

# CHINA CERAMICS CO., LTD.



**Investor Presentation**  
August 2014



# Safe Harbor Statement

**This presentation contains forward-looking statements and management may make additional forward-looking statements in response to your questions. Such written and oral disclosures are made pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995.**

**Although we believe our expectations expressed in such forward looking statements are reasonable, we cannot assure you that they will be realized. Investors are cautioned that such forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the anticipated results, and therefore we refer you to a more detailed discussion of the risks and uncertainties in the Company's filings with the Securities & Exchange Commission.**

**The forward-looking statements contained in this presentation are made only as of today, and China Ceramics is under no obligation to revise or update these forward-looking statements.**



# Company Overview

- Ceramic tile market growth correlates with the strong urbanization and construction trends in China
- Potential plant production capacity currently 72 MSM of tiles / yr., a 90% increase from Dec. 2010
- Plant utilization in 2Q 2014 was 43 MSM / yr.; the ramp to 72 MSM is pending business conditions
- 2Q volume and pricing points to an improving market environment
- Over 2,000 tile, color and size combinations enable wide customer choice
- Founded in 1993; high brand recognition; sold under “Hengda / HD”, “Hengdeli / HDL”, “TOERTO”, “WULIQIAO”, and “Pottery Capital of Tang Dynasty” trademarks

## Solid Growth





# Equity Snapshot

**NasdaqGM: CCCL**

**FYE: Dec. 31**

**Stock Price (8/26/14)**

**\$1.15**

**Shares Outstanding**

**20.4 MM**

**Market Capitalization**

**\$23.4 MM**

**Debt (June 30, 2014)**

**\$20.1 MM**

**Revenue (TTM)**

**\$167.6 MM**

**Adj. Net Income (TTM) (a)**

**\$ 2.2 MM**

**Adj. EPS (TTM) (a)**

**\$0.11**

**Cash per Share**

**\$1.36**

**Price / Book Ratio**

**0.11 x**

**Stock Yield**

**2.17%**

(a) Adjusted for asset write-down of \$3.1 MM in 3Q 2013 and foreign currency losses of \$11.6 MM in 1H 2014



# Investment Highlights

1

**A premier, name-brand manufacturer of exterior ceramic tiles**

2

**Intent upon capitalizing upon China's urbanization trend and preference for real estate ownership**

3

**A 90% increase in annual potential plant utilization (72 MSM) since 2010 enables future capture of market share**

4

**Motivated distributors and direct company sales to large developers drive revenue**

5

**Capability to customize and create 1,000's of ceramic tile products enables competitive advantage**

6

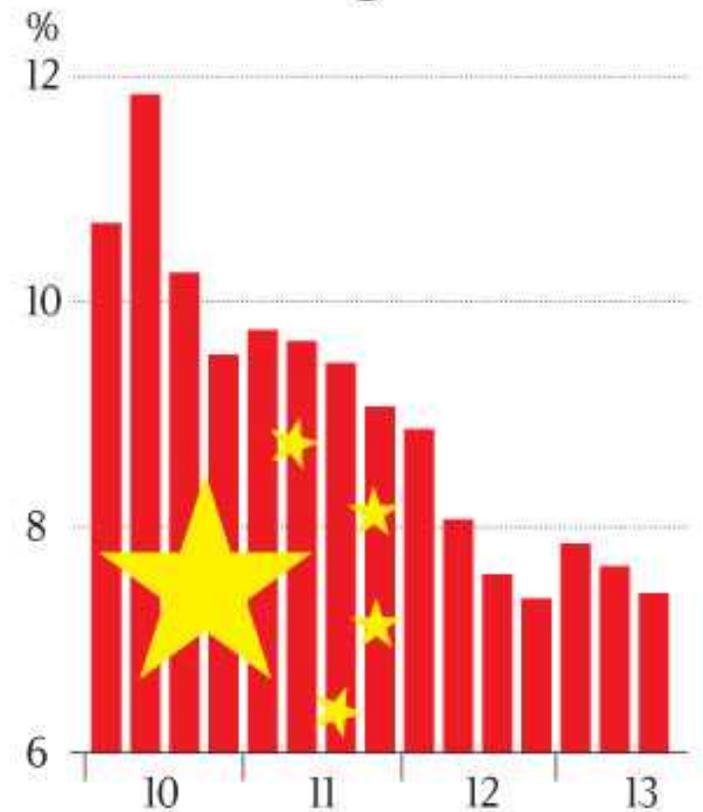
**In July 2014, the government encouraged urbanization, a key to new real estate development and construction**



