

# CHINA CERAMICS CO., LTD.



China Ceramics Co., Ltd.

[WWW.CCERAMICS.COM](http://WWW.CCERAMICS.COM)

**Investor Presentation**  
December 2016



# 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.**

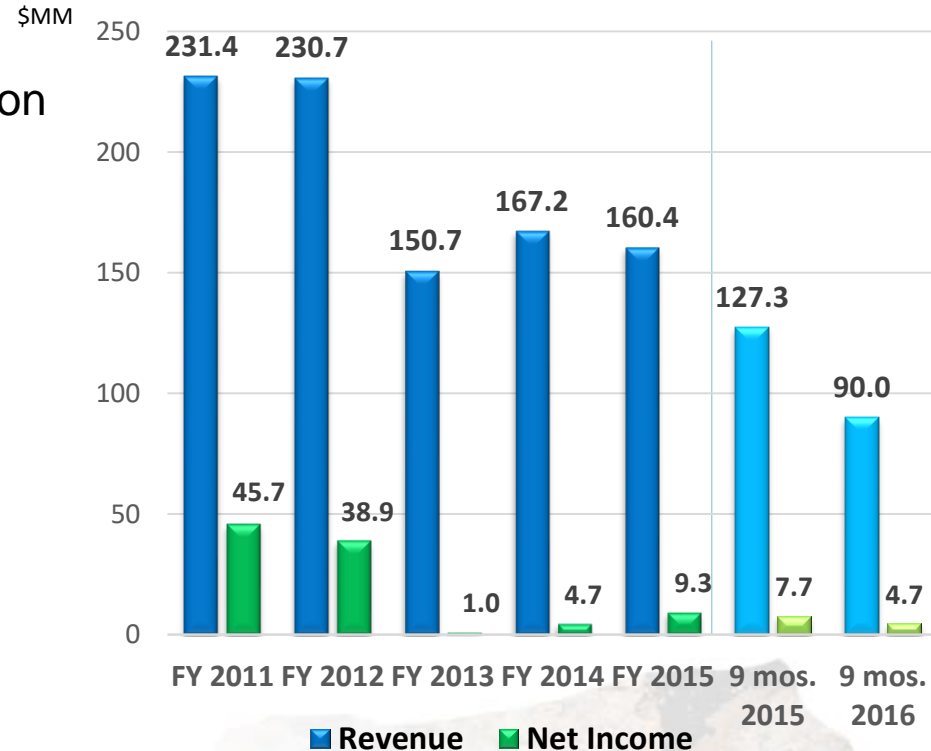
**The forward-looking statements contained in this presentation are made only as of today, and China Ceramics is under no obligation to revise or update these forward-looking statements.**



# Company Overview

- Ceramic tile market growth correlates with urbanization and residential construction trends in China
- Production capacity is 72 MSM of ceramic tiles/yr.; 3/2016, CCCL entered contract to lease 10 MSM of capacity
- Plant utilization for 3Q 2016 was 38 MSM / yr.; the ramp to greater utilization is pending improved business conditions
- 3Q 2016 stable product pricing reflects our brand name and strong relationships
- 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

## Revenue and Net Income



*FY 2013 Net Income adjusted for \$3.0 MM loss on disposal of PP&E; FY 2014 Net Income adjusted for realized and unrealized \$9.6 MM FV loss on derivatives; FY 2015 Net Income adjusted for \$65.1 MM non-cash asset write-down*



# Equity Snapshot

<b>Nasdaq: CCCL</b>	<b>FYE: Dec. 31</b>
<b>Stock Price (12/19/16)</b>	<b>\$2.29</b>
<b>Primary Shares Outstanding</b>	<b>2.7 MM</b>
<b>Market Capitalization</b>	<b>\$6.2 MM</b>
<b>Debt (Sept. 30, 2016) (a)</b>	<b>--</b>
<b>Revenue (TTM)</b>	<b>\$130.0 MM</b>
<b>Net Income (TTM) (b)</b>	<b>\$6.3 MM</b>
<b>EPS (TTM) (b)</b>	<b>\$2.12</b>
<b>Enterprise Value</b>	<b>\$7.6 MM</b>
<b>Price to Book</b>	<b>3.7%</b>
<b>Price to Earnings Multiple</b>	<b>1.08 x</b>

(a) Does not include \$5.3 MM in related party debt (b) Excludes the non-cash FV loss on the impairment of non-current assets of \$66.5 MM in 4Q 2015. TTM = trailing twelve months; nos. adjust for stock split on 6/27/16





