

CHINA CERAMICS CO., LTD.

**4Q & FYE 2014 Earnings Call
April 14, 2015
8:00 a.m. ET**

Speakers:

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

Operator: Good morning. My name is Jackie and I will be your conference operator today.

At this time I'd like to welcome everyone to the China Ceramics fourth quarter and fiscal year-end 2014 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 would like to ask a question during this time simply press star then the number one on your telephone keypad. If you would like to withdraw your question simply press the pound key.

Thank you. I'd now like to turn the call over to David Rudnick to begin.

David Rudnick: Thank you, Jackie. Good morning, ladies and gentlemen and good evening to those of you who are joining us from China. Welcome to China Ceramics fourth quarter and fiscal year-end 2014 earnings conference call. With us today are China Ceramics' Chairman, Chief Executive Officer, Mr. Jia Dong Huang; with Chief Financial Officer, Mr. Edmund Hen.

Before I turn the call over to Mr. Huang, 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. I refer to more detailed discussion of the risks and uncertainties in the Company's filings with the Securities and Exchange Commission. In addition, any projections as the Company's future performance represent management's estimates as of today April 14, 2015. China Ceramics assumes no obligation to update these projections in the future as market conditions change.

And now it's my pleasure to turn the call over to China Ceramic's Chairman and CEO, Mr. Jaidong Huang, and China Ceramic's CFO, Mr. Edmund Hen. Precept Investor Relations, Sophie Wang will be translating for Mr. Huang. Mr. Huang, you may proceed.

Huang Jia Dong: Thank you, David. On behalf of the Company I'd like to welcome everyone to our fourth quarter and fiscal year-end 2014 earnings conference call.

We are pleased to report sound financial results for the fourth quarter of 2014, with a 9% increase in revenue and positive net earnings, driven by an increase in our average selling price coupled with modestly higher sales volume. The fourth quarter saw nearly a 9% increase in our average selling price attributable to our strong marketing efforts in the moderately improved macroeconomic environment.

During the fourth quarter, so as not to incur unnecessary costs we utilized production facilities capable of producing 28 million square meters of ceramic tiles per year out of a total annual production capacity of 72 million square meters. We will bring additional capacity online as the business environment improves.

For the full year 2014, we generated an 11% increase in revenue, a 93% increase in our gross profit and solid operating profit before deductions for realized and unrealized derivatives losses as compared to fiscal year 2013. In addition, in 2014 we responded quickly to regulatory requirements by changing our fuel sourcing to natural gas from coal in our Hengda plant and we increased our advertising to promote newly developed products to retain our competitive edge.

We also saw more than a doubling in the sales of our high-margin polished glazed ceramic tiles in 2014. We believe that demand for this series of ceramic tile, which can be manufactured according to customer specifications and are used for both functional and decorative uses inside homes, will continue to increase. We believe that our ability to adapt to the market conditions while capitalizing upon market opportunities is a key competitive advantage.

Looking ahead to 2015, we believe that the operating environment will improve modestly as compared to last year and that the macroeconomic fundamentals underlying our business are sustainable. In our view, urbanization is a long-term phenomenon in China that continues to be vital to economic growth and prosperity and the real estate and construction sectors continue to be very important growth sectors of the Chinese economy.

While we are prepared for occasional sector cyclicity, we believe that our well-capitalized balance sheet, modernized facilities and reputation as a best-in-class ceramic tile producer enables us to weather occasionally disruptive business conditions and capitalize upon the opportunities presented by China's growth and development.

With that, I'd like to turn over the call to the Company's Chief Financial Officer, Mr. Edmund Hen, who will discuss the Company's 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 fourth quarter of 2014. In our fiscal year-end December 31, 2014, our revenue for the fourth quarter ended December 31, 2014 was RMB 240.1 million or \$38.7 million, an increase of 9% from the fourth quarter of 2013. The year-over-year increase in revenue was primarily due to an 8.7% increase in our average sales price to RMB 31.1 from RMB 28.6 in the year-ago quarter.

