

CHINA CERAMICS CO., LTD.

**3Q 2016 Earnings Call
December 19, 2016
8:00 a.m. ET**

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

Operator: Good afternoon. My name is Armika and I'll be your conference operator today. At this time, I would like to welcome everyone to the China Ceramics third quarter 2016 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. 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' third quarter 2016 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, may I remind our listeners that during this call, management's prepared remarks contain forward looking statements which are subject to risks and uncertainties. And management may make additional forward looking statements in response to your questions. Therefore the company claims protection of the safe harbor for forward looking statements that is contained in the private securities litigation reform act of 1995.

Actual results may differ from those 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 as to the company's future performance represent management's estimates as of today, December 19th, 2016. China Ceramics assumes no obligation to update these projections in the future as market conditions change. To supplement the financial results presented in accordance with U.S. GAAP, management will make reference to "Earnings before Interest, Taxes, Depreciation and Amortization", which we will call by its abbreviated name, "EBITDA". EBITDA is a non-GAAP financial measure reconciled from net income, which the company believes provides meaningful, additional information to better understand its operating performance. A table reconciling net income to EBITDA can be found in the earnings press release issued earlier today.

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 third quarter 2016 earnings conference call.

Jiadong Huang: (In Chinese)

Weijia Dai: We experienced continued sluggish market conditions in the third quarter of 2016 due to the slowing real estate and construction sectors across China. We saw our sales volume decline by 25% for the first nine months of the year as compared to the year-ago period due to a continued contraction in customer demand. However, we were still able to generate a reasonable level of positive cash flow in the current quarter.

Jiadong Huang: (In Chinese)

Weijia Dai: In order to move inventory, beginning on July 1, we instituted a 10% reduction in the prices of slow moving products which we hope will turn some of this inventory into cash. We are also looking for ways to operate more efficiently and are working with our distributors and suppliers to maintain stability in this challenging market environment.

Jiadong Huang: (In Chinese)

Weijia Dai: During the third quarter, we utilized production facilities capable of producing 38 million square meters of ceramic tiles per year out of the Company's usable annual production capacity of 62 million square meters. As we have in past quarters, we maintained a reduced utilization of existing plant capacity based on the current market conditions in order to keep our operating costs low, and we will bring additional capacity online as the business environment improves.

Jiadong Huang: (In Chinese)

Weijia Dai: For the remainder of 2016 and into the first half of 2017, we anticipate continued challenging market conditions due to there being excess real estate for sale in many of China's cities and an overabundance of building materials inventories. In the long-term, we believe that the current retrenchment will moderate and reach an inflection point and we will return to a more moderate growth environment as real estate development and construction continues to be important components to China's economy. We are well positioned to capitalize on opportunities in our sector relative to our competition and believe that we can be adaptive so as to optimize our success during these challenging times.

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 third quarter 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 third quarter of 2016.

Our revenue for the third quarter ended September 30, 2016 was RMB 251.2 million, or USdollar 38.1 million as compared to RMB 339.0 million, or USdollar 53.3 million in the third quarter of 2015. The year-over-year decrease in revenue was primarily due to both a 17.3% decrease in sales volume to 9.1 million square meters of ceramic tiles from 11.0 million square meters of ceramic tiles in the year-ago quarter and a 10.7% decrease in average selling price to RMB 27.6 per square meter from RMB 30.9 per square meter in the year-ago quarter.

Gross profit for the third quarter ended September 30, 2016 was RMB 6.7 million, or USdollar 1.0 million as compared to RMB 46.3 million or USdollar 7.3 million in the year-ago quarter. The gross profit margin was 2.7% for the third quarter compared to a gross profit margin of 13.7% in the year-ago quarter. The reduction in the gross margin was primarily driven by (i) the 10.7% decrease in the average selling price of the Company's ceramic tiles attributable to our having instituted a 10% reduction in the prices of slow moving inventory beginning on July 1, 2016 due to challenging market conditions, and (ii) an RMB 16.8 million write-down of inventory in the third quarter of 2016.

Other income for the third quarter ended September 30, 2016 was RMB 3.6 million or USdollar 0.5 million, as compared to RMB 0.2 million or USdollar 0.03 million for the third quarter of 2015. The year-over-year increase in other income was primarily due to RMB 3.5 million or USdollar 0.5 million of rental income received by the Company received by leasing out one of the production lines from its Hengdali facility pursuant to an eight-year lease contract.