# Investment Highlights

**1** → A premier, name-brand manufacturer of thousands of customizable exterior and interior ceramic tiles

**2** → Intent upon capitalizing upon China's urbanization trend, rising GDP and people's preference for real estate ownership

**3** → An build-out of plant capacity since 2010 enables higher utilization when market conditions improve

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

**5** → Modern plant and R&D enables competitive advantage; new glazed brick ceramic tiles for roofing complements portfolio

**6** → Sustained Gov't support of the real estate and construction sectors as it estimated to comprise 15-20% of China's GDP



# China's Macroeconomic Environment

- The Chinese economy is undergoing a structural change, transitioning from manufacturing to services and from investment to consumption.
- GDP grew by 6.7% in 3Q 2016, the same rate as the previous two quarters.
- A resolution of credit growth and a deleveraging of local government debt require reforms which could potentially slow growth in the short run.
- President Xi Jinping and senior leaders are expected to enact wide-ranging structural reforms including reforms to stem corruption and spur domestic consumption.

## China's Annual GDP Growth Rates (% Changes)



Source: [tradingeconomics.com](http://tradingeconomics.com), National Bureau of Statistics of China



# China's Real Estate Market Environment

- Real estate is estimated to be 15% to 20% of China's GDP and so a healthy real estate sector is important to China's growth.
- Average new home prices in 70 cities rose 12.3% y-o-y in Oct. 2016, the 13<sup>th</sup> straight month of gain & the fastest rise since Jan. 2014.
- On a month-over-month basis, prices rose 1.1% compared to 2.1 % in Sept.
- The Government may be looking to reign in mortgage borrowing among home buyers as well the overweighting of mortgages in the banking sector.
- Greater land supply could be made available to rebalance supply and demand and tamp down an increase in property prices in China's major cities.

## Newly Build China Home Prices (Yr-o-Yr Change)



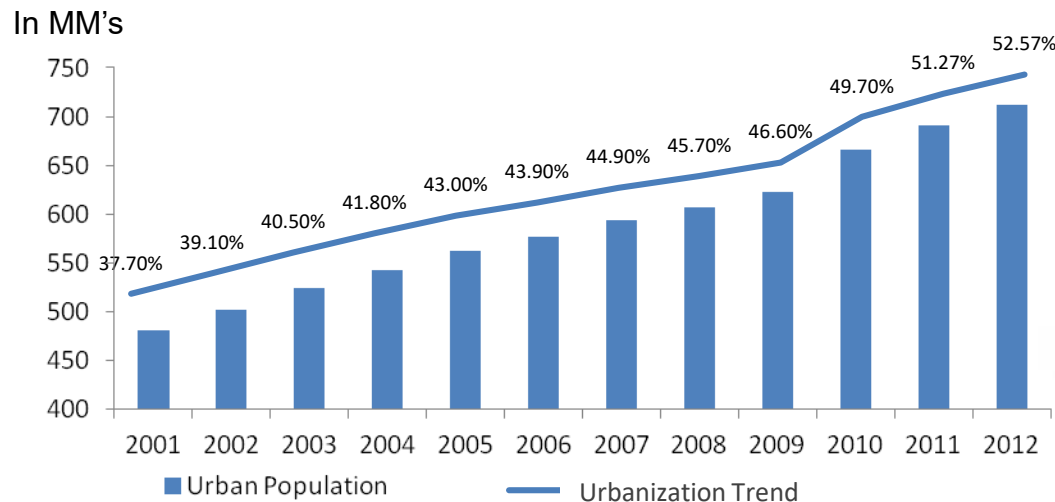
Source: *tradingeconomics.com*, National Bureau of Statistics of China



# Urbanization Trend Provides Underpinning to Real Estate Construction China

- China's total urban population reached 731 million in 2013 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 –

Indonesia	Malaysia	Russia
50.3%	69.4%	72.9%
US	UK	Japan
81.4%	89.9%	91.3%

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 2016 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
- Renovation and upgrading of existing properties will also spur additional demand

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.				
<u>Sources:</u> Economist Intelligence Unit; National Bureau of Statistics (China); UNECE				



# 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 is based on quality, branding, service and product 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





# Key Market Trends

- **China's long-term urbanization trend** – CCCL a prime beneficiary
- **Government policies support the real estate sector** – rate cuts, lower down payment requirements and property sales have spurred recent activity
- **New products** – New outdoor ceramic tiles products are “Green”, lighter, heat insulating and noise-reducing. **In 3Q15 announced new production line to manufacture glazed brick ceramic tiles** - deepens the portfolio even more.
- **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.
- **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.
- **Stricter Environmental Standards** – Exits by smaller competitors to occur as less well-financed companies cannot comply with stricter environmental regulations.