# China's Macroeconomic Environment

- The Chinese economy is gradually slowing as the structural transformation of its economy continues, according to the World Bank
- GDP grew by 7.7% in 2013, exceeding the government's growth target of 7.5%
- Drivers of growth to shift from manufacturing to services on the supply side, and from investment to consumption on the demand side
- GDP growth expected to be 7.6% in 2014 and 7.5% in 2015
- President Xi Jinping and senior leaders are expected to enact wide-ranging structural reforms

## China GDP growth



Source: CEIC data



# China's Real Estate Macro Picture

- President Xi Jinping and senior leaders are expected to enact wide-ranging reforms including promoting urbanization
- The new government announced no new regulations to curb speculation: reduced uncertainty could spur investment
- Real estate is an important component of GDP and one that the new government looks to encourage
- Rising prices have cooled demand and stabilized real estate market pricing
- Owning real estate is continues to be viewed as a core appreciating household and investment asset

## Secondary House Price Index Expected to Increase (Shanghai)



Source: *GlobalPropertyGuide.com*  
(2003=1000)



# China's Real Estate Market Environment

- Residential real estate investment accounts for the majority of China's real estate market
- Developers are currently finding that the demand for residential real estate in China is inelastic: discounts do not spur demand
- Housing sales in the first seven months fell 10.5% by total value versus the same period last year
- Local authorities have loosened property restrictions to enable buyers to buy second homes
- Real estate is viewed as a means of spurring domestic consumption which augurs a positive LT trend

## Oversupply has Cooled Private Sector Housing Prices



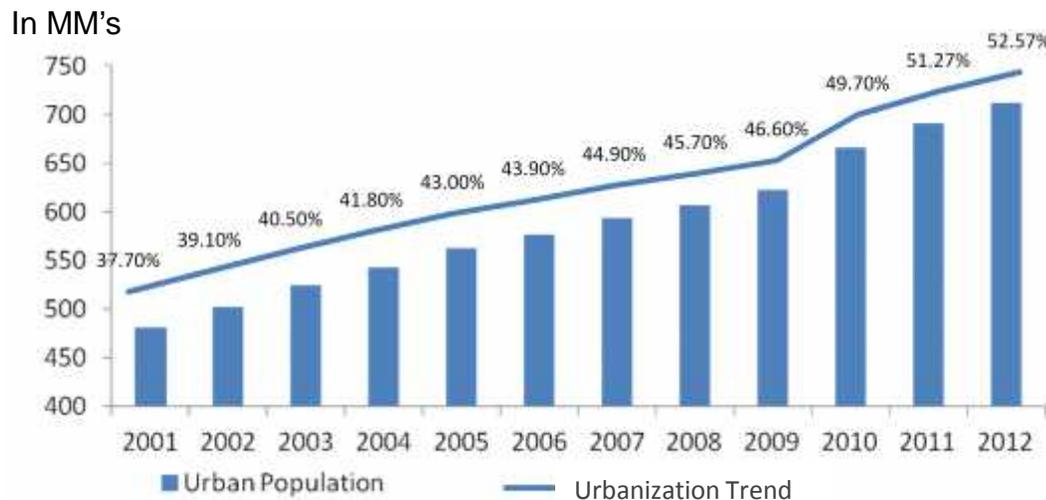
Sources: The Wall Street Journal, National Bureau of Statistics, thediplomat.com



