

CHINA CERAMICS CO., LTD.

**3Q 2015 Earnings Call
November 19, 2015
8:00 a.m. ET**

Speakers:

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

Operator: Good afternoon. My name is Lashanta and I'll be your conference operator today. At this time, I would like to welcome everyone to the China Ceramics Third 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. 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: Thank you. Good morning ladies and gentlemen. And, good evening to those of you who are joining us from China. Welcome to China Ceramics Third Quarter 2015 Earnings Conference Call. With us today are China Ceramic's Chairman and Chief Executive Officer, Mr. Jiadong Huang and the Chief Financial Officer, Mr. Edmund Henn.

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, November 19th, 2015. 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. Sophie Wang will be translating for Mr. Huang. Mr. Huang, you may proceed.

Jiadong Huang: (In Chinese)

Sophie Wang: 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)

Sophie Wang: We reported solid financial results in the third quarter due to our continued strong marketing efforts, sustained pricing power and a modest improvement in China's real estate and construction markets. The quarter's modestly improved top line results were driven by improved customer demand and a higher average selling price for our products. Further, a gradual migration of our sales towards higher margin products helped to solidify our margins in the quarter. We are also excited about our new glazed brick ceramic tile product which diversifies our product portfolio even further.

Jiadong Huang: (In Chinese)

Sophie Wang: We are utilizing production facilities capable of producing 47 million square meters of ceramic tiles per year out of a total annual production capacity of 72 million square meters. This was a modest 4% decrease over what we utilized during this period last year but identical to the plant capacity we utilized last quarter. We hope to bring additional capacity online going forward as business conditions improves.

Jiadong Huang: (In Chinese)

Sophie Wang: For the fourth quarter, we anticipate a modest improvement in the macroeconomic factors which contribute to the demand for our products. However, we also anticipate a seasonal slowdown consistent with the construction building cycle which would lead to lower sequential fourth quarter results. In the periods ahead, we plan to especially focus upon developing stronger relationships with larger property developers and we plan to tailor our marketing efforts towards those cities in China which offer better potential for new property development.

Jiadong Huang: (In Chinese)

Sophie Wang: Despite periods of occasional volatility, we believe that China's urbanization and economic growth continue to support the viability of our business. We also believe that we have the management expertise and operating infrastructure to adapt to difficult market conditions as well as to capitalize upon the opportunities presented by an improving market environment.

Jiadong Huang: (In Chinese)

Sophie Wang: With that, I would like to turn over the call to the company's Chief Financial Officer, Mr. Edmund Henn who will discuss the company's third quarter 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 result for the third quarter on 2015. Our revenue for the third

quarter ended September 30, 2015 was RMB 339.0 million, or US\$ 53.3 million, an increase of 5.9% from RMB 320.1 million, or US\$ 52.2 million in the third quarter of 2014. The year-over-year increase in revenue was primarily due to a 2.8% increase in sales volume to 11.0 million square meters of ceramic tiles from the year-ago quarter and a 3.3% increase in average selling price to RMB 30.9 per square meter from the year-ago quarter.

Gross profit for the third quarter ended September 30, 2015 was RMB 46.3 million, or US\$ 7.3 million, an increase of 10.8% from RMB 41.8 million, or US\$ 6.8 million the year-ago quarter. The gross profit margin was 13.7% for the third quarter compared to a gross profit margin of 13.1% in the year-ago quarter. The improvement in gross margin was primarily driven by the increase in average selling price.

Profit from operations before taxes for the third quarter of 2015 was RMB 36.6 million or US\$ 5.8 million, as compared to RMB 44.2 million or US\$ 7.2 million in the year-ago quarter. Adjusting for this non-cash gain on derivative financial instruments of RMB 12.2 million in the third quarter of 2014, profit from operations before taxes increased 13.7% for the current quarter from the third quarter of 2014.

Net profit for the third quarter of 2015 was RMB 26.9 million or US\$ 4.2 million as compared to net profit of RMB 35.7 million or US\$ 5.8 million in the year-ago quarter. Adjusting for the non-cash gain on financial derivatives in the third quarter of 2014, net profit increased 15% for the current quarter from the third quarter of 2014.