# Core Competitive Advantages

- **Experienced management** and a culture of hard work and success
- **Premier brand** – repeat winner of “Asia’s 500 Most Valuable Brands” award among many other awards and certifications
- **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 a state-of-the-art product showroom that emphasizes CCCL’s superior capabilities. **3Q15 announced additional enhancements of Hengda Exhibition Hall** which should drive sales to a potentially consolidating large property sector.
- **New subsidiary formed** to transact with large entities such as China State Decoration Group Co., Ltd.





# Comprehensive Product Suite

The company has over 2,000 size and color combinations

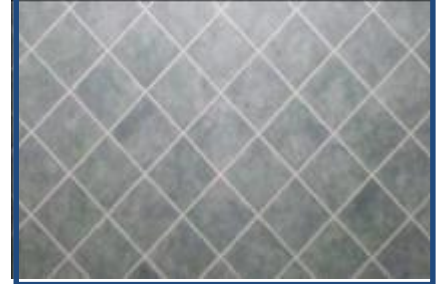
Porcelain  
*66.4% of Sales*



Polished Glaze  
*15.3% of Sales*



Rustic  
*9.5% of Sales*



Glazed Porcelain  
*4.2% of Sales*



Glazed  
*4.6% of Sales*



Wide array of standardized and made-to-order products



# Modern Plants Ensure High Quality and Superior Range of Products

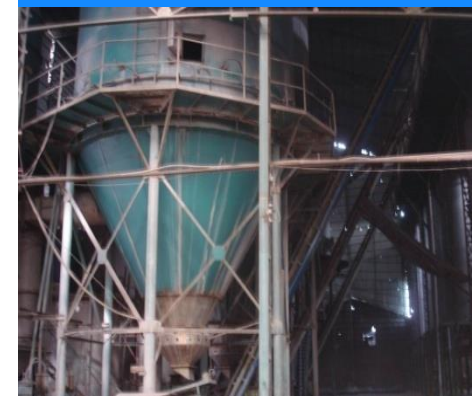
Raw Material Inspecting



Mixing & Grinding



Spray Drying



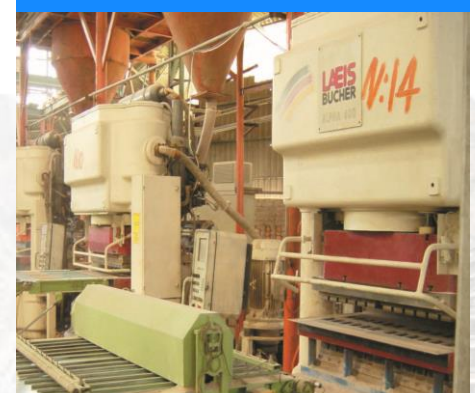
Firing



Glazing



Molding

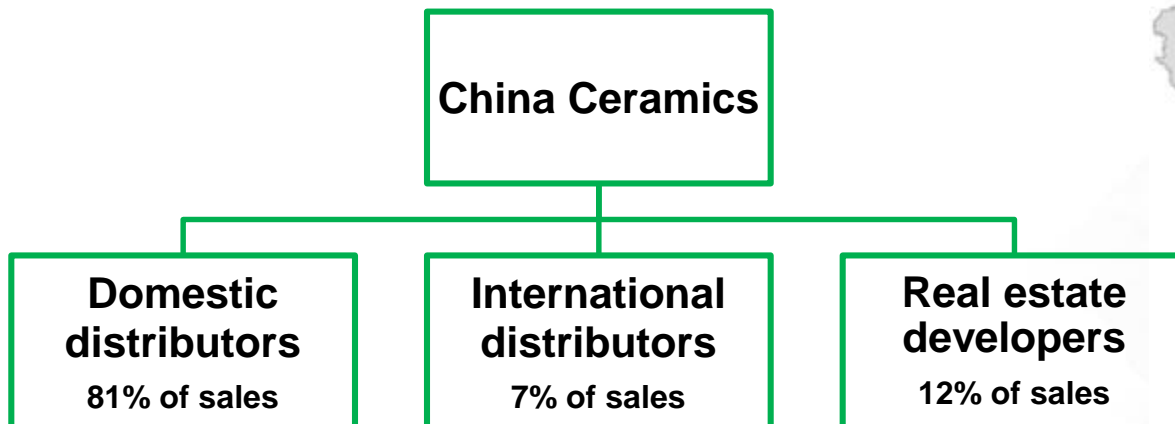


Plant's ISO 9001:2000 accreditation signifies high quality control processes



# 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 35% of total sales in 2015
- 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



