for the second quarter of 2015. The year-over-year increase in other income was mainly due to (i) RMB 3.5 million or US\$ 0.5 million of rental income received from the Company leasing out one of the production lines from its Hengdali facility pursuant to an eight-year lease contract and (ii) RMB 1.7 million or US\$ 0.3 million attributable to recognition of the over-provision of funds for the settlement of litigation.

Profit from operations before taxes for the second quarter of 2016 was RMB 26.0 million or US\$ 3.9 million, down 1.5% from RMB 26.4 million or US\$ 4.3 million in the year-ago quarter. The year-over-year decrease in profit from operations before taxes was the result of the 10.1% year-over-year decrease in gross profit in the current period offset by Other Income, which includes (i) RMB 3.5 million in rental income derived from the Company leasing out one of the production lines from its Hengdali facility, and (ii) RMB 1.7 million attributable to recognition of the overprovision of funds for the settlement of litigation.

Net profit for the second quarter of 2016 was RMB 23.5 million or US\$ 3.5 million in the current quarter, up 22.4% from RMB 19.2 million or US\$ 3.1 million in the second quarter 2015. The year-over-year increase in net profit was due to (i) the increase in Other Income in the current period from the year-ago period, and (ii) deferred tax assets being recognized from

accumulated loss attributed from the Company's subsidiaries which lowered the income tax expense in the current period, with these two factors partially offset by the 10.1% year-over-year decrease in gross profit.

Earnings per fully diluted share for the second quarter of 2016 on a basic and fully diluted basis were RMB 8.65, or US\$ 1.30, and RMB 7.81, or US\$ 1.18, respectively, as compared to basic and fully diluted earnings per share of RMB 7.53, or US\$ 1.20, in the second quarter of 2015, as adjusted for the one for eight reverse stock split in June 2016.

EBITDA was RMB 32.3 million or US\$ 4.9 million for the second quarter ended June 30, 2016, down 27.1% from EBITDA of RMB 44.3 million or US\$ 7.1 million in the second quarter of 2015.

For the first six months of 2016, revenue was RMB 340.6 million or US\$ 51.9 million, a decrease of 27.5% as compared to RMB 469.8 million or US\$ 75.8 million for the six months ended June 30, 2015. Gross profit for the first six months of 2016 was RMB 50.2 million or US\$ 7.7 million, up 1.2% from RMB 49.6 million or US\$ 8.0 million in the six months ended June 30, 2015. Gross margin was 14.7%, compared to 10.6% in the same period of 2015. Net profit for the six months ended June 30, 2016 was RMB 29.5 million or US\$ 4.5 million, up 34.1% from net profit of RMB 22.0 million or US\$ 3.6 million for the same period of 2015. Earnings per basic and fully diluted share were RMB 10.86 (US\$ 1.63) and RMB 9.81 (US\$ 1.48) for the six months ended June 30, 2016 and earnings per basic and fully diluted share were RMB 8.62 in the same period of 2015.

Turning to our balance sheet, as of June 30, 2016, we had cash and bank balances of RMB 3.3 million, or US\$ 0.5 million, as compared to RMB 0.5 million or US\$ 0.08 million, as of fiscal year end 2015. Our short-term bank borrowings was nil as of June 30, 2016, compared to RMB 40.1 million, or US\$ 6.2 million as of December 31, 2015.

As of June 30, 2016, inventory turn was 181 days compared to 131 days as of December 31, 2015. The increase in inventory turnover days was primarily

due to the 30.6% decrease in sales volume in the first half of 2016 to the sales volume of 15.4 million square meters of ceramic tiles in the first half of 2015. The Company believes that its inventory is within reasonable aging parameters and the currently challenging economic environment has caused a lower inventory turnover than normal.