Earnings per fully diluted share for the third quarter of 2015 were RMB 1.32 or US\$ 0.21 as compared to RMB 1.75 or US\$ 0.28 for the third quarter of 2014. Again, adjusting for the non-cash gain on financial derivatives in the third quarter of 2014, earnings per share increased 14.8% for the current quarter from the third quarter of 2014.

EBITDA for the third quarter ended September 30, 2015 was RMB 54.8 million or US\$ 8.6 million as compared to RMB 62.5 million or US\$ 9.8 million for the third quarter ended September 30, 2014. On an adjusted non-

GAAP basis, EBITDA for the current quarter increased 8.8% from RMB 50.3 million in the third quarter 2014, as adjusted for the non-cash RMB 12.2 million fair value gain on derivative financial instruments in the year-ago quarter.

Turning to our balance sheet, as of September 30, 2015, we had cash and bank balances of RMB 226.3 million, or US\$ 35.6 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 167.5 million or US\$ 26.4 million for the first nine months of 2015. As of the end of the third quarter of 2015, our debt consisted of short-term bank borrowings which were RMB 84.3 million or US \$13.3 million, which is approximately the same debt level we had as of year-end fiscal 2014.

As of September 30, 2015, inventory turn was 124 days compared to 125 days as of December 31, 2014. Trade receivables turnover was 166 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.

As a capital expenditures update, in the third quarter we began renovating our state-of-the-art showroom in our Hengda facility which we call the Exhibition Hall which is a valuable resource for the marketing and promotion of our building material products. We are confident that upgrading this showroom will enable us to continue to secure significant new contracts for our products from larger property developers. Capex for the new renovations to the Hengda Exhibition Hall were RMB 3.9 million in the third quarter, which remain unpaid as of the quarter's close. We estimate that the total cost of the renovations will be approximately RMB 11.1 million which is expected to be completed by year end 2015.

We are also constructing a new production line to manufacture glazed brick ceramic tiles in our Hengdali facility, which we believe will be an attractive addition to our current product portfolio. This new product is engineered to competitively-priced and a highly effective roofing solution for both high rise apartment and housing projects that complements our existing ceramic tile products. Capex for the new line were RMB 18.6 million in the third quarter, which remain unpaid as of the end of the quarter, and we estimate that the total cost of this new line will be approximately RMB 93.0 million. This new production line is also expected to be completed by year end 2015.

Moving on to our business outlook, we expect modestly improving market conditions for the rest of the year which we believe could extend into 2016 attributable to government policies to support the real estate market in China. The new directives include a lower first home down payment ratio of 25% targeting Tier 2 and Tier 3 cities, and the lowering of a second home down payment to 20%. Since the real estate sector is estimated to comprise 15% of China's gross domestic product, we believe that the Chinese government will continue to adopt policies to support the real estate sector and its related sectors.

In the third quarter of 2015, we experienced an improvement in customer demand as sales volume rose 2.8% from the year-ago quarter. This reflects an improvement in demand from a slowdown that occurred in the first half of 2015 when our sales volume contracted 7.8% from the first half of 2014. However, we are intent upon seeing further positive trends that would signify a significant turnaround in market conditions. Our marketing and distribution capabilities and strong brand reputation remain key competitive attributes, helping us to realize a 3.3% rise in our average selling price in the third quarter from the year-ago quarter.

As of September 30, 2015, our backlog was approximately RMB 159.0 million (US\$ 25.0 million) which represents approximately the next two months of revenue as of the end of the third quarter. This represents a year-over-year increase of 13.3% as compared to the year-ago period. 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 the long-term we believe that the substantial urbanization and economic trends underlying the growth in China's real estate sector are sustainable. We continue to anticipate consolidation among property developers and believe that we are optimally positioned to provide quality products and service to this constituency. We also believe that exits by smaller competitors will continue as less well-financed companies will not be able to comply with stricter environmental regulations. We believe that our deep management and marketing experience in the sector and modernized operating plant afford us a sustainable competitive advantage which will enable us to capitalize upon market opportunities in the periods ahead.

In terms of our dividend policy, as stated in our earnings press release distributed earlier today, the company's Board of Directors has engaged in continued deliberations as to the company's dividend policy for 2015. It has determined that it would be prudent to conserve cash and delay any dividends at this time due to concerns about a continued slowdown in China's economy and the real estate sector which would negatively impact the building materials industry. The Board of Directors will engage in additional discussions as to the Company's dividend policy and will update the market accordingly.