Gross profit for the fourth quarter of 2014 was RMB 29.1 million or \$4.7 million, as compared to a gross loss of RMB 6.5 million in the fourth quarter of 2013. The year-over-year increase in gross profits was driven by the 8.7%

increase in ASP as we raised our selling price on all of our products beginning on July 1, 2014. The gross profit margin was 12.1% for the fourth quarter ended December 31, 2014 as compared to a negative gross profit margin of 2.9% for the fourth quarter of 2013.

Profits from operations before taxes for the fourth quarter of 2014 was RMB 10.1 million or \$1.6 million, as compared to a loss from operations before taxation of RMB 13 million in the fourth quarter of 2013. The year-over-year increase was primarily the result of the increase in average selling price of our products and the decrease in our inventory provision by RMB 22.6 million.

Net profit for the fourth quarter of 2014 was RMB 4.8 million or \$0.8 million, as compared to a net loss of RMB 10.6 million for the comparable period of 2013. Earnings per fully diluted share were RMB 0.23 or \$0.04 for the fourth quarter of 2014 as compared to losses per fully diluted share of RMB 0.52 for the fourth quarter of 2013.

For the full-year ended December 31, 2014 revenue was RMB 1,037.7 million or \$167.2 million, an increase of 11.2% as compared to the 12 months results ended December 31, 2013. Gross profit was RMB 104.4 million or \$16.8 million, up 93% from fiscal year 2013. Gross margin for the full-year 2014 was 10.1% compared to 5.8% for the full-year 2013.

The realized and unrealized fair value loss on derivative financial instruments was RMB 59.5 million or \$9.6 million for fiscal 2014 compared to a realized and unrealized fair value gain of RMB 3.3 million for fiscal 2013.

Our net loss for the year ended December 31, 2014 was RMB 30.4 million or \$4.9 million, compared to a net loss of RMB 2 million for the 12 months ended 2013. The loss per fully diluted share for the full-year 2014 was RMB 1.49 or \$0.24 as compared to a loss per fully diluted share of RMB 0.10 for the full-year 2013.

Turning to our balance sheet, as of December 31, 2014 we had cash and bank balances of RMB 61.2 million or \$9.9 million compared to RMB 28.8 million or \$4.7 million as of December 31, 2013. The increase in cash and bank

balances was primarily the result of cash generated from the operating activities of RMB 22.7 million.

As of the end fiscal 2014, our debt consisting of short-term bank borrowings which were RMB 84.7 million or \$13.7 million as compared to debt of RMB 99.7 million or \$16.3 million as of the year-end fiscal 2013. The decrease in debt was primarily due to the net repayment of short-term bank borrowings of RMB 15 million during the year 2014.

As of December 31, 2014, inventory turn was 125 days compared to 124 days as of December 31, 2013. Trade receivables turnover was 156 days compared with 158 days in the year-ago period. The Company typically offer a credit period of 90 days to our customers and have extended the credit period to 150 days to address the funding pressure among some distributors attributable to the challenging market conditions in China's real estate industry since the second quarter of 2012. We also extended the credit period to 120 days to other customers as of December 31, 2014.

In terms of our plant capacity and CapEx, for the fourth quarter of 2014, we utilized plant capacity capable of producing 28 million square meters of ceramic tiles annually out of a total annual production capacity of 72 million square meters. This represents a decrease of plant capacity that was utilized in the fourth quarter of 2013 when we utilized plant capacity capable of producing 34 million square meters of ceramic tiles annually.

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 2015 other than those associated with minimal upgrades, small repairs and the maintenance of equipment.

And now moving on to our business outlook, in the fourth quarter of 2014, the 8.7% increase of the average selling price of our ceramic as compared to the year-ago quarter drove the quarter's revenue which we view as reflective of our sound market positioning. It is our view that modestly improved

macroeconomic conditions have emerged subsequent to the sector downturn in our sector that occurred in late 2012.

