

CHINA CERAMICS CO., LTD.

**1Q 2015 Earnings Call
June 4, 2015
8:00 a.m. ET**

**Speakers:
Mr. Jaidong Huang, CEO
Mr. Edmund Hen, CFO**

Operator: Good morning. My name is Tabitha and I will be your conference operator today. At this time, I would like to welcome everyone to the China Ceramic First Quarter 2015 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks there will be a question and answer session. If you would like to ask a question, please press star one on your telephone keypad, to withdraw your question, press the pound key. Thank you.

Mr. Rudnick, please go ahead.

David Rudnick: Thank you, (Tabitha). Good morning ladies and gentlemen and good evening to those of you who are joining us from China. Welcome to China Ceramics First quarter 2015 earnings conference call. With us today are China Ceramic's Chairman and Chief Executive Officer, Mr. Jaidong Huang, and his Chief Financial Officer, Mr. Edmund Hen.

Before I turn the call over to Mr. Huang, may I remind all our listeners that during this call, remarks containing forward looking statements which are subjects to risks and uncertainties and management may make additional forward looking statements in response to your questions. Therefore, the company claims protection at the Safe Harbor for forward looking statements that is contained in the Private Securities Litigation Reform Act of 1995.

Actual results can be different from discussed today 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 of the company's future performance represent management's estimates as of today June 4, 2015. China Ceramics assumes no obligation to update these projections in the future as market conditions change.

And now it is my pleasure to turn the call over to China Ceramics' Chairman and CEO, Mr. Jiadong Huang and China Ceramics CFO, Mr. Edmund Hen. Sandy Qun will translate for Mr. Huang. Mr. Huang you may proceed.

JianDong Huang: (Speaking in Chinese).

Sandy Qun: Thank you, David. On behalf of the company, I would like to welcome everyone to our first quarter 2015 earnings conference call.

JianDong Huang: (Speaking in Chinese).

Sandy Qun : We reported positive cash flow for the first quarter of 2015 amidst challenging conditions in China's real estate and construction sectors. Well, our top line was virtually even with the year-ago quarter continued market acceptance as our productive pricing, better raw materials, procurement and improved cost efficiencies led to a 49% increase in our gross profits. However, our lower sales volume and operating expenses constrained our profitability in our products.

JianDong Huang: (Speaking in Chinese).

Sandy Qun: We utilized production facilities capable of presenting 27 million square meters of ceramic tiles per year out of a total annual production capacity of 72 million square meters. Although sales volume in the first quarter was lower than in past periods, we saw demand rise for our higher margin ceramic tiles which sustained a reasonably solid average selling price of our products.

JianDong Huang: (Speaking in Chinese).

Sandy Qun: We believe that the operating environment for the rest of the year will continue to be challenging attributable to abundant real estate inventory and the soft pricing of residential housing. However, the real estate sector continues to be an important component of China's urban growth which is a key to achieving the government's goal of boosting China's domestic consumption. We believe that our sales team is uniquely positioned to focus on the potential consolidation of real estate development companies and that our strong balance sheet and operating infrastructure will enable us to win important new business. 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 earnings result 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 first quarter of 2015. Our revenue for the first quarter ended March 31, 2015 was RMB 209.8 million, or US\$ 33.8 million, an increase of 0.5% from the first quarter of 2014. The year-over-year increase in revenue was primarily due to a 6.4% increase in average sales price to RMB 29.8 from the year-ago quarter, partially offset by a 5.7% decrease in sales volume to 7.0 million square meters from 7.5 million square meters in the year-ago quarter.

Gross profit for the first quarter ended March 31, 2015 was RMB 13.8 million, or US\$ 2.2 million, an increase of 48.7% from the first quarter of 2014. The gross profit margin was 6.6% for the first quarter compared to a gross profit margin of 4.4% in the year-ago quarter.

Profit from operations before taxes for the first quarter of 2015 was RMB 4.3 million or US\$ 0.7 million, as compared to a loss from operations before taxation of RMB 71.2 million for the first quarter of 2014. Excluding the non-cash RMB million fair value loss on derivative financial instruments incurred in the first quarter of 2014, the year-ago quarter's loss from operations before taxation was RMB 2.5 million..