# Urbanization Trend Provides Underpinning to Real Estate Construction China

- China's total urban population reached 712 million in 2012 vs. 450 million in 2001; according to projections, nearly 70% of the population will live in urban areas by 2035.
- The scale and pace of China's urbanization trend is unprecedented: 219 cities of more than 1 million and an aggregate urban population nearing 1 billion are projected by 2025
- Tier I cities are expected to account for only 10% of China's commercial real estate activities by 2020, highlighting the significant development opportunities in Tier II and Tier III cities

## Urbanization Trend in China



## % of Population Urbanized by Country –

| Country   | % of Population Urbanized |
|-----------|---------------------------|
| Indonesia | 50.3%                     |
| Malaysia  | 69.4%                     |
| Russia    | 72.9%                     |
| US        | 81.4%                     |
| UK        | 89.9%                     |

Sources: *The Economic Times*, National Bureau of Statistics of China, Wikipedia; [www.china.org.cn](http://www.china.org.cn), <http://esa.un.org/unup>



# A Long-Term Trend of Strong Real Estate Growth in China

- The scale of construction in China is immense: the expected future increase in cities is equal to the residential floor space of a number of European cities today
- CCCL believes that sound underlying demand for housing is sustainable throughout the next decade; a correction should be short-lived
- There are fewer restrictions by municipal governments in Tier II and Tier III cities
- CCCL believes that the land supply in 2014 in Tier II and Tier III cities will rebound and will create demand for ceramic tiles
- Central government initiatives stipulate for 36 million new affordable housing units by 2015 at a cost of nearly \$800 billion

| Forecast of Net Increase   |       |                      |     |
|--|-------|----------------------|-----|
| in Urban Residential   |       | Existing Residential |     |
| Building Stock (2011-2020)   |       | Building Stock       |     |
| Chongqing  | 1,109 | Poland               | 807 |
| Chengdu  | 447   | Greece               | 494 |
| Zhengzhou  | 396   | Portugal             | 424 |
| Tianjin  | 389   | Sweden               | 411 |
| Beijing  | 350   | Czech Rep.           | 369 |
| Xi'an  | 279   | Romania              | 366 |
| Changsha   | 272   | Switzerland          | 352 |
| Shanghai   | 271   | Hungary              | 319 |
| Shenzhen   | 265   | Austria              | 318 |
| Dongguan   | 234   | Denmark              | 282 |
| a. all data in mm sq. meters   |       |                      |     |
| b. Figures are for urban areas within referenced prefecture/municipality.  |       |                      |     |
| c. Chongqing municipality's unusually large increase partly reflects its large size compared with other prefectures. |       |                      |     |
| Sources: Economist Intelligence Unit; National Bureau of Statistics (China); UNECE                                   |       |                      |     |



# Key Market Trends

- **China's long-term urbanization trend** – CCCL a prime beneficiary
- **Product trend** – New outdoor ceramic tiles products are “Green”, lighter, heat insulating and noise-reducing
- **Potential of Tier II and III Cities**
  - CCCL believes that much of the growth in China's GDP is being driven by economic activity in Tier II and Tier III cities
  - According to Jones Lang LaSalle, Tier I cities will account for only 10% of China's commercial real estate activities by 2020
  - CCCL sees restrictive policies that are imposed on housing in Tier I cities as potentially encouraging real estate activities in Tier II and Tier III cities
- **Distribution and Direct Sales**
  - China's outdoor ceramic tile industry relies heavily on distributors; an estimated 73% of total sales are made through distributors
  - As competition intensifies, more manufacturers will bid for large projects in an attempt to sell products to real estate developers directly



# Competitive Landscape

- China's outdoor ceramics tile industry is highly fragmented with hundreds of manufacturers; CCCL estimates its current market share in China to be 5%.
  - The Company believes that more than 200 manufacturers are located in Jinjiang, with a combined annual production volume of 70% of China's total production volume
  - Others are mainly located in Foshan, Zibo, Linyi, and Dehua, specializing in manufacturing interior wall and floor ceramic tiles
  - Competition often based on quality, branding, service and produce diversity, CCCL's strengths
  - Major competitors include:
    - *White Rabbit Ceramics (est. 5% share (1))*
    - *Jinjiang Tengda Ceramics Co. (est. 3% share (1))*
    - *Fujian Jinjiang Xielong Ceramics Co. (est. 1% share (1))*
- (1) of China market