Profit from operations before taxes for the third quarter of 2016 was RMB 0.9 million or USdollar 0.1 million as compared to RMB 36.6 million or USdollar 5.8 million in the year-ago quarter. The year-over-year decrease was the result of the decrease in gross profit in the current period offset somewhat by Other Income, which consists primarily of RMB 3.5 million in rental income derived from the Company leasing out one of the production lines from its Hengdali facility offset somewhat by Other Income.

Net profit for the third quarter ended September 30, 2016 was RMB 1.2 million or USdollar 0.2 million as compared to RMB 26.9 million or USdollar 4.2 million of net profit for the third quarter ended September 30, 2015.

Earnings per share for the third quarter of 2016 on a basic and fully diluted basis were RMB 0.44 or USdollar 0.06 and RMB 0.42 or USdollar 0.06, respectively, as compared to basic and fully diluted earnings per share of RMB 10.52 or USdollar 1.68 in the third quarter of 2015, as adjusted for the one for eight reverse split in June 2016.

EBITDA for the third quarter of 2016 was RMB 12.1 million or USdollar 1.8 million as compared to RMB 54.8 million or USdollar 8.6 million for the third quarter ended September 30, 2015.

For the first nine months of 2016, revenue was RMB 591.8 million or USdollar 90.0 million as compared to RMB 808.8 million or USdollar 127.3 million for the nine months ended September 30, 2015. Gross profit for the first nine months of 2016 was RMB 57.0 million or USdollar 8.7 million as compared to RMB 95.9 million or USdollar 15.1 million in the nine months ended September 30, 2015. The gross margin was 9.6% as compared to 11.9% in the same period of 2015. Net profit for the nine months ended September 30, 2016 was RMB 30.7 million or USdollar 4.7 million as compared to RMB 48.9 million or USdollar 7.7 million for the same period of 2015. Earnings per basic and fully diluted share were RMB 11.18 or USdollar 1.70 and RMB 10.58 or USdollar 1.61, respectively, for the nine months ended September 30, 2016 as compared to earnings per basic and fully diluted share of RMB 19.14 or USdollar 3.04 in the same period of 2015, as adjusted for the one for eight reverse stock split in June 2016.

Turning to our balance sheet,

As of September 30, 2016, we had cash and bank balances of RMB 25.6 million, or USdollar 3.8 million, as compared to RMB 0.5 million or USdollar 0.08 million, as of fiscal year end 2015. Our short-term bank borrowings was nil as of September 30, 2016, as compared to RMB 40.1 million, or USdollar 6.2 million as of December 31, 2015.

As of September 30, 2016, inventory turn was 144 days as compared to 131 days as of December 31, 2015. The increase in inventory turnover days was primarily due to the 25.0% decrease in sales volume in the first nine months of 2016 to 19.8 million square meters of ceramic tiles as compared to 26.4 million square meters of ceramic tiles in the first nine months of 2015. 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 the slow-moving stocks.

Trade receivables turnover was 236 days as of September 30, 2016 compared with 163 days as of December 31, 2015. 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. The Company believes that it has sound relationships with its customers and that it will not experience difficulties associated with collections from these accounts.

As a plant capacity and capital expenditures update, in March 2016, the Company entered into an eight-year contract to lease out one of the production lines from its Hengdali facility. The production line has the capacity to produce approximately 10 million square meters of ceramic tiles annually. The term of the contract is from March 1, 2016 to February 29, 2024, and the contract stipulates for the receipt of rental income of RMB 15.0 million per year, including a 6% value added tax. The Company believes that it is prudent to generate income from its unused production capacity from a third party rather than let it remain idle.

Therefore, for the term of the eight-year lease, the company may only produce up to 20 million square meters of ceramic tiles from its Hengdali facility, and its maximum annual production capacity has been effectively reduced from 72 million square meters of ceramic tiles to 62 million square meters of ceramic tiles attributable to the lease.