After having to institute price cuts in late 2012 and early 2013 in order to maintain market share, we steadily increased our average selling price over the last eight quarters. Consequently, the average selling price of our ceramic tiles has increased 27.5% to RMB 31.1 per square meter as of the fourth quarter of 2014 from the first quarter of 2013 which reflects a recovery in our product pricing.

In terms of the next quarter, we have lower sales between the months of January and March due to the effects of cold weather and the PRC Spring Festival. Our backlog was RMB 137 million or \$22.1 million as of December 31, 2014, which represents approximately the next two months of revenue. This compares to a backlog of approximately RMB 136.6 million, a year-over-year increase of 0.3%.

Looking ahead in 2015, we expect improving market conditions as the year progresses. In order to address the challenging market environment, the Chinese government has taken various actions to stimulate real estate development and home purchases. These included the lowering of interest rates by the central bank, including a recent rate cut in the late February 2015, and relaxed reserve requirements for small banks to increase lending.

We believe that these actions could positively impact our business since it could help real estate developers begin newer projects by lowering their cost of borrowing as well as improve mortgage terms for borrowers which would make home purchases more affordable. Regulatory easing has also included a loosening of home purchase restrictions in second and third tier cities intended to moderate pricing and increase demand. This could be of direct benefits to the Company since our marketing strategies have historically focused on real estate projects in second and third tier cities.

We believe that continued urbanization trends and the importance of real estate and its associated sector into the China's economic growth could lead to further government policies which would be supportive of our business. In

addition, competitive pressures over the last year has led to a contraction in our building materials sector as some smaller, less well capitalized firms who lack our advanced manufacturing capabilities drive for the product platform have left our sector. Additional exits appear likely as government mandates to convert to cleaner and more expensive fuel source to a lower carbon emission will also pressure smaller competitors.

We expect there to be a consolidation trend among the larger property developers in the year ahead. This would benefit larger ceramic producers such as China Ceramics who can service these large enterprises which could enable us to increase our market share in the periods ahead.

We believe that our strong balance sheet, healthy inventory levels, comprehensive product line and ability to implement operating efficiencies due to our modern plant equipment are competitive advantages that differentiate us from our competitors. Our goal is to market more aggressively in the periods ahead and generates higher sales volume consistent with improving market conditions that could lead to a stronger market positioning and continued sound operating results.

And finally, in terms of the transaction complaint, that we're filed against us, the late filing of our after Company's annual report on Form 20-F for fiscal year 2013 caused the Company's stock to be halted by NASDAQ for the period from May 1, 2014 to August 6, 2014. This occurred due to questions raised by our previous auditors which have since been addressed and are detailed in our 2013 annual reports. Following the trading halt, several class action complaints were filed against us and certain individuals associated with the Company.

Subsequent to the close of the fourth quarter on February 6, 2015, the Company and the individual defendants reached an agreement in principle to settle all the outstanding litigation against the Company and all defendants in consideration for the payment by the Company of \$850,000, consisting of a combination of cash and the Company's common stock. The settlement is subject to the execution of a mutually acceptable settlement agreement and the

approval of the settlement by the Court. A charge for the settlement amount is included as an expense item in our fiscal year-end 2014 financial statements.

At this point, we'd like to open-up the call to any questions pertaining to our fourth quarter and fiscal year-end 2014 financial and operating performance.

Operator?

Operator: Thank you. At this time in order to ask a question, please press star and then the number one on your telephone keypad.

Our first question comes from the line of Howard Flinker with Flinker & Company.

Howard Flinker: Hello, everybody. I have a few questions if I may, Edmund.

Edmund Hen: Yes.

Howard Flinker: I noticed in the fourth quarter your book tax rate was 50%. Typically it's in the 25% in China?

Edmund Hen: Yes, typically it's 25% in China.

Howard Flinker: How much is your net operating loss carry forward? And can you use it in China? Approximately in renminbi or dollar.

Edmund Hen: It depends. In China we can carry forward the operating loss during the fiscal year.

Howard Flinker: And how much it is ...