# Comprehensive Product Suite

The company has over 2,000 size and color combinations

Porcelain  
*69.0% of Sales*



Rustic  
*12.5% of Sales*



Glazed  
*4.8% of Sales*



Polished Glaze  
*7.8% of Sales*



Glazed Porcelain  
*5.9% of Sales*



Wide array of standardized and made-to-order products



## Core Competitive Strengths

- **Experienced management** and a culture of hard work and success
- **Premier brand** – repeat winner of “Asia’s 500 Most Valuable Brands” award
- **R&D** – the 20 person team develops new products and an energy recycling system that reuses excess heat and energy that saves up to 20% of cost
- **Manufacturing that is modern and efficient:** ISO certified, international manufacturing equipment utilized where nearly all projects are built to order
- **Enhanced marketing and sales** abetted by its new product showroom that emphasizes CCCL’s superior capabilities relative to older manufacturers.
- **New subsidiary formed** to transact with large entities such as China State Decoration Group Co., Ltd.



# Modern Plants Ensure High Quality and Superior Range of Products

Raw Material Inspecting



Mixing & Grinding



Spray Drying



Firing



Glazing



Molding



Plant's ISO 9001:2000 accreditation signifies high quality control processes

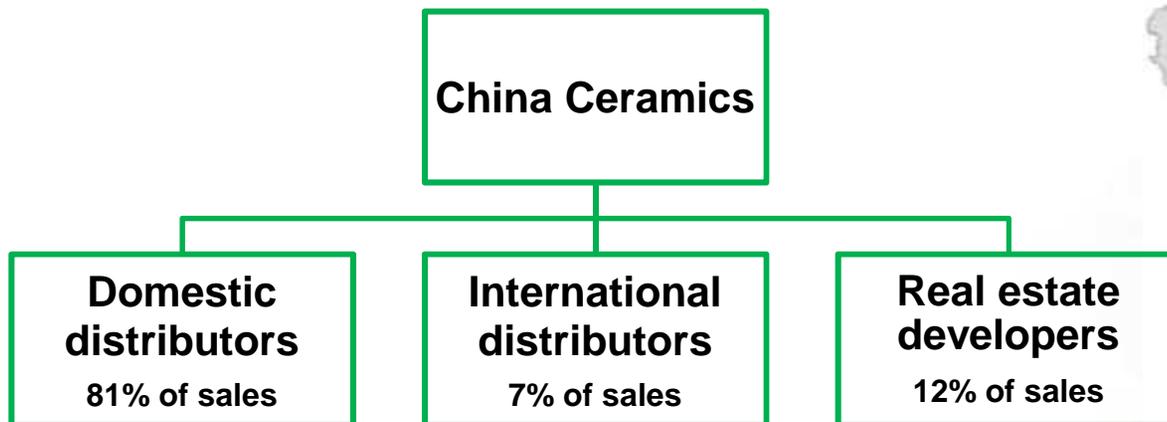


# Established and Loyal Customer Base

- 88% of products sold to 40 exclusive domestic distributors and 6 international distributors
- 12% of products sold directly to larger real estate developers via own sales force
- The top ten customers have purchased from CCCL for over 10 years each
- We estimate that the top ten customers represented 28% of total sales in 2012
- Sales in Tier II and Tier III cities account for nearly 90% of domestic sales
- Ongoing contracts with large property developers in China include Evergrande, China Resources Land, China SCE Property, China National Real Estate Development Group, Poly Real Estate, Wanda Group, Sany Group and Green Town



**Our Sales Coverage**





# Sales Process

Meet /  
Introduction to  
customers

Discuss  
design and  
product  
specifications

Sign  
contracts

Delivery

After-sales  
service

- Excellent communication between our sales force and distributors avoids overlapping of sales
- Distributors required to make monthly reports on customer requirements
- Provide installation instructions and collect after-sales feedback by our sales force
- Seeking new highly-qualified distributors to expand geographic reach

