

China Ceramics Co., Ltd.

Update Conference Call

February 23, 2016, 8:00 am ET

Transcript

David Rudnick – Investor Relations, Precept Investor Relations

Good morning ladies and gentleman and good evening to those of you who are joining us from China. I am David Rudnick of Precept Investor Relations and I would like to welcome all of you to the China Ceramics' Update Conference call. On the call 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.

The estimated preliminary operating results and other financial and non-financial information disseminated during this call for the fourth quarter ended December 31, 2015 could differ from those that the company reports when it releases its final fourth quarter and year end 2015 financial statements. 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, February 23, 2016. China Ceramics assumes no obligation to update these projections in the future as market conditions change.

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. Mr. Huang, you may proceed.

Jiadong Huang – Chairman and Chief Executive Officer, China Ceramics Co., Ltd.

谢谢你大卫。我在此代表公司感谢各位参加此次电话会议。

Thank you, David. On behalf of the Company, I would like to welcome everyone to this update conference call.

由于第四季度一系列不利的宏观因素影响了中国经济整体以及房地产和建筑材料行业，我们经历了比较艰难的市场环境。这也导致了公司销售额和收入的同比显著缩减。同时受建筑材料季节性因素影响，我们本季度与前几个季度结果相比业绩有所下降。

For the fourth quarter, we experienced difficult market conditions due to an array of macroeconomic factors that have impacted the Chinese economy as a whole as well as the real estate and building materials markets. This has contributed to a significant contraction in our sales volume and revenue on a year over year basis. We also experienced a seasonal slowdown consistent with the construction building cycle, which led to lower sequential quarterly results.

在年产能72百万平方米瓷砖基础上，我们估算在第四季度实现了24百万到27百万平方米瓷砖的产能利用。产能利用率与去年同期相比下降9%。但是我们已经检测了新的釉砖生产线，并实现了很好的生产效果，我们有信心新生产线会为公司产品结构添加重要的一笔。

In the fourth quarter, we estimate that we utilized production facilities capable of producing 24 to 27 million square meters of ceramic tiles per year out of a total annual production capacity of 72 million square meters. This was an estimated 9% decrease over what we utilized during this period last year. However, we have tested our new production lines for glazed brick ceramic tiles and have achieved very good manufacturing success and so we are optimistic that this will be an important addition to our product portfolio.

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公司计划集中保持已有知名品牌和产品结构的比较优势，开发与中国更大房产开发商的关系，并将公司的市场营销重点向能为新房地产开发提供更大空间的城市转移。此外，公司打算开发中国以外的合作机会。我们最近在美国市场上募集了资金，我们相信这一资金会帮助公司实现多元化收入和客户群的目标，并在长期实现对投资者们的回报。尽管市场环境依然艰难，我们相信公司在运营和多元化方面的努力会在未来继续促进公司业务的增长。

Our strategic plan focuses on maintaining our competitive edge in terms of our name brand and product portfolio, developing stronger relationships with larger property developers in China and tailoring our marketing efforts towards those cities in China, which offer better potential for new property development. In addition, we are intent upon developing partnership opportunities outside of China. We recently raised capital in the US markets, which we believe will help us to realize our objectives of diversifying our revenue and customer base and, despite its cost, will generate a long-term return on investment for our shareholders. We believe that our operating and diversification efforts will continue to sustain and ultimately grow our business in the periods ahead despite the currently difficult market conditions.

除了偶尔的波动阶段，我们认为中国城市化和经济增长在支撑着房地产行业，从而继续支持公司长期的业务活力。我们也认为公司有足够的管理经验和运营设备来适应艰难的市场化境，这一点在过去已经得到证明。感谢在这一时段股东们对我们的支持，我们也相信公司在中国成功的商务模式和新的战略举措会推动我们最终实现更稳定的增长。

现在我将把会议转交给公司首席财务总监幸万，他将为大家介绍公司初步估算的第四季度收入、利润及相关财务业绩数据。谢谢！

Despite periods of occasional volatility, we believe that China's urbanization and economic growth that underpin the real estate sector will continue to support the viability of our business over the long term. We also believe that we have the management expertise and operating infrastructure to adapt to difficult market conditions, as we have proven in the past. We appreciate the support of our shareholders during this challenging time and believe that our successful business model in China and new strategic initiatives will ultimately enable us to generate a more stable and growing company.

With that, I would like to turn over the call to the Company's Chief Financial Officer, Mr. Edmund Hen, who will discuss preliminary estimated fourth quarter revenue and earnings figures as well as other issues of relevance. Thank you!