- 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

- Dyes, clay and energy are the major raw materials for tile production, accounting for a substantial portion of our 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
Coloring	27	8
Clay	24	11
Coal and gas	16	8
Glazing	6	4



# Plant Expansion and Capital Expenditures

<b>PLANT EXPANSION</b> <i>(in Millions of Square Meters, or MSM)</i>			
	<b>Hengda</b>	<b>Hengdali</b>	<b>Total</b>
<b>Total 2010 Capacity</b>	28	10	38
<b>2010 and 2011 Capacity Expansion</b>	14	4	18
<b>Total 2011 Capacity</b>	42	14	56
<b>2012 Capacity Expansion</b>		16	16
<b>Current Plant Capacity</b>	<b>42</b>	<b>30 (a)</b>	<b>72 (a)</b>
<b>Capacity Currently Being Utilized (a)</b>	<b>19</b>	<b>19</b>	<b>38</b>
<i>(a) As of 3/2016, a production line at Hengdali is being leased out with capacity to produce 10 MSM; Hengdali and total company capacity effectively reduced to 20 MSM and 62 MSM, respectively.</i>			
<b>CAPITAL EXPENDITURES</b> <i>(In millions)</i>			
	<b>Hengda</b>	<b>Hengdali</b>	<b>Total</b>
<b>Capex in 2011</b>	<b>\$ 23.9 M</b>	<b>\$ 44.6 M</b>	<b>\$ 68.5 M</b>
<b>Capex in 2012</b>	<b>\$ 3.0 M</b>	<b>Nil</b>	<b>\$ 3.0 M</b>
<b>Capex in 2013</b>	<b>\$ 7.4 M</b>	<b>\$ 8.4 M</b>	<b>\$ 15.8 M</b>
<b>Capex in 2014</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Capex in 2015</b>	<b>\$ 1.6 M</b>	<b>\$ 23.0 M</b>	<b>\$ 24.6 M</b>
<b>Capex in 2016</b>	<b>Nil (Expected)</b>	<b>Nil (Expected)</b>	<b>Nil (Expected)</b>



# Company Growth Strategy

## **1) Gain Market Share as a Result of the Industry Shake-Out of the Last 2 Years**

*A significant number of competitors could exit the space due to a tougher competitive environment and new energy guidelines.*

## **2) Leverage Customization Capabilities due to Modernized Plant Efficiencies**

*Enables accessibility to the company's customized and innovative product offerings*

## **3) Penetrate New Markets using Tier II and Tier III Marketing Experience**

*Urbanization coupled with demographic changes will remain compelling domestic trends for years to come*

## **4) Focus on Remodeling and Renovation of pre-1998 Built Residential Units**

*Massive growth in upgraded units is expected as personal incomes can now afford better infrastructure and expansion of traditionally small units.*

## **5) Capitalize Upon Expected Consolidation Among Large Property Developers**

*The company's deep product platform, modern manufacturing capabilities and strong balance sheet enable it to optimally service larger customers*

