

CHINA CERAMICS CO., LTD.

Interim First Half 2017 Earnings Call

October 2, 2017

8:00 a.m. ET

Speakers:

Mr. Jaidong Huang, CEO

Mr. Edmund Hen, CFO

Operator: Good afternoon. My name is Hope and I'll be your conference operator today. At this time, I would like to welcome everyone to the China Ceramics first half 2017 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, Mr. David Rudnick, . 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' Welcome to China Ceramics' interim first six months 2017 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, I would like to address forward-looking statements that may be discussed on the call. Forward-looking statements involve risks and uncertainties and include, among others, those regarding revenue, operating expenses, other income and expense, taxes, and future business outlook. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements. The Company claims the safe harbor protections for such forward-looking statements as contemplated under the Private Securities Litigation Reform Act of 1995. Please refer to the documents filed by the Company with the SEC,

specifically the most recent reports on Forms 20-F and 6-K, which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements. We assume no obligation to update any forward-looking statements or information, which speak as of their respective dates.

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 interim six months 2017 earnings conference call.

Jiadong Huang: (In Chinese)

Weijia Dai: For the first half of 2017, we experienced flat top line growth due to challenging market conditions which continued to impact the average selling price of our products. However, our decision to continue the price reduction of our slow moving inventory which we implemented in the fourth quarter of last year has resulted in a substantial 31% period-to-period increase in the sales volume of our ceramic tiles. We believe that our more aggressive pricing has helped to maintain our market share as well as a reasonable utilization of our production capacity given the current operating environment.

Jiadong Huang: (In Chinese)

Weijia Dai: For the second half of 2017, we anticipate a challenging building materials sector that will continue to be price sensitive and more cyclical than usual due to government pressure to ease demand and stem escalating home prices which could have the effect of slowing or curtailing new real estate projects. Further, it is our estimation that real estate overdevelopment in some cities and unsold real estate inventory are yet to be worked through distribution channels. However, in the long-term, we believe that real estate will continue

to be essential to China's economy as it impacts many vital industrial and financial sectors and is essential for domestic growth. We remain a leading PRC competitor with a well-established value proposition and are renewing our efforts to win new business and regenerate the company with new products and services. We also look to add business as smaller competitors continue to exit our sector due to government mandates to operate with cleaner fuels.

Jiadong Huang: (In Chinese)

Weijia Dai: 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 interim six months 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 interim six month period ending June 30, 2017.

Our revenue for the six months ended June 30, 2017 was RMB 336.5 million or US\$ 49.0 million, a decrease of 1.2% from RMB 340.6 million or US\$ 51.9 million for the same period of 2016. The year-over-year decrease in revenue was primarily due to the 24.5% decrease in the average selling price of the Company's ceramic tile products to RMB 24.0 or US\$ 4.50 in the first half of 2017 as compared to RMB 31.8 or US\$ 4.80 for the same period of 2016, substantially offset by the 30.8% increase in sales volume to 14.0 million square meters of ceramic tiles in the first half of 2017 from 10.7 million square meters of ceramic tiles in the first half of 2016.

Gross loss for the six months ended June 30, 2017 was RMB 7.4 million or US\$ 1.1 million as compared to gross profit of RMB 50.2 million or US\$ 7.7 million for the same period of 2016. The gross profit margin was a negative 2.2% for the six months ended June 30, 2017, as compared to a 14.7% profit margin for the same period of 2016. The year-over-year decline in gross profit margin was primarily due to the 24.5% decrease in the average selling price of the Company's ceramic tiles due to our having instituted a 20%

reduction in the selling prices of slow moving inventory beginning on October 1, 2016 due to challenging market conditions.

Other income for the six months ended June 30, 2017 was RMB 7.1 million or US \$1.0 million, as compared to RMB 8.2 million or US \$1.3 million for the same period of 2016. For the six months ended June 30, 2017, other income mainly consisted of RMB 7.1 million or US \$1.1 million the Company received by leasing out one of the production lines from its Hengdali facility pursuant to an eight-year lease contract.

Selling and distribution expenses for the six months ended June 30, 2017 were RMB 5.8 million or US \$0.8 million as compared to RMB 7.0 million or US \$1.1 million for the same period of 2016. The year-over-year decrease in selling and distribution expenses was primarily due to an RMB 0.8 million decrease in advertisement expenses, and an RMB 0.5 million decrease in traveling expenses, which was partially offset by an RMB 0.2 million increase in salary expenses.

Administrative expenses for the six months ended June 30, 2017 were RMB 9.0 million or US \$1.3 million as compared to RMB 11.8 million or US \$1.8 million or for the same period of 2016. The year-over-year decrease in administrative expenses was primarily due to a decrease in depreciation expense resulting from the write-down of fixed assets as of December 31, 2016.

The loss from operations before taxes for the six months ended June 30, 2017 was RMB 17.1 million or US\$ 2.5 million as compared to income from operations before taxation of RMB 34.5 million or US\$ 5.3 million for the same period of 2016. The loss from operations before taxation was mainly due to the gross loss incurred for the six months ended June 30, 2017.

Net loss for the six months ended June 30, 2017 was RMB 5.8 million or US\$ 0.8 million as compared to net profit of RMB 29.5 million or US\$ 4.5 million for the same period of 2016. The net loss was mainly due to the gross loss incurred for the six months ended June 30, 2017.