For the third quarter of 2016, we utilized plant capacity capable of producing 38 million square meters of ceramic tiles annually out of a total annual production capacity of 72 million square meters. Our Hengda facility has an annual production capacity of 42 million square meters of ceramic tiles and we utilized annual capacity capable of producing 19 million square meters of ceramic tiles. Our Hengdali facility has an annual production capacity of 30 million square meters (of which we are leasing 10 million square meters of production capacity to a third party) and we utilized annual capacity capable of producing 19 million square meters of ceramic tiles.

In terms of our capex, 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 2016 other than those associated with minimal upgrades, small repairs and the maintenance of equipment. Looking ahead to 2017, we also anticipate a low level of capital expenditures given our generally upgraded plant and equipment and the currently challenging market conditions.

Moving on to our business outlook, In the third quarter of 2016, we experienced a contraction in our sales volume compared to the third quarter of 2015 due to the effects of a continued slowdown in China's construction sector. In the third quarter of 2016, the company's sales volume was 9.1 million square meters of ceramic tiles, a decrease 17.3% as compared to sales volume of 11.0 million square meters of ceramic tiles in the year-ago quarter. For the first nine months of 2016, sales volume was 19.8 million square meters of ceramic tiles, a decrease of 25.0% as compared to sales volume of 26.4 million square meters for the first nine months of 2015. The current quarter's period over year-ago period decline in sales volume was the fourth in a row, and it was the sixth quarter out of the last seven quarters of period over year-ago period declines.

In addition, the challenging market environment has induced us to institute a 10% reduction in the prices of slow moving inventory on July 1, 2016. This was primarily the cause of a 10.7% decrease in the average selling price for all

our products in the current quarter to RMB 27.6 per square meter of ceramic tile as compared to RMB 30.9 per square meter of ceramic tile in the year-ago quarter. This was the first decline in our average selling price following eleven quarters of period over year-ago period increases. It was also the biggest such decline in three years which was also due to an industry retrenchment at that time. We attribute the current quarter's decrease in both sales volume and average selling price to continued difficult macroeconomic and real estate conditions in China.

We expect the currently challenging market conditions to continue for the remainder of this year and into next year as the pace of property construction has slowed substantially, especially for moderately priced residential units which are the core of our business. A further decline in new building projects is likely to occur as the Chinese government is intent upon restricting property-related investments to cool high property prices which have risen dramatically in China's largest cities as well as to reign in the borrowing that has occurred among property developers and the overweighting of mortgages in the banking sector. However, additional land could be made available for development to rebalance supply and demand and to tamp down an increase in property prices in China's major cities.

Although a period of retrenchment has emerged in our sector, we believe that the building materials sector is sustainable in the long-term since the economic fundamentals for property development and construction are underpinned by the Chinese government's policy of urbanization. Overall, we expect lower growth in residential building as compared to what has occurred historically, especially in smaller cities which still have a large inventory of unsold properties.

We typically receive orders from customers two months in advance of production on a rolling basis. We enter into dealership agreements with customers, and a sales or purchase contract each time a customer places an order. As of September 30, 2016, our backlog was approximately RMB 96.0 million or US dollar 14.4 million, which represents approximately the next two months of revenue as of the end of the third quarter. This compares to a

backlog of approximately RMB 159.0 million or US dollar 25.0 million as of September 30, 2015, a year-over-year decrease of 39.6%. 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.

In our view, we are reasonably well positioned to weather the current headwinds caused by a downturn in China's construction industry due to our prominent name recognition, expertise, product customization and ability to operate in a lean and efficient manner with best-in-class manufacturing facilities. We foresee a possible boost in the Chinese government's infrastructure spending on affordable and senior housing which could generate opportunities for our company. We will continue to be opportunistic and adaptive to the market environment and will seek to pursue new business opportunities in an attempt to countervail currently challenging market conditions.

Operator, we are like to open up any questions resulting from the third quarter operating and earnings performance. 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 to compile the Q&A roster.

Operator: Your first question comes from Howard Flinker with Flinker & Co.

Howard Flinker: [In Chinese]

Hello, Mr. Huang, I am happy to have met you a few week ago. Edmund I have a, I think I have a typo in the quarterly report. I am turning the page here. On the income statement, you have, it's probably a tax credit, and it look like a tax deduction. They forget to put the brackets around the credit. Where I can't find it, but let me see here.