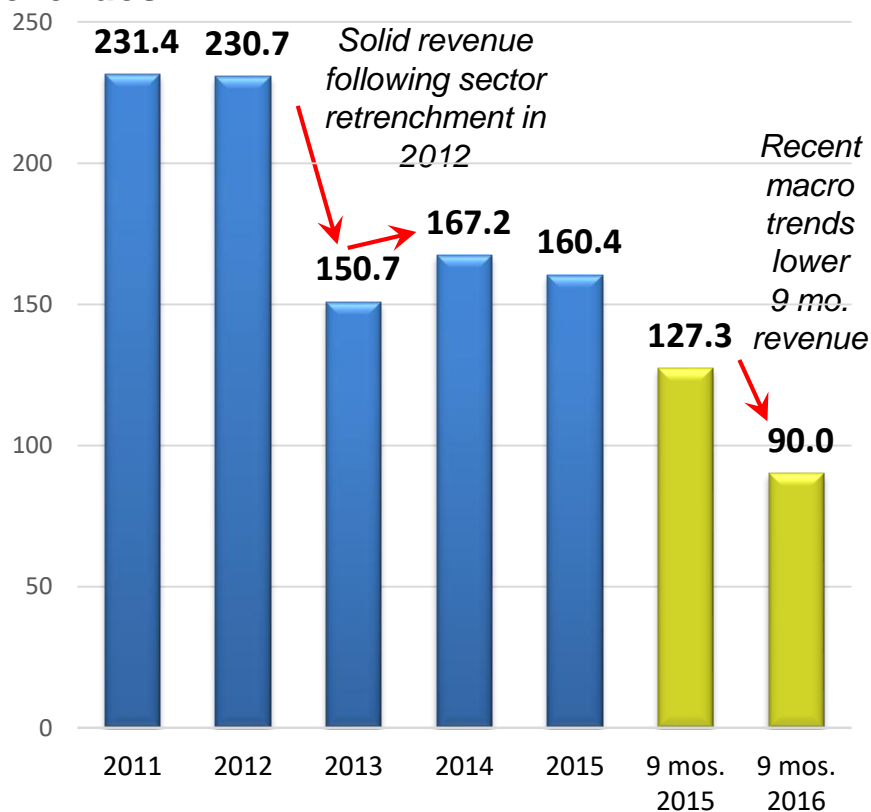




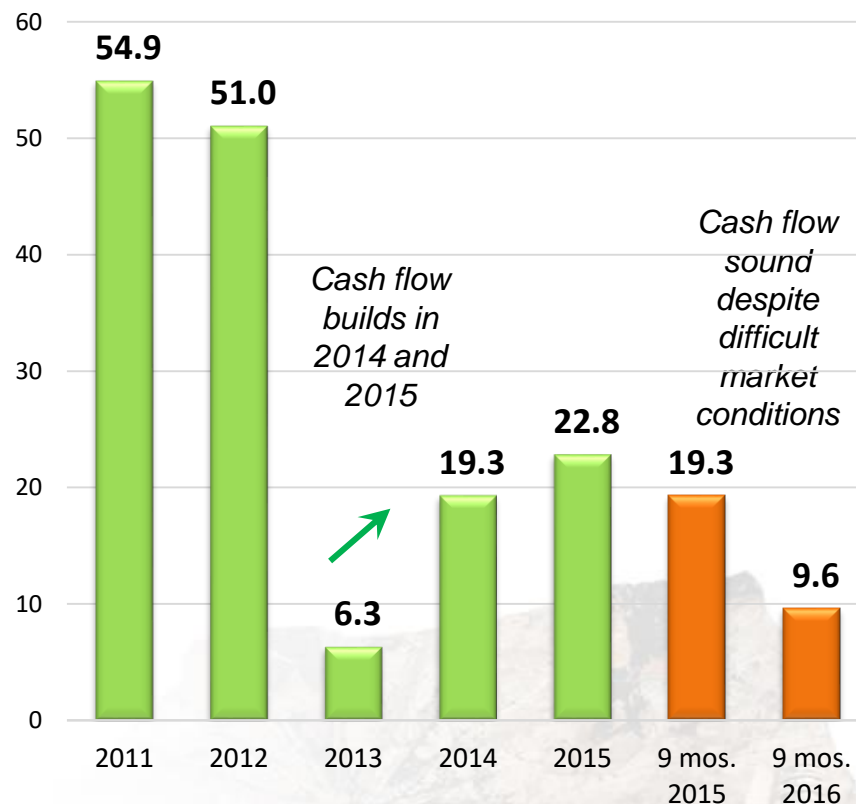
# Revenue and Cash Flow Generation

FYE: Dec 31  
(USD In millions)

## Revenues



## EBITDA



**Notes:** EBITDA is defined as earnings before interest, taxes depreciation and amortization. FY 2013 EBITDA adjusted for \$3.0 MM loss on disposal of PP&E; FY 2014 EBITDA adjusted for realized and unrealized \$9.6 MM FV loss on derivatives; FY 2015 EBITDA adjusted for \$65.1 MM non-cash asset write-down.