**We typically book sales within 2-3 months of delivery**



# Selected Hengda Projects

**Chengdu Kanjun Garden**



**210,000 sq. meters**

**China Resources Land Limited Lanxi Town**



**100,000 sq. meters**

**The 11th National Games Village**



**95,000 sq. meters**

**Hangzhou Redbud Garden**



**53,000 sq. meters**

**Xiamen Blue Gulf Peninsula**



**133,000 sq. meters**

**Shenyang Institute of Aeronautical Engineering**



**97,000 sq. meters**



## Stable Supplier Base

- Clay and coal are the two major raw materials for tile production, accounting for 50% of COGS
- Over 10 years' cooperation with key suppliers ensures on-time supply and reasonably stable pricing
- All raw materials are inspected on delivery for quality control

| Raw Material | % of COGS | # of Suppliers |
|--------------|-----------|----------------|
| Clay         | 28        | 11             |
| Coal         | 22        | 8              |
| Coloring     | 21        | 8              |
| Glazing      | 6         | 4              |



# Plant Expansion and Fully Funded Capital Expenditures

| <i>(All Capacity figures in Square Meters)</i>  | Hengda           | Hengdali         | Total            |
|---|------------------|------------------|------------------|
| <b>Capacity as of Dec. 2010</b>   | <b>28.0 M</b>    | <b>10.0 M</b>    | <b>38.0 M</b>    |
| <b>2010 and 2011 Capacity Expansion</b>   | <b>14.0 M</b>    | <b>4.0 M</b>     | <b>18.0 M</b>    |
| <b>Total 2011 Capacity</b>  | <b>42.0 M</b>    | <b>14.0 M</b>    | <b>56.0 M</b>    |
| <b>2012 Capacity Expansion</b>  |                  | <b>16.0 M</b>    | <b>16.0 M</b>    |
| <b>Total 2012 Capacity</b>  | <b>42.0 M</b>    | <b>30.0 M</b>    | <b>72.0 M</b>    |
| <b>Capacity Currently Being Utilized (a)</b>  | <b>26.0 M</b>    | <b>17.0 M</b>    | <b>43.0 M</b>    |
| <b>(a) As of 2Q 2014; the 29.0 MSM of available annual production to be utilized pending business conditions.</b> |                  |                  |                  |
|   | <b>Hengda</b>    | <b>Hengdali</b>  | <b>Total</b>     |
| <b>CAPITAL EXPENDITURES</b>   |                  |                  |                  |
| <b>Capital Expenditures in 2011</b>   | <b>\$ 23.9 M</b> | <b>\$ 44.6 M</b> | <b>\$ 68.5 M</b> |
| <b>Capital Expenditures in 2012</b>   | <b>\$ 3.0 M</b>  | <b>Nil</b>       | <b>\$ 3.0 M</b>  |
| <b>Capital Expenditures in 2013</b>   | <b>\$ 7.4 M</b>  | <b>\$ 8.4 M</b>  | <b>\$ 15.8 M</b> |
| <b>Capital Expenditures to Date in 2014</b>   |                  |                  | <b>Nil</b>       |



# Growth Strategy

- **Continue to Capitalize upon Strong Brand Awareness**
- **Utilize the Near Doubling of Production Capacity**
- **Reach New Markets** – new Hengdali facility extends reach while reducing costs
- **Continue to Broaden Product Suite** – through innovative R&D
- **Penetrate New Markets** – via a broadened distribution network
- **Heighten High Volume Direct Sales** – through formation of new subsidiary
- **Evaluate selective M&A opportunities**

**Key focus is to ramp market share domestically and to exploit market opportunities emerging since secular trough**



# Solid Revenue Generation

FYE: Dec 31  
(USD In millions)