Trade receivables turnover was 258 days as of June 30, 2016 compared with 163 days as of December 31, 2015. The increase in trade receivables turnover days was primarily due to the 20.6% decrease in revenue in the second quarter as compared to 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 plant capacity and capital expenditures update, in March 2016, the Company entered into an eight-year contract to lease out one of the production lines from its Hengdali facility. The production line has the capacity to produce approximately 10 million square meters of ceramic tiles. The term of the contract is from March 1, 2016 to February 29, 2024, and the contract stipulates for the receipt of rental income of RMB 15.0 million per year, including a 6% value added tax. The Company believes that it is prudent to generate income from its unused production capacity from a third party rather than let it remain idle.

Therefore, for the term of the eight-year lease, the Company may only produce up to 20 million square meters of ceramic tiles from its Hengdali facility, and its maximum annual production capacity has been effectively reduced from 72 million square meters of ceramic tiles to 62 million square meters of ceramic tiles under the lease.

For the second quarter of 2016, we utilized plant capacity capable of producing 27 million square meters of ceramic tiles annually out of a total annual production capacity of 72 million square meters. Our Hengda facility

has an annual production capacity of 42 million square meters of ceramic tiles and we utilized annual capacity capable of producing 16 million square meters of ceramic tiles. Our Hengdali facility has an annual production capacity of 30 million square meters (of which we are leasing 10 million square meters of production capacity to a third party) and we utilized annual capacity capable of producing 11 million square meters of ceramic tiles.

In terms of our Capex, 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 2016 other than those associated with minimal upgrades, small repairs and the maintenance of equipment.

Moving on to our business outlook, in the second quarter of 2016, we experienced a contraction in our sales volume compared to the second quarter of 2015 due to the effects of a slowdown in China's construction and real estate sectors. In the second quarter of 2016, the Company's sales volume was 6.6 million square meters of ceramic tiles, a decrease of 21.2% as compared to sales volume of 8.4 million square meters of ceramic tiles in the year-ago quarter. For the first six months of 2016, sales volume was 10.7 million square meters of ceramic tiles, a decrease of 30.7% as compared to sales volume of 15.4 million square meters for the first six months of 2015. We believe that the current quarter's decrease in sales volume is due to difficult macroeconomic and real estate conditions in China as evidenced by slowing price growth, a reduction in new construction and a decrease in residential properties sold in recent months. However, the average selling price for our products continued to increase, with the Company's average selling price per square meter increasing 0.6% to RMB 31.2, as compared to an average selling price of RMB 31.0 per square meter of ceramic tile in the year-ago quarter.

We expect the currently challenging market conditions to continue for the second half of 2016 as potentially lower property investment coupled with higher land prices could slow new property development. The rise in home prices slowed in July which could also portend a possible slowing in demand. The challenging environment is exacerbated in smaller cities as these urban

areas continue to have the largest inventories of unsold homes. However, we believe that in the long-term the economic fundamentals for growth are still in place, as the real estate and construction sectors are underpinned by urbanization which is essential to China's domestic growth. Further, the Government has been supportive of the real estate sector over the last two years when it took a variety of actions to spur demand.

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, 2016, our backlog was approximately RMB 143.0 million or US\$ 21.5 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 217.3 million or US\$ 35.0 million as of June 30, 2015, a year-over-year decrease of 34.2%. 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, China's urbanization trend will continue into the foreseeable future and favor a sustainable building materials sector. Government support for both affordable and senior housing should also generate opportunities for real estate companies. In addition, there is pressure to upgrade China's existing housing stock to meet today's building standards. We believe that our excellent brand recognition, market reputation and wide array of high quality products will meet our customers' needs as they plan new projects.

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 in consideration of the payment by the Company of \$850,000, \$310,000 in cash and \$540,000 in the Company's common shares. On April 22, 2016, the United States District Court for the Southern District of New York issued a final order approving the settlement. The Company remitted \$310,000 in cash and issued 554,415 common shares in full satisfaction of the terms of the

settlement. The case was closed on August 2, 2016. Operator, we are now ready for Q&A. 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' second 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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