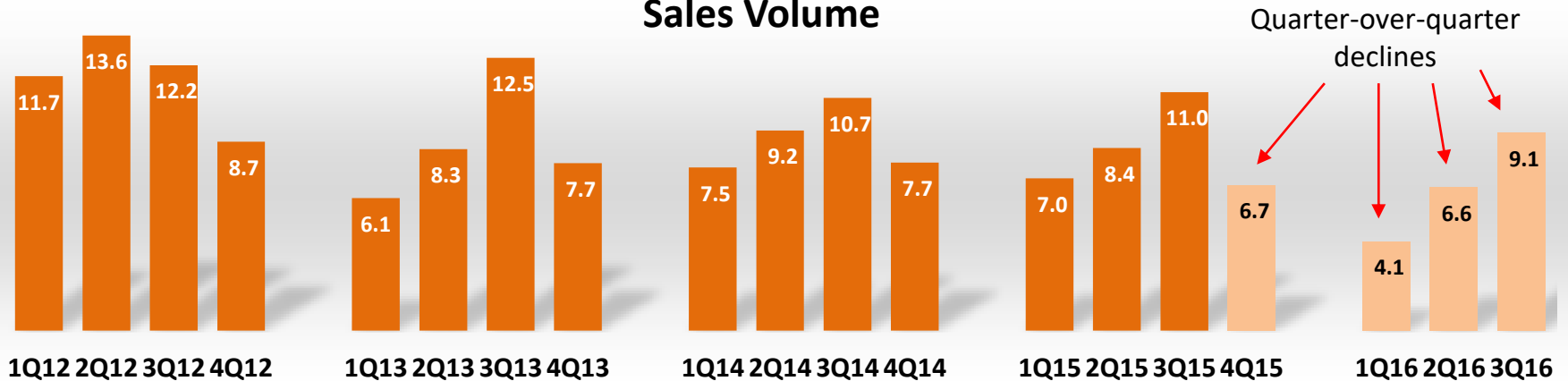
For statements of financial position data, translation of RMB into USD has been made using historic spot exchange rates published by [www.federalreserve.gov](http://www.federalreserve.gov). For statements of income data, translation of RMB into USD has been made using the avg of historical daily exchange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



# Sales Volume and ASP Metrics

(In MSM's')

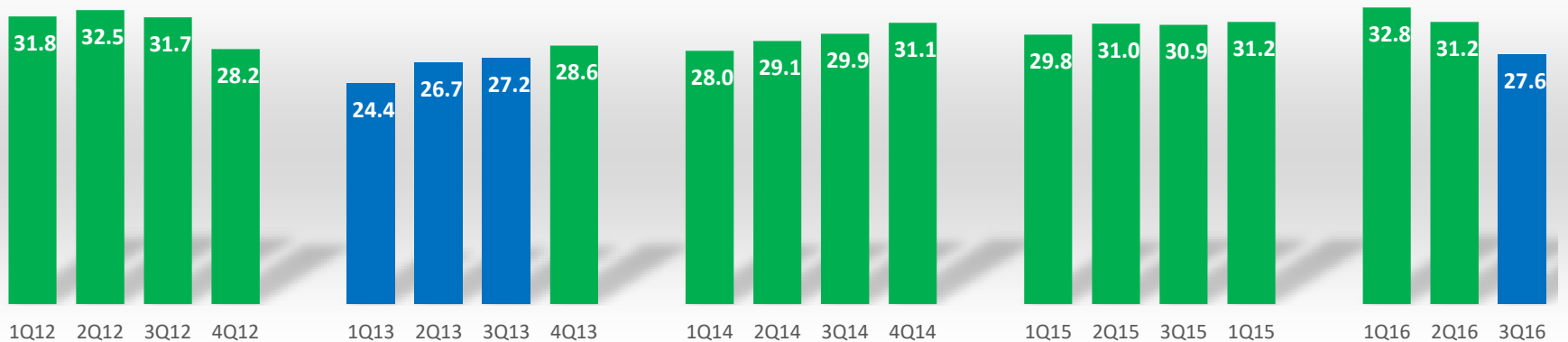
## Sales Volume



The recent decline in sales volume reflect challenging conditions ...