Net profit for the first quarter of 2015 was RMB 2.8 million or US\$ 0.4 million, as compared to a net loss of RMB 71.5 million for the first quarter of 2014. Excluding the non-cash RMB 68.7 million fair value loss on derivative

financial instruments incurred in the first quarter of 2014, the year-ago quarter's net loss was RMB 2.8 million.

Earnings per fully diluted share for the first quarter of 2015 were RMB 0.14 or US\$ 0.02 as compared to a loss per fully diluted share of RMB 3.50 for the first quarter of 2014. Excluding the non-cash RMB 68.7 million fair value loss on derivative financial instruments incurred in the first quarter of 2014, the year-ago quarter's loss per fully diluted share was RMB 0.14.

Turning to our balance sheet, as of March 31, 2015, we had cash and bank balances of RMB 201 million, or US\$ 32.4 million, compared to RMB 61.2 million, or US\$ 9.9 million, as of December 31, 2014. The increase in cash and bank balances was primarily the result of cash generated from operating activities of RMB 141.2 million. As of the end of the first quarter of 2015, our debt consisted of short-term bank borrowings which were RMB 84.7 million or US \$13.7 million, which is approximately the same debt level we had as of year-end fiscal 2014.

As of March 31, 2015, inventory turn was 150 days compared to 125 days as of December 31, 2014. Trade receivables turnover was 181 days compared with 156 days as of fiscal year end 2014. The Company typically offers a credit period of 90 days to our customers, and had extended it to 150 days to our distributors since the end of 2012 to address funding pressures associated with challenging real estate market conditions in China. We extended the credit period from 90 days to 120 days to direct Company accounts since the end of 2014.

Moving on to our business outlook, we expect the currently challenging market conditions to continue into the second half of the year. However, on a long-term basis we believe that the underlying fundamentals of our business continue to be sustainable. In the first quarter of 2015, we were able to sustain a reasonably solid average selling price for our products which we believe is attributable to our strong brand name and excellent customer relationships. We view the decrease in the current quarter's sales volume to 7.0 million square meters from 7.5 million square meters from the year-ago quarter as due

to difficult market conditions as evidenced by a decrease in residential properties sold in China in recent months. This remains a concern as residential property prices have shown monthly declines on a year-to-year basis due to excess inventory where property supply exceeds demand in many cities.

However, since the real estate sector in China is estimated to comprise 15% of its economic output, a healthy real estate sector is important to China's growth. Consequently, the Chinese government has taken various actions to stimulate the real estate sector. The most recent measure was the lowering the reserve requirement ratio for banks in April 2015 to stimulate the economy as well as to spur mortgage lending. Prior actions included lowering interest rates, reducing the minimum down payment for second-home buyers to 40% from 60% and lowering the minimum down payment to 20% from 30% for first-time home buyers. This could help fuel demand, especially among those property buyers seeking upgraded homes due to improved personal wealth. Further, the Government has indicated that it may encourage developers to reduce their inventory of residential stock by converting unsold properties into social housing in certain markets.

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 March 31, 2015, our backlog was approximately RMB 165.6 million or US\$ 26.7 million which represents the next two months of revenue as of the end of the first quarter. This compares to a backlog as of March 31, 2014 of two months' revenue of RMB 169.7 million, a year-over-year decrease of 2.4%. Under normal circumstances, our backlog is an indicator of revenues that might be expected in the next quarter, though it is subject to change as a result of unforeseen business conditions and events including credit payment terms.

Looking forward, we expect there to be consolidation among both ceramic tile producers and the larger property developers. We believe that our proven expertise, advanced manufacturing and deep product platform enables us to

optimally service large property developers which could lead to market share gains. We are confident that our management and operating capabilities differentiate us from our competitors and that these capabilities will enable us to capitalize on market opportunities in our sector in the periods ahead.

