

CHINA CERAMICS CO., LTD.

**First Half Fiscal 2019 Earnings Call
September 25, 2019
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 of 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker 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. Thank you. If you need any help during this call, please star. I would now like to hand the conference call over to your speaker for today, David Rudnick. Sir, take it away.

David Rudnick: Thank you, Ian. Good morning ladies and gentlemen and good evening to those of you who are joining us from China. Welcome to China Ceramics' first six months of fiscal 2019 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. Sarah Bai will be translating for Ms. Huang. Ms. Huang, you may proceed.

Meishuang Huang: (In Chinese)

Sarah Bao: Thank you, David. On behalf of the Company, I would like to welcome everyone to our first half fiscal 2019 earnings conference call.

Meishuang Huang: (In Chinese)

Sarah Bao: For the first half of 2019, we continued to experience difficult market conditions as occurred during the second half of 2018. Our revenue fell by one-half as a result of a corresponding decrease in sales volume, while our ability to implement price changes to increase our sales volume diminished due to the currently challenging market environment.

Meishuang Huang: (In Chinese)

Sarah Bao: During the six months ended June 30, 2019, we utilized production facilities capable of producing 6 million square meters of ceramic tiles per year out of the Company's effective total annual production capacity of 56.5 million square meters of ceramic tiles. Consistent with our practices in past quarters, we maintained a reduced utilization of existing plant capacity based on the current market environment to keep our operating costs low. We intend to bring additional capacity online as the business environment improves.

Meishuang Huang: (In Chinese)

Sarah Bao: For the second half of 2019, we believe that market conditions will continue to be challenging due to the slowdown of China's economy and possible

government regulations intended to rein in real estate speculation. However, we believe that our building materials sector will continue to benefit from urbanization and real estate property development which are both vital to China's continued growth. Our strategic plan is to focus on targeted cities in China as well as to grow our new products portfolio by bolstering our research and development efforts in order to expand our market. As announced, we intend to enter new markets in Southeast Asia where we believe that the marketing of our existing products and our new ceramic tiles that cool building interiors will be successful.

Meishuang Huang: (In Chinese)

Sarah Bao: 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 2019 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, 2019.

Our revenue for the six months ended June 30, 2019 was RMB 177.4 million or US\$ 26.2 million, a decrease of 50.1% from RMB 355.6 million or US\$ 55.9 million, for the same period of 2018. The increase in revenue was primarily due to the 48.0% decrease in our sales volume to 6.6 million square meters of ceramic tiles for the six months ended June 30, 2019 compared to 12.7 million square meters of ceramic tiles for the same period of 2018.

Gross profit for the six months ended June 30, 2019 was RMB 15.3 million or US\$ 2.3 million as compared to RMB 44.8 million or US\$ 7.0 million for the same period of 2018. The gross profit margin was 8.6% for the six months ended June 30, 2019, as compared to a gross profit margin of 12.6% for the same period of 2018. The decrease in gross profit margin was due to the 48.0% decrease in sales volume from period to period.

Other income for the six months ended June 30, 2019 was RMB 7.1 million or US\$ 1.1 million, the same totals as for the same period of 2018. Other income is primarily composed of rental income the Company received by leasing out one of the production lines from its Hengdali facility pursuant to an eight-year lease contract.

Selling and distribution expenses for the six months ended June 30, 2019 were RMB 5.7 million or US\$ 0.8 million, the same totals as for the same period of 2018.

Administrative expenses for the six months ended June 30, 2019 were RMB 15.9 million or US\$ 2.3 million as compared to RMB 10.5 million or US\$ 1.6 million for the same period of 2018. The increase in administrative expenses was primarily due to increased R&D expenses of RMB 6.4 million or US\$ 0.9 million.

Bad debt expense for the six months ended June 30, 2019 was RMB 193.9 million or US\$ 28.6 million, as compared to RMB 106.4 million or US\$ 16.7 million for the same period of 2018, with the increase due to a rise in the provision for uncollectible debt associated with our customers. We recognized a loss allowance for an expected credit loss on financial assets, primarily on our trade receivables, which are subject to impairment under International Financial Reporting Standards. We believe that we have undertaken appropriate measures to resolve the bad debt expense going forward. We will continue to review credit worthiness of each of our customers and continuously test our trade receivables balance in each upcoming fiscal period.

Net loss for the six months ended June 30, 2019 was RMB 193.1 million or US\$ 28.5 million as compared to a net loss of RMB 71.9 million or US\$ 11.3 million for the same period of 2018. The increase in net loss was mainly due to lower sales, and the increases in bad debt expense and administrative expenses from period to period.

Loss per basic and fully diluted share for the six months ended June 30, 2019 on both a basic and fully diluted basis were RMB 32.23 or US\$ 4.75, as compared to a loss per share of RMB 17.23 or US\$ 2.71 in the year ago period.

Turning to our balance sheet, as of June 30, 2019, we had cash and bank balances of RMB 9.4 million or US\$ 1.4 million, as compared with RMB 9.0 million or US\$ 1.3 million as of December 31, 2018.

As of June 30, 2019, our inventory turn was 122 days as compared to 117 days as of December 31, 2018. The increase in inventory turnover days was primarily due to the 48.0% decrease in our sales volume in the first half of 2019 as compared to the same period of 2018. The Company believes that the currently challenging economic environment has, in general, caused a lower turnover than normal and the Company will make a continuous effort to deplete its slow-moving stocks.