(In RMB)

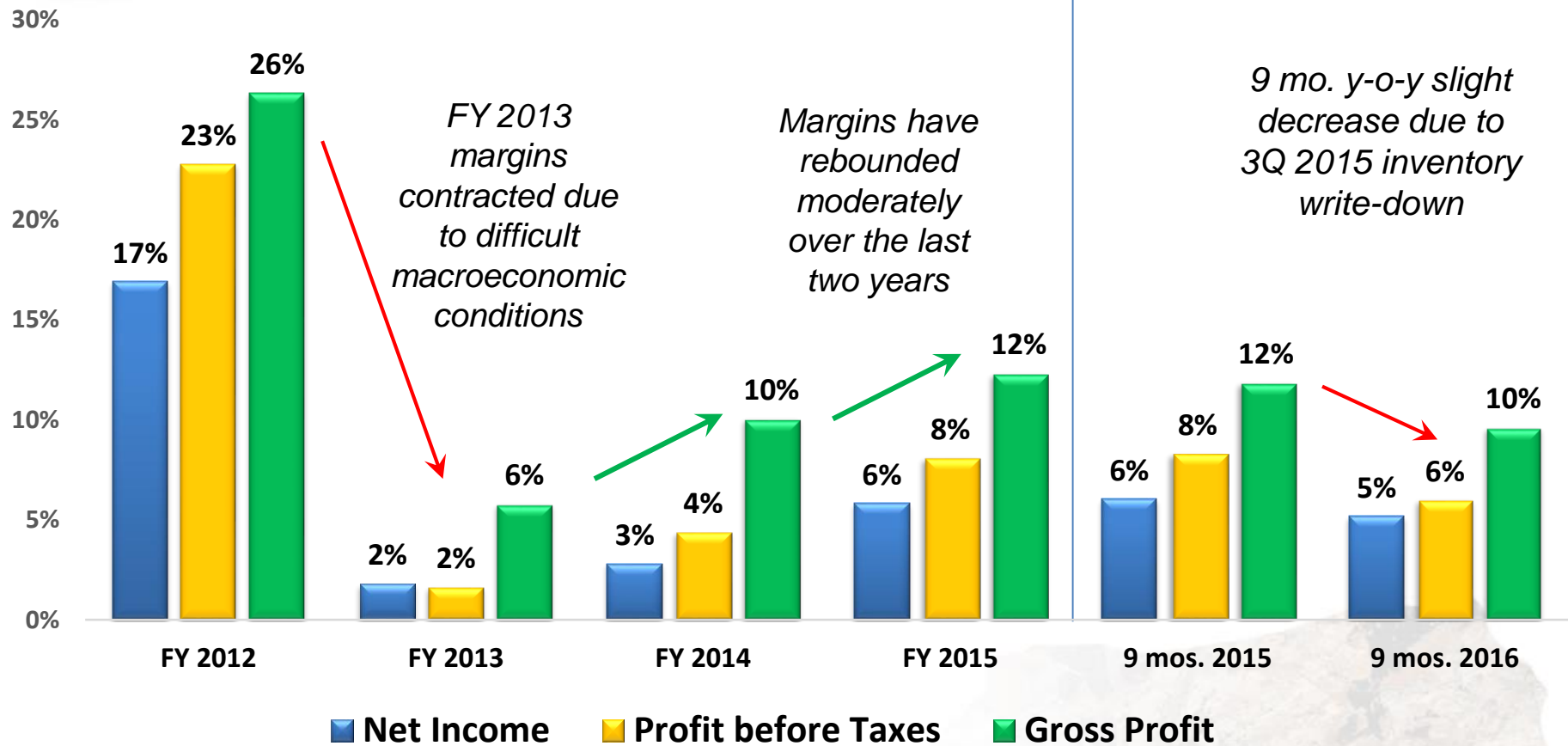
## Average Selling Price



... with ASP down due to discount pricing which revert to 2013 lows



# Rebounding Financial Margins



- FY 2012 and FY 2013 Profit before Taxes and Net Income adjusted for asset write-down of RMB 0.5 MM and RMB 18.9 MM, respectively
- FY 2014 Profit before Taxes and Net Income adjusted for RMB 68.7 MM in foreign currency losses
- FY 2015 Profit before Taxes and Net Income adjusted for RMB 421.6 MM in asset write-down



# Strong Balance Sheet

<i>(USD, in millions)</i>	<u>As of Sept. 30, 2016</u> (Unaudited)	<u>As of Dec. 31, 2015</u> (Audited)
<b>Cash (a)</b>	<b>3.8</b>	<b>6.5</b>
<b>Debt (a)</b>	<b>--</b>	<b>6.2</b>
<b>Total Working Capital</b>	<b>108.1</b>	<b>108.9</b>
<b>Shareholders' Equity</b>	<b>168.7</b>	<b>167.7</b>
<b>Inventory Turnover</b>	<b>226</b>	<b>131</b>
<b>Trade Receivables Turnover</b>	<b>236</b>	<b>163</b>
<b>Trade Payables Turnover</b>	<b>99</b>	<b>70</b>