Edmund Hen – Chief Financial Officer, China Ceramics Co., Ltd.

Thank you, Mr. Huang! On a preliminary basis, we estimate that our revenue for the fourth quarter of 2015 will be in the range of RMB 195 million to RMB 215 million, or US \$30 million to US \$33 million, a decrease of approximately 15% based on the midpoint of this range estimate as compared to revenue of RMB 240 million, or US \$39 million in the fourth quarter of 2014. The decrease in our top line revenue number in the fourth quarter of 2015 is primarily due to the commensurate decrease in our sales volume in the fourth quarter attributable to lower customer demand and more challenging macroeconomic conditions in China.

We estimate that our gross profit for the fourth quarter of 2015, on a preliminary basis, will be in the range of RMB 25 million to RMB 28 million, or US \$3.8 million to US \$4.3 million, a decrease of approximately 9% based on the midpoint of this range estimate as compared to gross profit of RMB 29 million, or US \$4.7 million in the fourth quarter of 2014.

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We estimate that our net profit for the fourth quarter of 2015, on a preliminary basis, will be in the range of RMB 10 million to RMB 12 million, or US \$1.5 million to US \$1.8 million, an increase of approximately 129% based on the midpoint of this range estimate as compared to net income of RMB 5 million, or US \$0.8 million in the year-ago quarter. The expected 129% increase in estimated net income in the fourth quarter of 2015 is primarily due to the one-time costs that were incurred in the fourth quarter of 2014 related to the provision for the litigation claim of RMB 5.3 million, or US \$0.9 million.

In the fourth quarter of 2015, we repaid RMB 45 million, or US \$6.9 million, to our banks due to as our banks called a significant portion of our short-term loans outstanding. As has been widely reported, there has been a substantial tightening of credit across all of China due to the large number of bad loans outstanding, a trend which seemed to accelerate in December. At this time, it is our experience that banks do not seem to be willing to lend to even solid companies with whom they have had positive relationships. We believe that this is the situation across all of China and it is likely to continue until banks' bad loans are cleaned-up and they start to lend again.

In terms of our capital expenditures, as previously announced, in the third quarter of 2015 we began renovating our showroom in our Hengda facility that is a key resource for promoting of our building material products. Capital expenditures for the new renovations to our Hengda Exhibition Hall were RMB 3.9 million in the third quarter of 2015. We estimate that the total cost of the renovations, which were completed in the fourth quarter, will be approximately RMB 11.1 million or US \$1.7 million.

We also constructed a new production line to manufacture glazed brick ceramic tiles in our Hengdali facility, which we believe will be an important addition to our current product portfolio. This new product is engineered to be competitively-priced and a highly effective roofing solution for both high rise apartment buildings and housing projects that complements our existing ceramic tile siding products. Capital expenditures for this new production line were RMB 18.6 million in the third quarter of 2015 and we estimate that as of year-end 2015, total capex for this project will be in the range of RMB 130 million to 150 million, or US \$20 million to US \$23 million. We are currently continuing to test this line and expect to ramp sales for this new product during the first half of this year.

Outlook as to Current Business Environment:

As most of you are aware, China's GDP grew at 6.9% in 2015, its lowest rate in 25 years. Looking ahead to 2016, one of China's top economic officials recently discussed a range of GDP growth of between 6.5% and 7%. As has been prominently discussed in the news, China's economic growth is now decelerating as the central government is shifting growth away from manufacturing and investments towards a more consumption-driven, technologically advanced and knowledge-based economy. As the government has set lower growth targets for 2016, there is official acknowledgement of the economic headwinds and uncertainties in China.

Since the real estate sector is estimated to comprise between 15% to 20% of China's gross domestic product, the Chinese government has adopted an array of policies to stimulate the real estate sector. This includes cutting benchmark interest rates five times last year, a lowering of the reserve requirement ratio for banks, lower first home down payment ratios and a cut in the minimum capital ratio for fixed asset investments which would help property developers.

In fact, just a week before the Chinese New Year this year, in early February, the central bank cut the minimum mortgage down payment for first-time buyers from 25% to 20% as a way to increase sales in third and fourth tier cities where inventories of unsold housing remain are at record levels. These new rules do not apply to certain cities like Beijing, Shanghai, Shenzhen and Guangzhou where housing demand remains strong. This is the third lowering of minimum mortgage down payment over the last year where each one has led to an increase in new home purchases.