At this point, we would like to open up the call to any questions pertaining to the third quarter 2015 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.

Your first question comes from Howard Flinker, with Flinker & Co.

Howard Flinker: Thank you, (Foreign Language)

Edmund Hen: (Foreign Language)

Howard Flinker: I have a few questions, one, I've been told that perhaps 20 to 25 percent of the competitors in Jiangxi have closed. And he thinks they're probably going to close another 25 percent for a total of maybe 50. Do you think you're getting some business from those closed competitors or not yet?

Edmund Hen: We hope so. Well, we have not yet see the situation. We – as you mentioned, we realized that about 25 percent of the small competitors have closed to their difference already. And other 20 to 30 percent of the manufacturer has stopped at their production lines right now. And, we hope we can survive in this strengthened situation and to get more market share in the near future.

Howard Flinker: I also noticed that both your prices were up and your backlog work is up meaning business is getting better and the prices are sticking. Is that true in both plants in Jiangxi and is it Jinjiang – I forgot the second one.

Edmund Hen: Jiangxi and Jinjiang.

Howard Flinker: Jiangxi. Is – are sales up at both plants or just one?

Edmund Hen: I think there is a small amount of our product has the increase a little bit of the price. This is the course – the actual around situation is that the shift of products towards some higher margin product at this point ...

Howard Flinker: Right...

Edmund Hen: And we realized that the low margin product is not – very – is not very saleable or welcome to the market at this strict economic environment. And we found the high quality...

Howard Flinker: Are you seeing improvement on both plants or mainly one?

(Crosstalk)

Edmund Henn: Both plants...

Howard Flinker: Both plants, OK...

Edmund Hen: Usually from the Jinjiang area.

(Crosstalk)

Howard Flinker: in relation to your new roofing tile, is that more expensive than your current product line or the same or cheaper?

Edmund Hen: That will be a little bit higher than our current product pricing. And we found the market for this product is very high and we have a few pre-orders right now. And we believe that the market for this new type of product will be very good.

Howard Flinker: So, if the prices are high – higher, I'm guessing that your profit margins are going to be higher?

Edmund Hen: Yes.

Howard Flinker: OK.

Edmund Hen: We expect the profit margin will be little bit higher.

Howard Flinker: All right. Now, I'm going to talk – I ask about the cash flow on our capital expenditures and a possible stock buy back. Your cash flow is going to be only a little bit less than your stock price, not much, per share. And, you should be able to pay your capex pretty easily from almost depreciation alone. You're making – are you still in the black right now in the seasonal fourth quarter?

Edmund Hen: Sorry, in the fourth quarter we – sorry, can you repeat your question again ...

Howard Flinker: Yes, yes, before I ask my question there's a second question I'm going to ask first. Are you still in the black currently in the seasonally weak fourth quarter?

Edmund Hen: Yes, the fourth quarter – yes, the seasonally slow season ...

Howard Flinker: Yes, but still in the black are you not?

Edmund Hen: You may say that.

Howard Flinker: Well, I'm asking you.

Edmund Henn: The – I'm sorry can you rephrase your question on this?

Howard Flinker: Yes, at the current level of business, are you still making a small profit?

Edmund Hen: Yes, correct.

Howard Flinker: OK. If you take I guess a 12 months' profit and add about – I don't know RMB 72 million of depreciation. That will pay for your whole capital expenditure. Your expansion into the new product line ...

Edmund Hen: Yes.

Howard Flinker: Why aren't you using some of your cash to buy back stock which would – have anybody else who does not submit his stock. Why aren't you doing that?

Edmund Hen: Yes, you have a very good suggestion. And, we our discussing this possibility and before we consider on your position very seriously. Follow – as you also notice that the credit terms for the credit period for our customer has become longer right now. In this situation ...

Howard Flinker: Yes, you're using that... competitively, you did that on purpose, I know you did that on purpose, you told me. And, maybe that's something to put some of those competitors out of business here because they cannot afford to give the customers like longer terms...

Edmund Hen: Yes ...

Howard Flinker: But, even so there seems to be enough money left over for a stock buy back.