Our trade receivables turnover, net of value added tax, as of June 30, 2019 was 134 days compared with 233 days as of December 31, 2018. We wrote off bad debt expense of RMB 193.9 million in the first half of 2019, which caused significant lower net trade receivables at June 30, 2019 and accordingly the less turnover days.

Our trade payables turnover, net of value added tax, was 32 days as of June 30, 2019 compared with 26 days as of December 31, 2018. The average turnover days was within the normal credit period of one to four months granted by our suppliers.

In terms of our plant utilization and capex, we utilized plant capacity capable of producing 6.0 million square meters of ceramic tiles for the six months ended June 30, 2019 out of a total annual production capacity of 56.5 million square meters. Our annual production capacity has been reduced from 66 million square meters of ceramic tiles as of December 31, 2017 to 56.5

million square meters of ceramic tiles due to our having retired two old furnaces at the Hengda facility in July of 2018.

Our Hengda facility has an annual production capacity of 27.7 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 3.2 million square meters of ceramic tiles for the six months ended June 30, 2019.

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 2.8 million square meters of ceramic tiles for the six months ended June 30, 2019.

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 2019 other than those associated with minimal upgrades, small repairs and the maintenance of equipment.

Moving on to our business outlook, in an effort to bolster sales, in July of 2018 we decreased the pricing of our ceramic tile products by an average of 10%. This followed a pricing increase of 5% that we instituted in April of 2018 following three price raises beginning in April of 2017. However, the 10% price decrease in July 2018 did not offset the fall in our sales volume due to deteriorating market conditions that persisted through the second half of 2018, and we do not believe that further price decreases would have had a beneficial effect upon sales volume. Accordingly, we did not implement any price adjustments for our ceramic tile products in the first half of 2019.

To address the current market environment, we have announced plans to enter the ceramic tile market in Southeast Asia and that we are negotiating with

customers in the first target market of Malaysia. We also plan to expand our sales force to procure new customers and to increase our marketing to large property developers in targeted cities. In addition, we have bolstered our research and development efforts with the goal of developing new products in order to expand our market. As a result of this last initiative, we have recently announced that we developed a new type of exterior ceramic tile designed to cool temperatures of buildings which, once fully tested and certified, will target the Southeast Asia market.

Looking ahead to the remainder of 2019, and based on the information currently available to us, we expect market conditions to continue to be challenging due to a slowing domestic economy as well as an excess supply of housing stock in some of China's cities. Also, the current trade war between China and the US could lead to slower growth in China which could have the effect of contracting real estate development.

As has occurred in the past, the central Chinese government will likely continue to balance imposing restrictions to prevent any overheating of the real estate sector with providing incentives to encourage stable demand. The Chinese government continues to discourage real estate speculation and is therefore advocating for more rental housing and "joint-ownership housing", homes that are co-owned by individuals and the state.

The Company believes that real estate in China is sustainable on a long-term basis as it accounts for an estimated 25% of GDP and is the most important asset for a high proportion of Chinese households. Therefore, active property development and a vibrant building materials sector continue to be a vital component of China's growth. As property developers were very active in terms of land acquisitions in the first half of 2019, we may see an increase in new construction in the second half of the year, though the central Chinese government may eventually tighten developers' financing to curb overheating the land market.

We believe that as China's urbanization trend underpins its continued economic growth, we anticipate the continued growth of urban housing and a sustained demand for our building materials products. We believe that we retain a competitive advantage in our sector due to our brand name recognition, innovative ceramic tile products, customization capabilities, and our ability to quickly and expertly meet our customers' needs.

This business outlook reflects the Company's current and preliminary views, 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 2019 financial results. Operator?

Operator: At this time, I would like to ask everyone in order to ask questions, please press star then the number one on your telephone keypad. Our first question comes from the line of Howard Flinker. Your line is now open.

Howard Flinker: How many shares do you have outstanding? I forget.

Edmund Hen: About six million shares outstanding.

Howard Flinker: Six million exactly?

Edmund Hen: More or less, around six million.

Howard Flinker: Okay. And please tell me what the advantage or sales argument you are going to have when you sell into Southeast Asia?

Edmund Hen: We found in Southeast Asia, a lot of housing is building there, and also the Chinese policy for the One Road and One Belt initiative, we found there is a lot of activity going on there. And together with our new development for the new products that have a cooling effect for the housing, we believe there is a market for us.

Howard Flinker: Well the government subsidize -- the Chinese government subsidize your sales?

Edmund Hen: No, but the government will help the Company in this Belt and Road initiative area for their marketing and help them for their product.

Howard Flinker: Are you the only one who is making this cooling tile?

Edmund Hen: We think so. As far as we're concerned, we are the first one to have such research and development on this.

Howard Flinker: Okay. And how much does it reduce the heat compared to other tiles? Can you guess?

Edmund Hen: There is no very -- there is no exact scientific report yet but that's about -- around 3 degrees Celsius, 2 to 3 degree Celsius.

Howard Flinker: Okay, thanks. And finally, what is the price of this tile compared to other regular tiles?

Edmund Hen: We have not the fixed selling price at this movement. This is under the developing stage. But, we believe, the sales price is 10% to 20% more than the normal tiles.

Howard Flinker: Okay, that's all.

Edmund Hen: Thank you

Operator: Again, it is star one to ask a question. Okay. And I see no further questions at this time. I would like to turn the conference back to Mr. David Rudnick.

David Rudnick: Thank you, Ian. 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' first half 2019 earnings call. Thank you all very much.

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