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Although the Central Government's measures have helped to sustain the real estate sector, we have still seen a slowdown in both construction activity and housing sales, and it is not clear if similarly supportive monetary and regulatory policies will continue into 2016. Housing starts were actually down substantially in 2014 and 2015 due to China's excess housing inventory, and there has been some speculation that there will be destocking in lower tier cities, that is, extra incentives for homebuyers or measures instituted to restrict new construction to cities that have good supply and demand dynamics. Also, China's transition to a consumption-driven economy may mean that large-scale government-funded construction projects may not occur as planned.

In the long-term, we view the growth of the real estate sector as sustainable as it is underpinned by urbanization, which is a cornerstone of government policy as it will lead to a more consumption-led economy. Right now, China has an urbanization rate of 55%, which is below the government's goal of 60% by 2020 and low compared to the US and many countries in Europe, which have urbanization rates well above 80%.

And so while our business has decelerated in the fourth quarter in line with the real estate sector and China's overall macroeconomic picture, in the long-term we believe that the substantial urbanization and economic trends underlying the growth in China's real estate and building materials sectors are sustainable.

We continue to believe that we have a competitive advantage in our sector due to our name brand, comprehensive product platform, marketing expertise and ability to implement operating efficiencies due to our modern plant and equipment. As noted previously, competitive pressures over the last year has led to a contraction in our building materials sector as some smaller, less well capitalized firms who lack our advanced manufacturing capabilities and deep product platform have left our sector. Additional exits appear likely as government mandates to convert to cleaner and more expensive fuel sources to lower carbon emissions will also pressure smaller competitors.

In addition, we expect there to be a consolidation trend among the larger property developers in 2016. This would benefit larger ceramic producers such as China Ceramics who can service these large enterprises and give us to an opportunity to increase our market share in the near future. Our goal is to market more aggressively in the periods ahead and generate sustainable sales volume and average selling prices despite a period of potential volatility and challenging market conditions.

Comments as to the Recent Equity Offering:

As many of you are aware, we recently raised gross proceeds of \$900,000 by selling approximately 1.428 million shares of stock at \$0.63 per share. As part of the offering, we issued 1.428 million Class A warrants issued that expire in 6 months and have an exercise price of \$0.63 and we issued 1.428 million Class B warrants that expire in 5 years and have an exercise price of \$0.78.

There has been concern about the equity offering given the price of the securities sold. As you seen by our preliminary fourth quarter financial results, the macroeconomic conditions in China have changed substantially and has caused us to consider business opportunities outside of China. This would diversify our business on a geographic basis, make us less vulnerable to the volatility of China's macroeconomic and real estate sector and enable us to distribute our products to a larger number of potential new customers.

As many of you know, it is very difficult to get capital out of China right now. Since our conversations on various opportunities have become more serious recently, we believe that raising this capital for partnering opportunities was a key step in pursuing the opportunities. We hope to have information in the coming months about our partnering strategies and the opportunities we are currently considering.

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Also, in terms of our common stock, we are aware of our need to regain compliance with the NASDAQ minimum bid rule of \$1 and we will be applying to NASDAQ for a 180 day extension to cure this deficiency. As required, we will submit a plan to NASDAQ to resolve this issue and intend to be back in compliance by the end of this extension period.

At this point, we would like to open up the call to any questions pertaining to our preliminarily fourth quarter 2015 financial estimates as well as other issues addressed today. Operator?

Operator

(Operator instructions.) We'll pause for a moment to allow questions to queue. We will take our first question from Howie Flinker with Flinker and Company. Your line is open.

<Q>: Edmund, how big are your receivables at year end?

Edmund Hen – Chief Financial Officer

There is no audited figure at this moment but the estimate would—

<Q>: Yes.

Edmund Hen – Chief Financial Officer

—approximately that would be more than RMB 500 million.

<Q>: Wasn't this closer to 600 million or 700 million in September?

Edmund Hen – Chief Financial Officer

In September there was 600 million RMB.

<Q>: So, have the receivables gone down in the fourth quarter? Is that correct? You collected them?

Edmund Hen – Chief Financial Officer

We'll remain about at the same level.

<Q>: Okay. Okay. The second question is if you or Jiadong Huang go on a business trip outside the country, under the new foreign-exchange controls, how much can you spend per day?

Edmund Hen – Chief Financial Officer

I do not have a solid figure on this. Personally, if we use the UnionPay card, the maximum we can spend is, as far as I know, approximately 100,000 RMB a day.