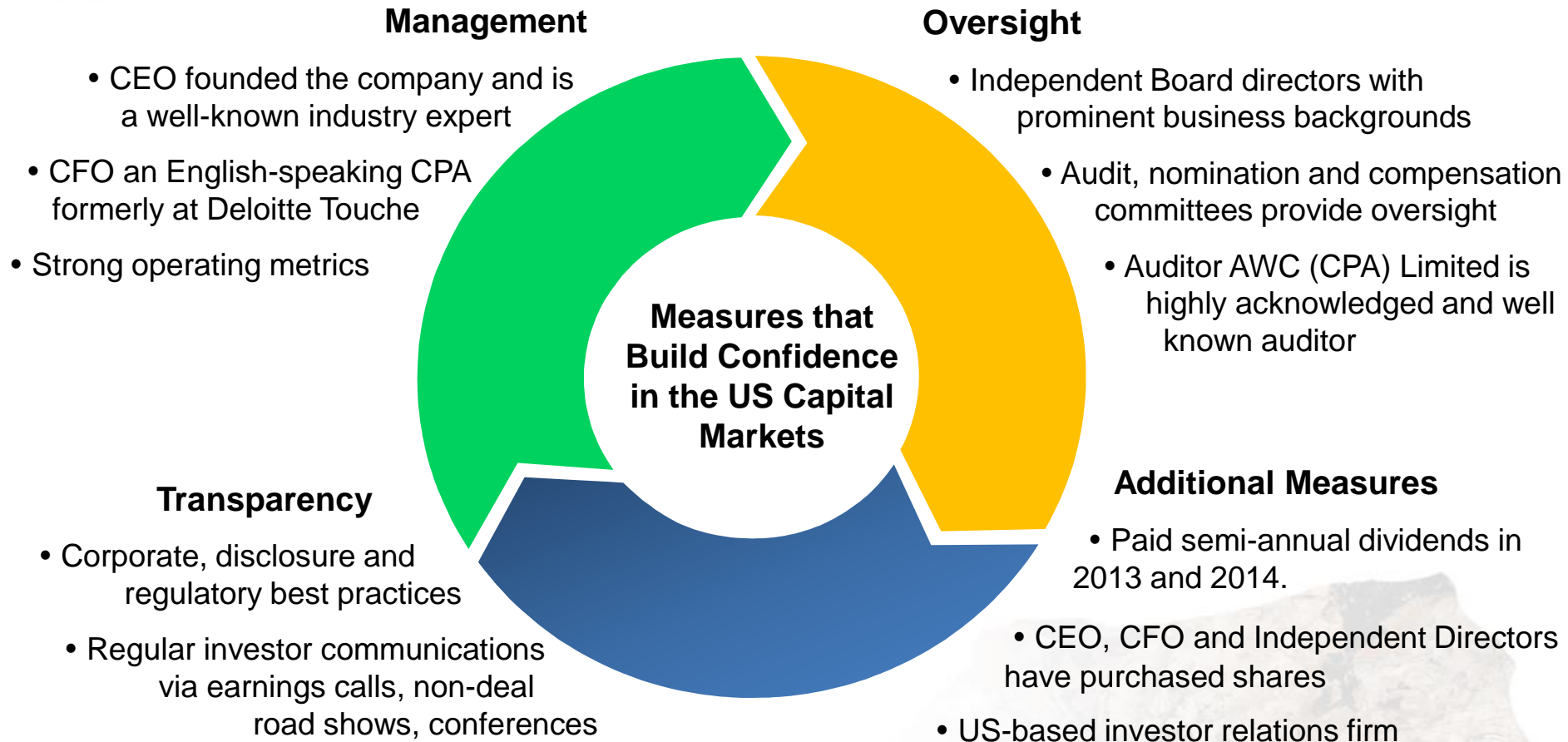
*(a) Includes restricted cash*

*(b) Does not include \$5.3 MM in related party debt*





# Capital Markets: Key Differentiators





# 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**
- **2016 plan is to strategically market given challenging market conditions and focus on sound regional fundamentals to generate reasonable sales volume and positive cash flow**





# 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

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