In terms of an update as to our dividend for this year, after considerable deliberation, the company's Board of Directors has determined that due to continuing volatile market conditions in China's real estate sectors and its impact on the building materials industry, it needs additional visibility into business conditions and its financial results for the year to determine the appropriate dividend policy for 2015. This means that timing for a dividend, if any, will be pushed back by about 3 to 4 months as compared to the previous two years, pending the Board's decision. The Company expects that it will announce its dividend policy for the year in the mid-July or early August time frame.

We would like to open up the call to any questions pertaining to the fourth quarter and fiscal year end 2014 financial and operating performance.

Operator?

Operator: As a reminder, if you like to ask a question, please press star one on your telephone keypad. Again, that is star one. We will pause for just a moment to compile the Q&A roster.

And your first question comes from the line of Howard Flinker.

Howard Flinker: (Speaking in Chinese).

Edmund Hen: (Speaking in Chinese).

Howard Flinker: (Speaking in Chinese). I have a few questions. What did you earn last year in the second quarter? I forget and I didn't look it up before the conference call.

Edmund Hen: Last year's second quarter?

Howard Flinker: Yes.

Edmund Hen: Your question is the timing or ...

Howard Flinker: No, no, what did you earn last year in the second quarter without the – without the FX loss?

Edmund Hen: I need to check that on the financials.

Howard Flinker: OK.

Edmund Hen: So I'll probably get back to you on this question.

Howard Flinker: Yes that's OK.

Edmund Hen: OK.

Howard Flinker: The reason I'm asking is it looks as if you're running a little ahead of last year. Your sales would be down, but your profits would be up. Is that a fair guess?

Edmund Hen: Yes.

Howard Flinker: OK. Good. Second, somebody told me that where you have Hengdali, is that Jinjiang or Jiangxi?

Edmund Hen: Is in – Hengdali is in (iangxi.

Howard Flinker: Jiangxi. Someone told me that the provincial government enacted rules to convert coal to natural gas, you're going to do that and everyone, not everyone, but those of your competitors who can afford it will do it – will also do that, but some can't. Some don't have the money and aren't making any money and won't be able to borrow the money.

Edmund Hen: Yes.

Howard Flinker: Do you have any idea how many regional competitors there are in Jiangxi?

Edmund Hen: I think there are quite a number of competitors over there.

Howard Flinker: 10 or 20 say or more?

Edmund Hen: It's more.

Howard Flinker: More. OK.

Edmund Hen: I guess 50 we have there.

Howard Flinker: OK. OK. Let's say 50.

Edmund Hen: Yes.

Howard Flinker: And let's say there were 50 in the Jiangzhou where this happened where you had to convert to natural gas a few quarters ago, why and let me add that the way you're going by the end of this year, your cash on hand will be double your stock price, so ...

Edmund Hen: Yes.

Howard Flinker: It's almost \$2 now. Why – here's a suggestion, why don't you look at those 50 and say 10 or 15 make qualitative products, but are doing a small amount of business, \$10 or \$15 million of business, they can't afford to stay in business. Why couldn't you look at them and go to them and their bank and say "listen, we will buy you just for the cost of inventory and receivables," no more, not like – not like the settlement you made with the class action lawyers where you grossly overpaid. They have no choice either to accept your bid or close. I'm presuming that you can select ones who make qualitative different tiles from you, let's say bathroom tiles, I'm just choosing something.

After you choose them, you liquidate the inventory and receivables, you get your money back, you say to the bank we will help you sell the equipment that they don't need and we'll split the revenue and you could sell the equipment in a faraway province so they don't become a new competitor.

Edmund Hen: Yes.

Howard Flinker: And you could hire let's say three or four people who know how to produce that particular kind of tile that you're not producing now. You could add to your sales at an eventual zero cost because liquidating the inventory and

receivables will get you your money back and you would add a product line and reduce the competitor. Does that make sense?

Edmund Hen: Yes. You have a very good idea.

Howard Flinker: Yes. In both provinces let's say there are 50 plus 50, a hundred. So maybe there are 20 that are qualitative and among the 20, four, five, six or seven would be interesting to you. And because your balance sheet is so strong, probably the strongest in the industry even stronger than the – compare to your size even stronger than the guys at Hong Kong, I forget their name and the ones at Hong Kong have plenty of capacity anyhow, they don't need capacity. You'd be in a great position to get some sales at no cost – at no eventual cost because you liquidate the inventory and receivables, which would be your price and you'd add a product line and the three or four people and maybe one supervisor who know how to produce that particular product that's a little different from yours you could hire, you could add to your business and reduce competition. So that's a thought I have.