Edmund Hen: Yes, and your projection will be considered and discussed by the board.

Howard Flinker: OK, one final question, on your balance sheet and which you really don't mention. Is restricted cash. You also have cash that's restricted. I think it's \$4 million or something like that?

Edmund Hen: Yes.

Howard Flinker: Maybe RMB 20 million, RMB 25 million...

Edmund Hen: Yes.

Howard Flinker: What's the purpose of that?

Edmund Hen: All right, that's used up for some – to secure some short term loan.

Howard Flinker: I see. So, it is a balance of RMB 29 million and \$4.5 million in cash. So, that really is to offset some of your RMB 84 million in loans and you have to keep it in deposit temporarily – correct me – is that correct?

Edmund Hen: Correct, yes.

Howard Flinker: OK. In tough times, I think you did a good job. Just keep it going.

(Crosstalk)

Edmund Hen: Thank you...

Howard Flinker: All right, thanks (Foreign Language)...

Edmund Hen: Thank you.

Operator: Your next question comes from Marrico Gordon.

Marrico Gordon: Good morning.

Edmund Hen: Good morning.

Marrico Gordon: How much does the recent devaluation on the yuan or the RMB affect profitability if it does at all?

Edmund Hen: It does not have too much of an implication to the company. Most of our revenue for selling our product, are selling within China. After about 93 – 96 percent of our product are selling within China.

Marrico Gordon: OK, has there been an increase in marketing overseas this year?

Edmund Hen: This year will be remain the same but we are exploring some overseas markets. And, we hope we also hope to have, to explore more overseas markets in the future.

Marrico Gordon: How much of marketing is devoted to overseas sales versus your domestic sales?

Edmund Hen: For example, the – Japanese product has a much better margin than the local sales. Probably 20 or 30 percent higher sometimes.

Marrico Gordon: I see. These are right – what neighboring country shows the most interest in being in a long term business relationship with you guys and why?

Edmund Hen: Sorry, the long term business relationship with us?

Marrico Gordon: Yes, what country? Is it still Japan?

Edmund Hen: Yes, still Japan and also Southeast Asia.

Marrico Gordon: OK. All right thank you, that's it.

Edmund Hen: Thank you.

Operator: Next question comes from the line of James Kahn, with Oppenheimer.

James Kahn: (Foreign Language) I want to add my congratulations for a good quarter and also I'm proud of the fact that your company came to a very difficult time and you're still profitable and you came out of the difficult period even stronger than before.

So, my first question is – at this point, do you see any market for your tiles in the U.S.? What are your thoughts about selling to the United States?

Edmund Hen: Yes, we also want to explore the market in U.S. and actually we are exploring some business partner in the U.S., too. And, we will let you know once we have any further movement on the U.S. market. But, at this point, it's still very preliminary.

James Kahn: OK, thank you. And I'm also impressed by the growth of your cash which you're – unlike many companies it's – is growing for the right reasons – profitability. So, in general could you talk about what the purpose of the cash is? That is – is it more for future growth or to build a bigger and bigger cushion in case there are bad times? Or what?

Edmund Hen: Of course, sometimes there our cash as you may noticed we are building – we are building the newest – the capital expenditure for the future growth. And also we want to reserve some money for this difficult environment. And also we'll reserve some of the money to think about the capital markets and also to explore the overseas product markets as well.

James Kahn: All right. Very good, I approve of all of those and it's true that there's no guarantee that the difficult times are over. They may become more difficult in the future. But, I – there's a last comment, I just want to second with Mr. Flinker said about the stock buy back – and add one point which is that it does not have to be all or nothing. You could have a very small stock buy back. You know even a tiny one would make the market realize that when you have so much cash in assets, the cash in assets per share actually go up after the stock buy back and that I think would be an impressive signal to the market.

Edmund Hen: Yes. And, we hear you. And, we will make a very serious discussion among management.

James Kahn: Thank you.

Edmund Hen: Yes.

Operator: Ladies and gentlemen as a reminder, to ask an audio question please press star one on your telephone keypad. There are no further questions at this time. I'll turn the conference back over to Mr. David Rudnick. Please go ahead, sir.

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' Third Quarter 2015 Earnings Conference Call. Thank you all very much.

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

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