

CHINA CERAMICS CO., LTD.

**First Half Fiscal 2020 Earnings Call
September 29, 2020
8:00 a.m. ET**

Speakers:

**Ms. Meishuang Huang, CEO
Mr. Edmund Hen, CFO**

Operator: Ladies and gentlemen, thank you for standing by and welcome to the China Ceramics first half 2020 earnings conference call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. To ask a question during this session, you would need to press star one. Please be advised that today's call is being recorded. If at any time you need to reach the operator, please press zero. I would now like to hand the conference call over to your speaker for today, David Rudnick. Please go ahead, sir.

David Rudnick: Thank you, Dexter. Good morning ladies and gentlemen and good evening to those of you who are joining us from China. Welcome to China Ceramics' first half 2020 earnings conference call. With us today are China Ceramics' Chief Executive Officer, Ms. Meishuang Huang and its Chief Financial Officer, Mr. Edmund Hen.

Before I turn the call over to Ms. 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' CEO, Ms. Meishuang Huang and China Ceramics' CFO, Mr. Edmund Hen. Zhen Qiu will be translating for Ms. Huang. Ms. Huang, you may proceed.

Meishuang Huang: (In Chinese)

Zhen Qiu: Thank you, David. On behalf of the Company, I would like to welcome everyone to our first half 2020 earnings conference call.

Meishuang Huang: (In Chinese)

Zhen Qiu: For the first half of 2020, the impact of the COVID-19 pandemic outbreak had a material adverse impact on the demand for our products as our production was temporarily halted and our logistics functions were not fully operational in certain regions as these regions remained closed through April. The COVID-19 pandemic resulted in a high number of purchase order cancellations and severely reduced our sales as our customers held back purchases awaiting the resumption of normal economic activity.

Meishuang Huang: (In Chinese)

Zhen Qiu: Due to the COVID-19 pandemic, for the six months ended June 30, 2020 we utilized production facilities capable of producing just 2.6 million square meters of ceramic tiles per year out of an effective total annual production capacity of 51.6 million square meters of ceramic tiles. This is consistent with our practices in past quarters as we maintain an appropriate level of plant production capacity based on market conditions.

Meishuang Huang: (In Chinese)

Zhen Qiu: We remain focused upon diversifying our operational capabilities to fuel our growth. While we are committed to our core business, we formed two new subsidiaries in the high technology sector. Chengdu Future Talented Management and Consulting Co, Ltd. provides business management and consulting and has already contributed revenue in the first half of 2020. Antelope Holdings (Chengdu), Co., Ltd., provides fintech solutions such as the development of blockchain software, and subsequent to the end of the current six-month period, has signed three contracts which we expect will contribute to revenue in the second half of 2020.

Meishuang Huang: (In Chinese)

Zhen Qiu: In the long-term, we believe that our building materials sector will continue to benefit from growth in the real estate sector due to sustained urbanization, the consolidation of larger property developers and the upgrading of existing housing stock. For the remainder of 2020, we believe that the PRC central government will take steps to bolster economic growth and that pent-up consumer demand for residential

properties resulting from the downturn that occurred during China's COVID-19 lockdown period will ultimately benefit our building materials sector.

Meishuang Huang: (In Chinese)

Zhen Qiu: 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 first half 2020 earnings results in more detail. Thank you!

Edmund Hen: Thank you Ms. Huang! I will now move on to a more detailed discussion of our financial results for the six months ending June 30, 2020.

Our revenue for the six months ended June 30, 2020 was RMB 39.8 million or US\$ 5.6 million, a 77.6% decrease from RMB 177.4 million or US\$ 26.2 million for the same period of 2019. The year-over-year decrease in revenue was due to the 73.4% decrease in our sales volume to 1.8 million square meters of ceramic tiles for the six months of 2020 compared to 6.6 million square meters of ceramic tiles for the same period of 2019, with the decrease attributable to reduced sales orders of our products due to the COVID-19 pandemic. Our average selling price decreased 15.8% to RMB 22.6 or US\$ 3.19 for the six months of 2020 from RMB 26.8 or US\$ 3.95 for the same period of 2019, as a result of difficult market conditions and the continuance of the 15% price deduction instituted in October 2019.