A second thought along the same lines is when the government of Jiangzhou ordered ...

Edmund Hen: Jiangxi.

Howard Flinker: ... and no, no, I'm talking about the first one in Hengda, when the government of Jiangzhou ordered the tile companies to convert from coal to natural gas, to cover your cost and maybe a little more you raised price. Competition disappeared so you're able to raise price and now your price is a little higher than last year despite soft business. Could that also be the pattern that's going to happen in Jiangxi?

Edmund Hen: It could happen, but it all depends on the local government policies.

Howard Flinker: Would the local government policies prevent you from raising price?

Edmund Hen: No, I mean no, no, not that. I mean changing the coal into the natural gas.

Howard Flinker: I thought it happened. I thought they ordered it. It did not happen yet or is it going to happen?

Edmund Hen: It's going to happen.

Howard Flinker: It's going to happen. OK. So you could take advantage of reduced competition because some guys are going to close up. They can't afford to convert and maybe your prices could go up a little bit because you would have more customers coming to you anyhow.

Edmund Hen: Yes.

Howard Flinker: That's a thought. And finally, I say just keep doing what you're doing. The market will take care of itself, both the stock market and the building market. And with your position at some point, you're going to cash in. So, I say tough times, nice job. Thank you, (in Chinese).

Edmund Hen: Thank you.

Operator: Your next question comes from the line of John Sheehy.

John Sheehy: Hello everybody, thank you for taking my call. Can you give us an update on the company sales of tiles for interior use and how much potential do you see for the company in the interior tile market?

Edmund Hen: It's approximately 10% of our sales for the interior of the house and of course the starting price for this interior house is higher, but the cost of them is also high. And we are selling better and more compared to the quarter a year-ago, so the selling for the interior ceramic is improving.

John Sheehy: So if you look out say three or five years from now, how big do you think that the company is involved in the interior tile market could become?

Edmund Hen: Three to five years from now, we think we'll approximately 50 percent to 100 percent more from now and the market for the interior tile is very big and we also put a lot of effort in this area.

John Sheehy: OK.

Edmund Hen: Yes, the selling for the interior tiles need some advertising cost to the individual and in South China it is a bit different.

John Sheehy: OK, thank you, that's very helpful. And can you comment on any progress that you made in research and sales on new types of tiles that might give you a competitive advantage?

Edmund Hen: Yes, we always use some new materials to produce the ceramic tiles and recently we also have cooperation with some other business commerce to use a few new materials to put into our ceramic tiles. And this will get their tiles lighter and also have a bit of cost saving compared to the original, old material.

John Sheehy: So, it will be saving on your production price, do you think that you'll be able to sell it at the same selling price so that your profit per tile would be higher on the new formulation?

Edmund Hen: Yes, this also the very beginning of the new raw material, what we think is that at the beginning, we'll be selling approximately the same selling price compared to the old type of tiles. If the market matures, and we will consider increase of selling price of this new material product.

John Sheehy: And is that something that you're going to be selling in 2015 or is it still at a research stage?

Edmund Hen: We will be selling in 2015 in probably in the second half or late of the year.

John Sheehy: OK, that's great. Thank you very much, thanks for that information and thanks for the good results.

Edmund Hen: Thank you.

Operator: Your next question comes from the line of James Kahn.

James Kahn: (In Chinese), excellent quarter, I applaud. I have a few questions. First, I want to say that I am glad to hear that you will be selling the interior tiles in 2015. I also – I wanted to ask about the Hengdali plant is – am I right that the Hengdali plant that you built is already working with natural gas?

Edmund Hen: No, it is still using coal on Hengdali, it's in the Jiangxi Province.

James Kahn: I see. So if the Jiangxi Province requires that you convert to natural gas, you will have to convert but so will everyone else, is that right?