5-Year CAGR: 21.4%

6 mo. Results

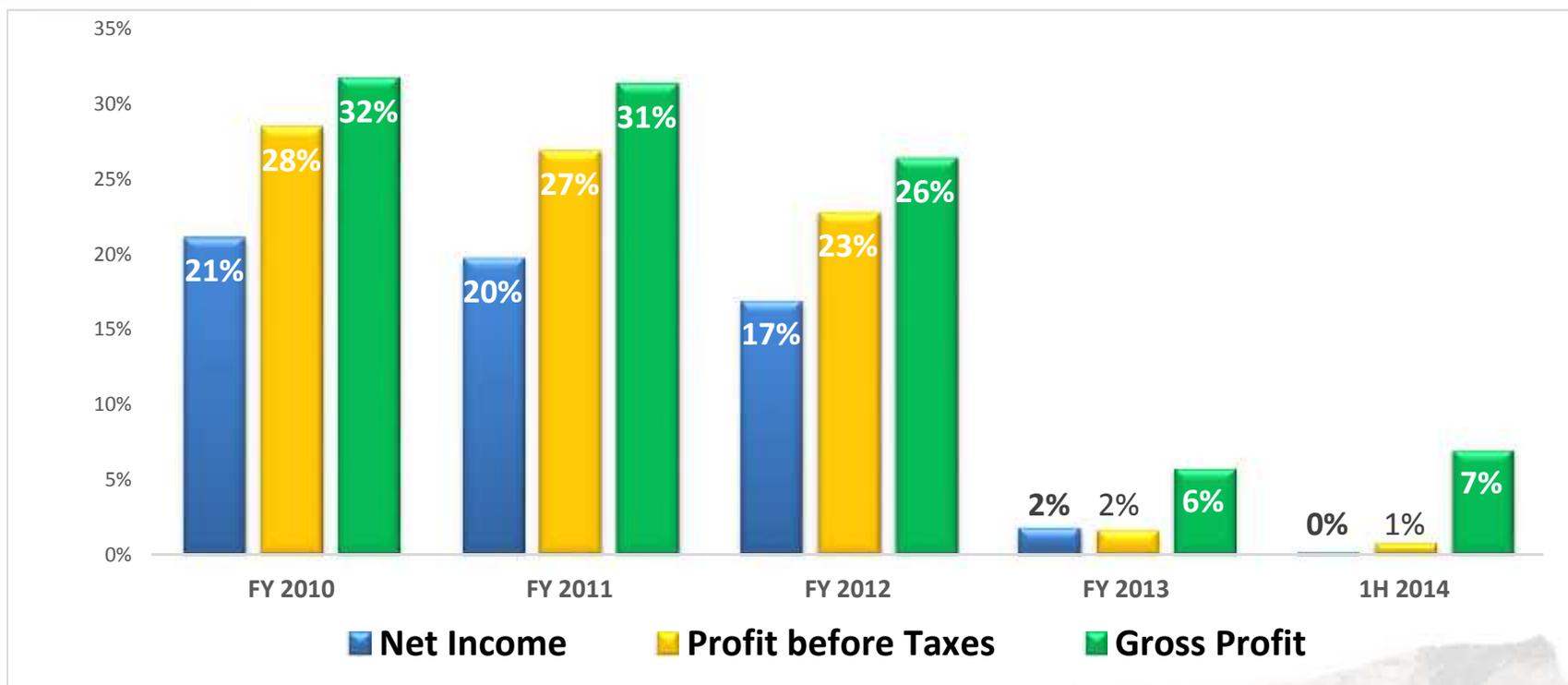
Revenues



For statements of financial position data, translation of RMB into U.S. dollars has been made using historic spot exchange rates published by [www.federalreserve.gov](http://www.federalreserve.gov). For statements of comprehensive income data, translation of RMB into U.S. dollars has been made using the average of historical daily exchange rates as applicable to the financial reporting period. Such translations should not be construed as representations that RMB amounts could be converted into U.S. dollars at that rate or any other rate, or to be the amounts that would have been reported under IFRS.