Loss per fully diluted share for the six months ended June 30, 2017 on both a basic and fully diluted basis were RMB 2.07 or US\$ 0.30, as compared to basic and fully diluted earnings per share of RMB 10.96 or US\$ 1.63 and RMB 9.81 or US\$ 1.48, respectively, for the first half of 2016.

Turning to our balance sheet, as of December 31, 2016, we had cash and bank balances of RMB 0.2 million or US\$ 0.03 million as of June 30, 2017 as compared to RMB 0.1 million or US\$ 0.02 million as of December 31, 2016. Our short-term bank borrowings were nil as of June 30, 2017 and as of December 31, 2016.

As of June 30, 2017, our inventory turn was 107 days as compared to 115 days as of December 31, 2016. The Company believes that the currently challenging economic environment has caused a lower inventory turnover than normal and the Company will make a continuous effort to deplete its slow-moving stocks. Our trade receivables turnover as of June 30, 2017 was 300 days compared with 245 days as of fiscal year end 2016. The increase in trade receivables turnover days was primarily due to the difficult economic environment which has prompted us to offer extended credit terms to certain customers resulting in a higher trade receivables turnover figure than normal. Trade payables turnover, net of value added tax, was 43 days as of June 30, 2017, the same as that of December 31, 2016. The average turnover days was within the normal credit period of one to four months granted by our suppliers.

In terms of our plant utilization and capex, for the six months ended June 30, 2017, we utilized plant capacity capable of producing 27 million square meters of ceramic tiles annually out of an annual production capacity of 72 million square meters of ceramic tiles. However, our annual production

capacity has been effectively reduced from 72 million square meters of ceramic tiles to 62 million square meters of ceramic tiles due to an eight-year contract to lease out one of our production lines from our Hengdali facility that we entered into in March 2016. The utilization of plant capacity for the first half of 2017 represents an increase in plant capacity utilization from the same period of 2016, when we utilized plant capacity capable of producing 20 million square meters of ceramic tiles annually.

Although business conditions are subject to change, looking ahead to 2017, we anticipate a low level of capital expenditures given the currently challenging market conditions.

Moving on to our business outlook, in the six months ended June 30, 2017, the average selling price of our ceramic tile products decreased 24.4% as compared to the same period of 2016. This was largely attributable to a 20% reduction in the prices of slow-moving inventory that we have maintained since instituting these price cuts in October 2016 to mitigate the effects of a slowdown in China's construction and real estate sectors. This price reduction has had a positive effect on our sales volume. For the six months ended June 30, 2017, the Company's sales volume was 14.0 million square meters of ceramic tiles, an increase of 30.7% as compared to sales volume of 10.7 million square meters of ceramic tiles for the same period of 2016. Although our average selling price has been relatively stable for the three years preceding the fourth quarter of 2016, our sales volume contracted significantly, falling 12.9% and 5.7% in fiscal years 2016 and 2015, respectively. We chose to discount our slow-moving inventory in the fourth quarter of 2016 as a means to increase our sales volume and to address the difficult real estate and construction conditions in China. We believe that our discounted product pricing of the last nine months will likely persist to counter a difficult business environment in our sector and that it will continue to our positively affect our sales volume.

We expect the currently challenging market conditions to continue for the second half of 2017 as demand could decline due to resale restrictions that

have been announced in several cities in an effort by the Chinese government to curb speculative demand and escalating home prices. Further, mortgage lending appears to have tightened as many banks have increased their lending rates while some may have suspended housing approvals. Looking ahead, we estimate that the real estate overdevelopment in some cities may result in declining land supplies which, in turn, could result in a significant slowdown or a curtailing of property development, thus resulting in an eventual weakening of real estate and construction market activity.

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, 2017, our backlog was approximately RMB 167.3 million or US\$ 24.7 million, which represents approximately the next two months of revenue. This compares to a backlog of approximately RMB 143.0 million or US\$ 21.5 million as of June 30, 2016, a year-over-year increase of 17%. Ordinarily, our backlog serves as a reasonable indicator of revenues that might be expected to be realized in the next period, 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. We have refocused our efforts towards those cities where we see real estate development and are aggressively pursuing new business. We believe that opportunities continue to exist across a range of lower and higher tier cities as underlying fundamentals such as demographics and a strong cultural preference for real estate ownership will continue to drive demand. In addition, government mandates to convert to cleaner and more expensive fuel sources will result in fewer competitors. We believe that our excellent brand recognition, operating efficiencies, inventory management, and modern production facilities represent significant advantages as compared to our competitors. Further, our wide array of customizable high quality products continue to meet our customers' needs and we foresee substantial potential demand for our

products due to the upgrading of existing stock to meet new housing standards.

At this point, we would like to open up the call to any questions pertaining to our interim six month financial results ended June 30, 2017. 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.

Operator: The first question comes from James Kahn, Oppenheimer.

James Kahn: I read the press release but I apologize I got to the call late. But my question is about the new investors in the private placement. Do you have a sense, specifically, of what made this a good intention. What was their intention in investing? Was it simply valuation.

Edmund Hen: They do not have intentions. They believe in our company and feel the stock price is very low. And they would like to invest at the market price and make an investment into the company.

James Kahn: Thank you.

Operator: Again, star one to ask questions. And there are no further questions at this time.

David Rudnick: 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' interim six months 2017 earnings call. Thank you.

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