Gross profit for the six months ended June 30, 2020 was RMB 0.9 million or US\$ 0.1 million, as compared to gross profit of RMB 15.3 million or US\$ 2.3 million for the same period of 2019. The gross profit margin was 2.4% as compared to 8.6% for the same period of 2019. The decrease in gross profit margin for the six months ending June 30, 2020 was due to the 73.4% decrease in sales volume and 15.8% decrease in average selling price.

Other income for the six months ended June 30, 2020 was RMB 9.8 million or \$1.4 million, compared to the RMB 7.1 million or \$1.1 million for the comparable period of 2019. Other income primarily consists of rental income that the Company received by leasing out one of its production lines from its Hengdali facility pursuant to an eight-year lease contract. In addition, we realized RMB 2.4 million or US\$ 0.3 million in technology consulting income from our newly incorporated subsidiary, Chengdu Future Talented Management and Consulting Co, Ltd., during the six months ended June 30, 2020.

Selling and distribution expenses for the six months ended June 30, 2020 were RMB 5.2 million or US\$ 0.7 million, a decrease from RMB 5.7 million or US\$ 0.8 million for the comparable period of 2019. The decrease was mainly due to a decrease in payroll expenses of RMB \$0.1 million and a decrease in advertising expenses of RMB \$0.2 million.

Administrative expenses for the six months ended June 30, 2020 were RMB 14.7 million or US\$ 2.1 million, as compared to RMB 15.9 million or US\$ 2.3 million, for the same period of 2019. The decrease was mainly due to a decrease in research and development expenses of RMB 6.4 million, which was partly offset by the following: an increase in administrative expenses attributable to the Company's new subsidiaries of RMB 3.5 million, an increase in audit-related fees of RMB 0.2 million, an increase in consulting fees of RMB 0.8 million, an increase in legal fees of RMB 0.5 million and an increase in other miscellaneous expenses of RMB 0.2 million.

Bad debt expense for the six months ended June 30, 2020 was RMB 101.8 million or US\$ 14.4 million, as compared to bad debt expense of RMB 193.9 million or US\$ 28.6 million for the same period of 2019. We recognize a loss allowance for expected credit loss on our financial assets, primarily on trade receivables, which are subject to impairment under IFRS 9, Financial Instruments. We believe that we have undertaken appropriate measures to resolve our bad debt expense. We will continue to review each of our customers for credit quality as well as assiduously test their accounts receivables balances in each upcoming fiscal period.

Net loss for the six months ended June 30, 2020 was RMB 111.5 million or US\$ 15.8 million, as compared to a net loss of RMB 193.2 million or US\$ 28.5 million for the same period of 2019. The decrease in net loss was mainly due to the decrease in bad debt expense, which was partially offset by a decrease in gross profit for the six months ended June 30, 2020.

Loss per basic share and fully diluted share for the six months ended June 30, 2020 were RMB 40.82 or US\$ 5.77, as compared to loss per basic and fully diluted share of RMB 96.69 or US\$ 14.25 for the same period of 2019, with these figures retroactively presented for the 3:1 reverse stock split effective on September 3, 2020.

Turning to our balance sheet, we had cash and bank balances of RMB 13.5 million or US\$ 1.9 million as of June 30, 2020, compared with RMB 8.2 million or US\$ 1.2 million as of December 31, 2019.

Our inventory turn was 824 days as of June 30, 2020, as compared to 217 days as of December 31, 2019. The increase in inventory turnover days was primarily due to the 73.4% decrease in our sales volume for six months ended June 30, 2020 as compared to the same period of 2019 due to the COVID-19 pandemic. We believe that the value of our current inventories is realizable.

Our trade receivables turnover, net of value added tax was 422 days as of June 30, 2020, as compared with 194 days as of December 31, 2019. The increase in trade receivables turnover was primarily due to the slow collection of our trade receivables as a result of tight cash flow as reported by our customers due to the COVID-19 pandemic.

Our trade payables turnover, net of value added tax, was 69 days as of June 30, 2020 as compared with 30 days as of December 31, 2019. As a result of slow collection of trade receivables from our customers, we also encountered tight cash flow due to the COVID-19 pandemic and delayed certain payments to our vendors.