Edmund Hen: For the details, I think – I can have a call if you in separate calls. I will get the information for you.

Howard Flinker: Yes, that will improve your cash flow. It's not going to change your reported profits as we examine them.

Edmund Hen: Yes.

Howard Flinker: Also – oh yes, the – in the annual income statement you have the realized and unrealized fair value gain or loss on derivatives of \$9.6 million. I think you and I discussed that, but I want to refresh myself. Is that the mark down of assets, because your stock price was still low? Is that the accounting explanation for it?

Edmund Hen: No. This is not the way. Actually this is the derivative financial instrument we have engaged during 2013 and 2014. And this is a market value which we realized over the loss amount.

Howard Flinker: And I thought that was reversed.

Edmund Hen: All the actual losses has taken up by Mr. Huang personally. But accounting-wise, we still need to record in our books for the losses.

Howard Flinker: At some point will it be reversed if Mr. Huang absorbed the \$9.6 million?

Edmund Hen: He undertook the losses on the date the Novation agreement was signed, which was July 31, 2014. So we still need to record certain part of these losses. And in accounting, in terms of accounting, we still need to recognize the loss in the market value during these periods.

Howard Flinker: But he took that \$9.6 million loss personally, right?

Edmund Hen: Yes, correct.

Howard Flinker: OK. Is there any – it's hard to believe that he takes it and the Company takes it in accounting. Is there any point at which this is reversed for accounting? I'm confused.

Edmund Hen: These are the – Mr. Huang has signed the agreement on July 31st, so in terms of accounting the Company still needs to record such losses, but all the cash – actual cash losses for the Company has taken up by Mr. Huang personally.

Howard Flinker: Does that mean that China Ceramics actually did lose \$10 million?

Edmund Hen: No, it did not.

Howard Flinker: It did not?

Edmund Hen: Yes. All these losses was taken up by Mr. Huang.

Howard Flinker: OK. So if they're picked up Mr. Huang and picked up by the Company, I don't understand why they have to be picked up in both places.

Edmund Hen: Maybe I can call with you...

Howard Flinker: OK.

Edmund Hen: ... after the call, we can discuss further.

Howard Flinker: OK. And I had two more questions. Three more – if the requirements for more natural gas, more expensive natural gas are increased from Beijing and your costs go up, will that probably lead to a price increase for you too?

Edmund Hen: This really depends on the market environment whether we can have the ability to increase the pricing. But we need to take up this natural gas cost anyway, because now it will – or this matter needs to be environmentally friendly matter for production.

Howard Flinker: OK. And the final question is, do you know when you are to release your first quarter's earnings? It's already past the end of the first quarter.

Edmund Hen: As soon as we can. And once we file the annual report we will – we have the first quarter earnings.

Howard Flinker: So maybe a month from now, something like that?

Edmund Hen: We hope so, yes.

Howard Flinker: But you're not sure? OK, thank you.

Edmund Hen: Thank you very much.

Operator: At this time in order to ask a question press star and the number one on your telephone keypad.

Our next question comes from the line of James Kahn with Oppenheimer.

James Kahn: Gentlemen, congratulations on a very good quarter and a very good year. I want to follow-up on the question asked by Howard Flinker. But first let me go in a different direction. Am I correct that your prices are now higher than they were before you were able to raise prices as a result of your competitors – many of your competitors going out of business?

Edmund Hen: Yes, you are quite right. A lot of our competitors have been going out of business and in the past quarter we have increased a bit our average selling price.

James Kahn: So I want to congratulate you on being conservative enough to weather the very difficult real estate downturn in China which most Americans don't understand, because most Americans think that the real estate downturn happened between 2006 and 2009, which was where it happened in the U.S. But in China you had a very large real estate downturn more recently by 2012 and '13, am I right about that?

Edmund Hen: You are correct. We faced a very difficult time in 2012 and '13 and now we're still facing a very hard time and we still do not have a very optimistic view on the near future on the housing price, but we still keep our eyes on that and keep being conservative to do our business.