Edmund Hen: Right, if their local government requires the industry to change to use natural gas, we have to convert energy basis on that.

James Kahn: Would that give you an advantage because you have more money or will it be a disadvantage because other people have not yet built plants and they can just go directly to natural gas?

Edmund Hen: If it's what you say, but it's bad for the – of course, we have cash on hand and it will give us an advantage to accommodate in very timely manner and it will be much faster than our competition.

James Kahn: OK, thank you.

Edmund Hen: Yes.

James Kahn: Go ahead.

Edmund Hen: I mean if some other commercial need to build new plants, they also need time. So, I think it's easier for current companies or plants to convert into natural gas.

James Kahn: Thank you. So, my next question is you – you have cash of almost \$2 a share, is that correct?

Edmund Hen: Yes.

James Kahn: What do you plan – what are your plans for that cash this year and in the future?

Edmund Hen: Currently, we want to hold some cash because we feel the building materials and housing environment business in China is very volatile right now. And we just want to prepare for the worst at this moment. And also, probably, near

the end of the year we will have small capital expenditures and also – we also consider any other opportunity for the coming challenging environment.

James Kahn: And my last question is, I wanted to second Mr. Flinker's excellent idea about offering to buy some of your competitors and getting their inventory. And also add to it that, is it possible that you could also get their existing customers and the customer lists?

Edmund Hen: Existing customer lists from our competitors?

James Kahn: Yes, if you were to buy some of your small competitors who are suffering from the competition and want to sell out. Would another advantage be that you would acquire some of their customers along with the acquisition?

Edmund Hen: Yes. If they – this small competitor wants to sell out their business, of course they will give us their customer list and customer on this matter but it needs negotiation on this matter.

James Kahn: I see, OK, thank you very much.

Edmund Hen: Thank you.

Operator: Your next question comes from the line of Paul Sonz.

Paul Sonz: Good morning. I wanted to ask the extension of terms of payments to your customers, is that because they're in financial distress, do you expect that the bad debt – your bad debts are going to go up?

Edmund Hen: Currently, we do not have bad debt. So far, all our customers are paying us on time and within this credit period. We only support our customers during this difficult time but they also, honestly, pay back to us.

Paul Sonz: All right, so the extension of payment terms doesn't indicate that your bad debt expense is going to go up?

Edmund Hen: Right.

Paul Sonz: OK. The cash that you hold on your balance sheet is held in what kind of investment?

Edmund Hen: We do not have any investment with this amount of cash. We also had some very – we also – what I mean is we have faced it derivatives losses last year. So, that we will be very concerned of our investment in this matter, so currently we are holding our cash to see if any very stable investment, if there so, if so, we will make this decision.

Paul Sonz: My question is – my question is, is the cash being held in, for instance U.S. Treasuries, or is it in – is it in local – is it in local municipal debt, or how safe is the cash in – how safe is the cash being held?

Edmund Hen: It's on our bank, the Chinese bank.

Paul Sonz: OK.

Edmund Hen: So, it will not be a problem for the sales.

Paul Sonz: OK, all right, thank you gentlemen.

Edmund Hen: Thank you.

Operator: And you have a followup from the line of Howard Flinker.

Howard Flinker: I checked, last year in the second quarter you reported 1 cent and that included a small amount of remaining FX loss and higher taxes. If one adjusts for that, you would have reported 8 cents, normally taxed. And the other comment I have about Jim Kahn's question is, if somebody wants to build a new plant in Jiangxi, it will cost them \$25 or \$30 million.

Edmund Hen: Correct.

Howard Flinker: And at the current level of pricing, there would be very little or no return. So, it's not likely that somebody is going to build a plant in Jiangxi. That's all I have to add and again (in Chinese).

Edmund Hen: Yes, thank you Howard.

Howard Flinker: Got you.

Operator: At this time, there are no questions.

David Rudnick: Thank you everybody, thank you, Tabitha. On behalf of the entire China Ceramics management team, we would like thank all of you for interest and participation on this call.

This concludes China Ceramics First Quarter 2015 Earnings Conference Call.
Thank you all very much.

Operator: Thank you. That does conclude the conference for today. You may now disconnect.

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