# Historically Strong Financial Margins



- FY 2013 margins contracted due to challenging macroeconomic conditions; *Profit for Taxes* and *Net Income* adjusted for RMB 18.9 MM asset write-down
- 1H 2014 margins impacted by certain one-time operating expenses; *Profit for Taxes* and *Net Income* adjusted for RMB 71.7 MM in foreign currency losses
- The Company anticipates a return to its historically strong margins pending market conditions



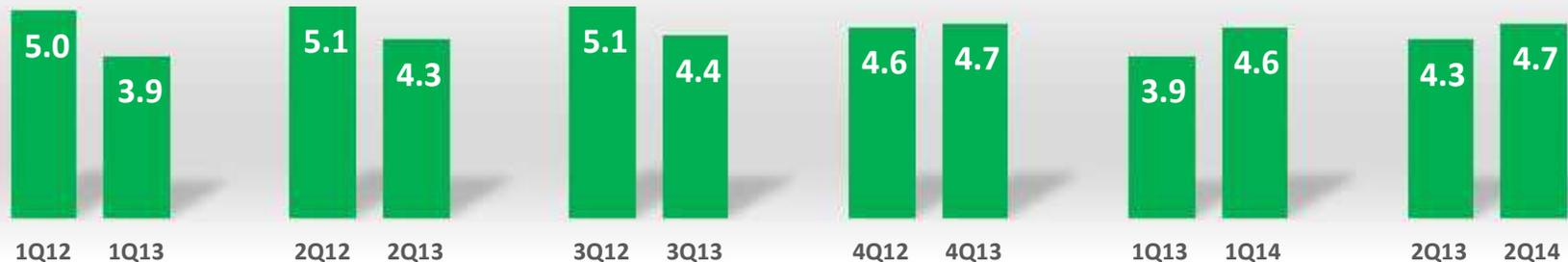
# 2014 YTD Revenue Metric Analysis

### Sales Volume



**Sales volume has recovered as of 1Q 2014 ...**

### Average Selling Price



**... and ASP is expected to return to previous levels**



# Strong Balance Sheet

| (USD, in millions)         | As of June 30, 2014 | As of Dec. 31, 2013 |
|----------------------------|---------------------|---------------------|
|                            | (Unaudited)         | (Audited)           |
| Cash                       | 27.8                | 10.9                |
| Debt                       | 20.1                | 17.9                |
| Total Working Capital      | 89.0                | 94.9                |
| Shareholders' Equity       | 217.2               | 234.5               |
| Inventory Turnover         | 129                 | 124                 |
| Trade Receivables Turnover | 184                 | 185                 |
| ROE                        | 6%                  | 17%                 |



# Capital Markets: Key Differentiators

## Management

- CEO founded the company and is a well-known industry expert
- CFO an English-speaking CPA formerly at Deloitte Touche
- Strong operating metrics

## Oversight

- Independent Board directors with prominent business backgrounds
- Audit, nomination and compensation committees provide oversight
- Top Ten auditor Crowe Horwath HK is the company's auditor

**Measures that Build Confidence in the US Capital Markets**

## Transparency

- Corporate, disclosure and regulatory best practices
- Regular investor communications via earnings calls, non-deal road shows, conferences
- Analyst coverage pending

## Additional Measures

- Paid semi-annual dividends in 2013 and announced two more dividends for 2014.
- CEO, CFO and Independent Directors have purchased shares
- US-based investor relations firm



# Management Team

**Jiadong  
Huang**  
CEO

- › Founder of Jinjiang Hengda Ceramics Co., Ltd. In 1993
- › 20 years of experience in the China ceramic tile industry
- › Vice Chairman of Fujian Province Ceramic Industry Association and Executive Director of Jinjiang City Chamber of Import and Export Trade

**Edmund Hen**  
CFO

- › Former CFO of a Sichuan switchgear manufacturer and accountant for Dickson Concepts Ltd., a publicly-listed Hong Kong company
- › Formerly at Deloitte Touche Tohmatsu and a variety of accounting firms
- › Bachelor Degree from University of East Anglia, United Kingdom
- › Associate member of Institute of Chartered Accountants in England and Wales, and of the Hong Kong Institute of Certified Public Accountants