James Kahn: You say you're still seeing difficulties, what are the factors that are causing those difficulties there and what might make things better?

Edmund Hen: We found for the past few years the country has build a lot of residential housing for the whole China and the construction now – the rate of for the construction is still more than high in this time. So we are still being constructive and prepared for the worst and doing our best for the market at this moment.

James Kahn: Well, that is prudent. So I'm glad of that. I also appreciate your prudence and insight to be building that plant in Hengdali, I think, right before Fujian changed the rules and required coal-fired plants to go to natural gas, because that positioned you much better than your competitors, also. By the way, do

you have any decisions about what to do with the dividend? Will it increase, decrease, stay the same or do you not know?

Edmund Hen: It's very difficult to say right now. Our board of directors we will meet up soon and discuss on the matter very soon. So it is very difficult for me to say anything at this moment.

James Kahn: OK. So getting back to the derivative transaction, first I want to say that Americans value highly someone who is man enough to admit his mistake and I think that your management did a much better job than in any Americans I have ever seen in admitting and making good their mistakes. So I applaud you for that. But like Mr. Flinker, I'm a little confused, because when you say that he signed an agreement on July 31, 2014, Mr. Huang, does that mean that he actually paid the cash to the Company or did he just agree to pay the cash?

Edmund Hen: He did not – for the agreement that is actually he was in the filing of 2013 annual reports and he picked up all this cash losses from the agreement by himself.

James Kahn: He took them out, well how did he take them out? Did he actually take his own cash and give it to the Company?

Edmund Hen: Because since the agreement has a loss, the Company did not pay anything to the Bank and from that point Mr. Huang paid on behalf of the Company to the bank directly.

James Kahn: OK. So Mr. Flinker's question was if you still for accounting purposes took it as a loss on the Company level in 2014, when do you take as a gain the cash that he paid to make good on the loss? There should be an offset. In other words, had he done nothing; you also would have taken it for a loss. He did do something. When will the accounting statements reflect that fact?

Edmund Hen: This is quite a complicated accounting entry. Maybe I can have more detail to you on a separate call for this matter?

James Kahn: I would be glad to hear that and then I'm hoping that all the other shareholders could hear about it as well. But basically you are no longer doing any derivative transactions, is that correct?

Edmund Hen: Correct. We will – we do not have any derivative transaction after this one.

James Kahn: OK. So from the beginning to the end, in the beginning you made some money on the derivative transaction. From the beginning to the end, what was the total gain or loss on all the derivative transactions?

Edmund Hen: From the beginning to the end, that was about a few million, \$5 or \$6 million of the loss for this derivative transactions.

James Kahn: Is that in dollars or renminbi?

Edmund Hen: In dollar.

James Kahn: OK. \$5 million or \$6 million in loss total. And does that include the offset, if I'm correct in characterizing as an offset from the – from what Mr. Huang did to take the derivative transaction to himself or does it not include that offset? When you say \$5 or \$6 million, are you saying even after the adjustment made by Mr. Huang to end any liability of the Company?

Edmund Hen: No, – this is all goes to Mr. Huang personally.

James Kahn: The \$5 million or \$6 million loss will go to him personally?

Edmund Hen: Yes, correct.

James Kahn: OK. So then we should see on the balance sheet sometime coming off the balance sheet. If it's on the balance sheet now as a loss and its going to him personally, then at some point it should come off the balance sheet, isn't that correct?

Edmund Hen: For the detailed transaction, I mean the accounting entry, so I can go through it with you in separate call.

James Kahn: OK, fine. Anyway, so congratulations on getting through a very difficult time and I realize that it's not smooth sailing from here, but you guys are doing a great job and thank you very much.

Edmund Hen: Thank you.

Operator: At this time we have no further questions. I'd like to turn the floor back over to David Rudnick for any additional or closing remarks.

David Rudnick: Thank you, Jackie. 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 fourth quarter and fiscal year-end 2014 earnings conference call. Thank you all very much.

Operator: Thank you. This concludes today's conference call.

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