On page 6. When you have the English revenue and the Chinese renminbi in the column that says U.S. dollars we have a 129 million pretax and then 45 million added to that to get to 174. I think you meant the reversal rather than the expense. It looks like an expense. Do you see what I am saying?

Edmund Hen: Which line, you mean the backlog?

Howard Flinker: The 45, the 45,000 -- yeah 45,000 USD. There is 129, which is pretax profit and then there is 45 and then 174. And the 45 is an addition to the 129, but it looks like a normal subtraction so you might want to check the typing on that.

Edmund Hen: Yeah, I would check on that.

Howard Flinker: Yeah, okay. Somebody asked me to ask you, I think it's academic. If somebody came along with a bid for the whole company at a few times the current stock price, I don't know three or four times. Would you listen? Even though we know cash is much higher than that. It's not my question, I know the answer, but I promised I'd ask the question.

Edmund Hen: What do you mean, if the stock prices now is three or four times higher than the current price?

Howard Flinker: Yeah.

Edmund Hen: So what is your question?

Howard Flinker: The question is, if somebody came along for a bid for the whole company at that price?

Edmund Hen: Yeah.

Howard Flinker: Would you and Jia Dong Huang listen?

Edmund Hen: Will you and Jiadong Huang will, sell the company?

Howard Flinker: Yes.

Edmund Hen: Howard, there is no straight answer for this question. So probably we need to discuss with the board members on this matter.

Howard Flinker: Yeah, it's only a theoretical question, I don't think he was -- he had the money available to do it. But he realized that the balance sheet is worth much more than the stock price and he thought, how much do I think its worth? So I said I think I know, because I met them a few weeks ago in Hengdali, but I promised I would ask the question.

Howard Flinker: [In Chinese]

I hope to meet you again. Thanks.

Jaidong Huang: [In Chinese]

Operator: Please press star on your keypad. Your next question comes from the line of James Kahn of Oppenheimer.

James Kahn: Good morning. I have a few short questions. One is, there is a cost to be publicly traded on the New York Stock Exchange or NASDAQ. And it's fairly considerable cost for a tiny company. I'm wondering, given that as we just discussed that the liquidation value of your company is multiples in excess of the share price.

Edmund Hen: Yeah.

James Kahn: So the markets are not being, the U.S. markets are not being kind to your company, what is your justification, why do you stay traded on the U.S. markets? You could take the company private or liquidate. So what's your reasoning for being willing to pay that annual cost?

Edmund Hen: This is a good question. The board members and also Mr. Huang still think that is better to keep the listing status, on the first hand, and also to do business in China by naming a listed company that we will have a certain advantage to do business in China. And we also think we are also working hard to tell all investors that we will one day have a chance to have a very good return to them on this stock price. Now, so at this moment, we are still happy to keep this listing status in U.S.

James Kahn: I understand. Okay. Thank you. So one follow-up question. An admirable attribute of the Chinese culture in general is to think very long term and Americans are famous for sometimes being very short term oriented. So given that you have said that in the near future there will be continued pressure on your business, but you've also just said that you think in the more distant future, things will do very well and given what Americans do every year at this time is they dump their losing stocks, so that they can get a deduction and offset to their gains and not have to pay tax.

So we have now two things before December 31st and given the report you just gave, the irrational price of your stock might come even more irrational. If CCCL sells off sharply as a result of your earnings report, is there a price at which you the company, or you as individuals might start to buy it to take advantage of these people, who are dumping it without regard to price or value just to get the tax loss?

Edmund Hen: I think your question does not apply to the Chinese people or the company.

James Kahn: No. But you could advantage of the America. I mean, suppose they drive the stock down \$1 a share, \$0.50 a share, as a result of this.

Edmund Hen: Yes.

James Kahn: Would you buy?

Edmund Hen: Also this is now very strict. I cannot answer you directly on this matter. We also need to think the higher questions. But we will think about your question on this matter.

James Kahn: Okay. Thank you very much.

Operator: Again, press star one to ask a question. At this time, there are no further questions. You may continue with your presentation or closing remarks.

David Rudnick: Thank you, everyone. On behalf of the entire China Ceramics management team we want to thank up all of you for the interest and participation on this call. This concludes China Ceramics' third quarter 2016 earnings conference call. Thank you all very much.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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