**Peizhi  
Su**  
Sales Deputy GM

- › Over 10 years of experience in the China ceramic tile industry
- › Established a national sales network of distributors and property developers
- › Also a Director of the Company

**Weifeng  
Su**  
General Legal  
Counsel & Secretary

- › Lawyer at Fujian Minrong Law Firm from 2005 to 2007
- › Graduated from the School of Law of Xiamen University
- › Also a Director of the Company



## Board of Directors

**Jiadong  
Huang**  
Chairman

- › Founder of Jinjiang Hengda Ceramics Co., Ltd. In 1993
- › 20 years of experience in the China ceramic tile industry
- › Vice Chairman of Fujian Province Ceramic Industry Association and Executive Director of Jinjiang City Chamber of Import and Export Trade

**Cheng Davis**  
Independent  
Member

- › Special Advisor to University of Columbia
- › Special Advisor and Vice Dean of University of Pennsylvania where she pioneered management programs for Chinese executives
- › Advisor to blue-chip companies including CIGNA, Lucent, China Telecom, China Industrial Bank, Morgan Stanley and Motorola.

**Shen  
Chengliang**  
Independent  
Member

- › Over 30 years of experience and expertise in China's ceramics industry
- › Extensive career as Senior Production Engineer at Fujian Yiyan Ceramics Ltd.
- › Graduated from Jindezhen Ceramics School



## Board of Directors (continued)

**Liu Jianwei**  
Independent  
Member

- › Currently a portfolio manager with China-based Bosera Asset Management.
- › Previously worked at Shanghai AllBright law Offices and ICBC at their main HQ's
- › Worked with CCCL's predecessor company and helped to structure its acquisition of its operating business in 2009.

**Su  
Weifeng**

- › Lawyer at Fujian Minrong Law Firm from 2005 to 2007
- › Graduated from the School of Law of Xiamen University
- › Son of Peizhi Su, also a Director of the Company



# Investment Thesis

- **China Ceramics is a strong competitor in a highly fragmented space**
- **Plant expansion and a near-doubling of production will enable more competitive market positioning**
- **Sustainable advantages due to capacity expansion, R&D, exclusive distributor relationships and world-class brands**
- **The construction materials industry expected to benefit from China's urbanization and construction trends**
- **Government policies are intent upon promoting urbanization to grow domestic GDP which should spur real estate development**
- **Geographical location is optimal for supplier network**
- **2014 plan is to rebound from secular trough in late 2012 and capitalize upon growth opportunities**



# Corporate History

Founded in 1993 as a manufacturer of outdoor ceramic tiles in Jinjiang, Fujian Province



Received the certification of ISO9002, ISO9001 and ISO14001 in 1999; Gradually built up brand reputation



Introduced state-of-the-art equipment from abroad; developed plans to expand Hengda's capacity

Named a Top Growing Enterprise by China Building Materials Association



Acquired Hengdali facility in Jan.'10;

Total annual manufacturing capacity of both Hengda & Hengdali currently 72 million square meters



Listed on NASDAQ (CCCL) in November 2010



Owens 4 patents with right to use 11 more. Continuously focusing on R&D for environmental-friendly products



Completed merger with SPAC (CHAC) in November 2009



# Contact Information

## China Ceramics Co. Ltd.

Edmund Hen, CFO

Email: [info@cceramics.com](mailto:info@cceramics.com)

## Precept Investor Relations

David Rudnick

Tel: (1) 917 864-8849

Email: [david.rudnick@preceptir.com](mailto:david.rudnick@preceptir.com)

## SEC Attorney

Loeb & Loeb

Giovanni Caruso, Partner

Tel: (1) 212 407-4866

Email: [gcaruso@loeb.com](mailto:gcaruso@loeb.com)

## Auditors

Crowe Horwath (HK) CPA Limited

Tel: (852) 2894 6888

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