<Q>: 100,000 RMB a day. Okay. In I guess it's Jinjiang, have the new rules been instituted for more restrictive fuels or not yet? Natural gas instead of coal or not yet?

Edmund Hen – Chief Financial Officer

Not yet.

<Q>: Okay. And I did have one more question which I've forgotten already. Wait a second. Oh, have you had inquiries from Asian countries about joint ventures or do you have to go out and talk to these people and start fresh?

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Edmund Hen – Chief Financial Officer

Excuse me. Can you repeat your question?

<Q>: As for joint ventures.

Edmund Hen – Chief Financial Officer

Yes.

<Q>: Have people in other in Asian countries come to you or—oh, I have two more questions. Have people in other Asian countries come to you or do you have to start to talk to them say now?

Edmund Hen – Chief Financial Officer

We want to start to talk to them right now.

<Q>: Okay. Finally, how many competitors remain in Fujian and Jinjiang and do they make the same products as you or do they make slightly different products?

Edmund Hen – Chief Financial Officer

Now is just in after this Chinese New Year. We found about 50% of our competitors have not started their production right now.

<Q>: And you think more will close?

Edmund Hen – Chief Financial Officer

I cannot say, but we noticed a lot of our competitors have not started their production right now.

<Q>: Let me go at this another way. How many big ones are left in Fujian, or how many big ones are left in Jinjiang, if you can remember off the top of your head?

Edmund Hen – Chief Financial Officer

Well, we noticed about 50% of our competitors have closed their production line right now.

<Q>: With bank lines tight, wouldn't more close?

Edmund Hen – Chief Financial Officer

I think so.

<Q>: Okay. Does Jiadong Huang's brother's company make similar products to China Ceramics or different products? That's my last question.

Edmund Hen – Chief Financial Officer

Similar products.

<Q>: Similar, okay. I have no more questions. Thank you.

Edmund Hen – Chief Financial Officer

Thank you.

Operator

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(Operator instructions.) We can take our next question from Michael Mortensen with Dawson James. Your line is open.

<Q>: Yes, I was just wondering if you could tell me what your cash position is at the end of 2015. And maybe in a second question also, expand upon the possibility of who you're going to be partnering up with here in the US and how much partnership or sales you're expecting, or how soon you're going to be doing that?

Edmund Hen – Chief Financial Officer

Currently we are still looking for partnerships overseas. The partnership is not yet ready to announce to the public but now we're working hard to look at the overseas markets.

<Q>: Okay, and your cash position?

Edmund Hen – Chief Financial Officer

Our past position? At the end of 2015, we make about few percent, about 6% of our product exported to overseas, but they're all going through the export agents from China.

<Q>: Okay, but what is the cash position?

Edmund Hen – Chief Financial Officer

The cash position, we have a few million in total of RMB. I have not the exact figure right now in front of me. We will announce to the public once the audit report is ready.

<Q>: Thank you.

Operator

(Operator instructions.) We'll pause for a moment to allow additional questions to queue. We can now take a question from Robert Forrester [ph]. Your line is open.

<Q>: Hi, thank you. I just wanted to follow up on the previous question about the company's unrestricted cash balance. I guess as of third quarter it was maybe 225 million RMB. What was it as of the end of the year for 2015?

Edmund Hen – Chief Financial Officer

It became much less, probably we only have, I do not have the audited figure in front of me, but it became much less.

<Q>: Can you say little bit about the causes behind that?

Edmund Hen – Chief Financial Officer

Yes, as we mentioned in our conference call, we spent a significant amount on the capex and also we repaid 45 million RMB of the bank loan. This is reason why the cash has been decreased significantly.

<Q>: Okay, thank you.

Operator

(Operator instructions.) We'll now take a question from Tony Mendoza. Your line is open.

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<Q>: I had the same question as the previous caller, which was the cash position. I guess you had \$35 million in cash last quarter, and you said it's a lot less, but you can't tell us exactly how much less?

Edmund Hen – Chief Financial Officer

Including the restricted cash, we have approximately 30 million to 40 million RMB.

<Q>: Okay, thank you.

Operator

At this time, there are no additional questions. I'd like to turn the program back over to our presenters for any closing remarks.

David Rudnick – Investor Relations, Precept

Thank you. On behalf of the entire China Ceramics management team, we want to thank all of you for your interest and participation on this call. This concludes China Ceramics' update conference call. Thank you all very much.