In terms of our plant utilization and capex, we utilized plant capacity capable of producing 2.6 million square meters of ceramic tiles for the six months ended June 30, 2020 as compared with the six months ended June 30, 2019, when we utilized production facilities capable of producing 6.0 million square meters. Our reduced production utilization during the current period was attributable to factors associated with the COVID-19 pandemic.

Our Hengda facility has an annual production capacity of 22.8 million square meters of ceramic tiles as a result of two old furnaces having been put out of use at the facility. The Company utilized production capacity at our Hengda facility capable of producing 1.3 million square meters of ceramic tiles for the six months ended June 30, 2020.

Our Hengdali facility has an annual production capacity of 28.8 million square meters, which excludes our leasing out 10 million square meters of production capacity to a third party, and we utilized production capacity at our Hengdali facility capable of producing 1.3 million square meters of ceramic tiles for the six months ended June 30, 2020.

We review the level of capital expenditures throughout the year and make adjustments subject to market conditions. Although business conditions are subject to change, we anticipate a modest level of capital expenditures for the remainder of 2020 other than those associated with minimal upgrades, small repairs and the maintenance of equipment.

Moving on to our business outlook, as discussed, the Company's operating results were severely impacted by the COVID-19 pandemic. Our production was halted for most of the month of February and our logistics functions were not fully operational in certain regions as these regions remained closed through April. The COVID-19 pandemic resulted in a high number of purchase order cancellations as our customers held back purchases awaiting the resumption of normal economic activity; our sales only began to slowly ramp near the end of the six-month period ended June 30, 2020.

Looking forward, while China's real estate market has remained resilient over time, certain factors such as a slowing domestic economy, a relatively high amount of mortgage debt, a drop in rental prices in certain cities such as Beijing and possible government regulations to cool rising property prices post-pandemic could potentially limit new project development. There has also been some overdevelopment which has caused high housing inventory in certain third and fourth tier cities which needs to work itself through sales channels. Therefore, the current conditions for the construction and building materials sectors continue to be challenging.

In order to supplement and expand our current market reach, in 2020, we announced plans to enter the ceramic tile market in Southeast Asia to capitalize upon the increased level of the region's new building construction while its climate conditions make it an ideal fit for many of our ceramic tile products. Although this effort was temporarily halted due to the coronavirus pandemic, we have redeployed this strategy with the goal to diversify our business by generating revenue outside of China.

A key element of this diversification strategy is to bolster our R&D efforts in order to expand our market. Last year, we developed a new type of exterior ceramic tile designed to cool temperatures of buildings which, once fully tested and certified as planned for this summer, will target the Southeast Asia market.

However, we believe that in the long-term, the real estate and construction sectors will continue to grow and that their underlying fundamentals, which include sustained urbanization, the consolidation of larger property developers and the upgrading of existing housing stock, remain key demand drivers. In addition to marketing our products domestically, we plan to continue our efforts to expand outside of China and enter the ceramic tile markets in Southeast Asia to capitalize upon its new building construction.

We remain focused upon diversifying our operational capabilities to fuel our growth. While we are committed to our core business, we formed two new subsidiaries in the high technology sector. Chengdu Future Talented Management and Consulting Co, Ltd. provides computer server consulting, online problem-solving to maintain computer systems and internet connectivity and overall technical support. While this subsidiary has contributed modest revenue in 2020 so far, we believe that business management and consulting represent a substantial growth sector. In addition, we formed Antelope Holdings (Chengdu), Co., Ltd., which provides fintech solutions such as the development of blockchain software. Subsequent to the end of the current six-month period, this entity signed three contracts, which have all been publicly announced, and which will contribute to revenue in the second half of 2020.

This business outlook reflects the Company's current and preliminary views and is based on the information currently available to us, which are subject to change and is subject to risks and uncertainties, as well as risks and uncertainties identified in the Company's public filings.

At this point, we would like to open up the call to any questions pertaining to our first half 2020 financial results. Operator?

Operator: As a reminder, to ask a question, you need to press star one on your telephone. That is star one to ask a question. Please standby. Again, to ask a question press start one on your telephone keypad. There are no questions at this time. Mr. David Rudnick, please continue.

David Rudnick: Thank you, Dexter. On behalf of the entire China Ceramics management team, I want to thank all of you for your interest and participation on this call. This concludes China Ceramics' second half and fiscal year end 2019 earnings call. Thank you.

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