

**China Auto Logistics Inc.**  
**2015 Year End Investor Earnings Call**  
**Friday, April 8, 2016 at 8:00 am ET**

**Final**

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**Operator:** Good day, ladies and gentlemen and welcome to the China Auto Logistics 2015 Year End Investor Earnings Call. At this time all participants are in a listen-only mode. Following today's presentation instructions will be given for the question and answer session. If anyone needs assistance at any time during the conference, please press the star button followed by zero. As a reminder, this conference is being recorded.

**Operator:** I would now like to turn the conference over to Ken Donenfeld of DGI Investor Relations. Please go ahead, sir.

**Ken Donenfeld:** Good morning.

Thanks so much for joining us today. We greatly appreciate your interest in our Company. On the conference call today, there will be Mr. Tong Shiping, Chairman and CEO of China Auto Logistics Inc., Mr. Jin Yan, COO, and other executives of the Company. These include Mr. Yang Feng, Financial Controller, and Mr. Lawrence Wan, a member of the financial team. I am also pleased to introduce to you today Mr. Cheng Peng who has joined the Company as its new Corporate Secretary. Mr. Tong has asked me to begin the presentation. Lawrence then will walk you through the numbers. Afterwards, we will have a Q & A period, so Mr. Tong can answer your questions.

I will first read the required disclaimer regarding forward-looking statements. This conference call may contain, in addition to historical information, forward-looking statements within the meaning of the federal securities laws regarding China Auto Logistics Inc.

Except for historical information contained in our comments, the statements we make are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve

**known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecasted results. These risks and uncertainties include, among other things, product demand, market competition, and risks inherent in our operations. These and other risks are described in our filings with the U.S. Securities and Exchange Commission.**

**Now, we will begin with comments from Mr. Tong.**

**Good morning!**

**I appreciate the opportunity to provide you with an update on our Company covering the Full Year's results for the year ended December 31, 2015. In a nutshell, aided by strong sales results in our third quarter, we reported a sharp narrowing of the net loss attributable to shareholders in 2015 compared with the prior year. Revenues in 2015 advanced 11.4% year over year and gross profit grew nearly 17% in the same period.**

**The results in the third quarter came on the heels of a sharp drop in the value of the Chinese yuan, and the fear this created among our customers that this would lead to higher prices for imported vehicles in the months ahead.**

**Even so, we continued to price our vehicles very aggressively in the face of continuing significant competition. For the past several quarters, this has meant even lower profit margins than typically are the case in our Automobile Sales business. As Lawrence will explain further, we did have a small improvement in our profit margin in 2015. However, a number of other factors pushed results into the red for the year.**

**One of these factors was the lower results in our Financing Services business. Fee income from Financing Services in 2015 declined approximately 27.87% year over year. A key reason for the decline in revenues and fee income from Financing Services was the need to reutilize the Company's capital following the Zhonghe acquisition and startup of Car King. Additionally, we had substantial interest expense, and depreciation and amortization relating to the Airport International Auto Mall acquired through our Zhonghe acquisition in November 2013 which, again, Lawrence will address this more fully.**

**During the year, we were able to enter into an arrangement with the prior owner of Zhonghe to extend the due date for the remaining installment payments for the acquisition. Consequently, the payment of approximately \$18.5 million which was originally due in November of 2015 is now payable in May of 2016. While we continue to see a loss in our 40% owned used car operation, Car King Tianjin - - we continued to see growth in sales of this used car operation and believe it has significant long term growth potential.**

**We also are encouraged by the implementation during 2015 in a few cities in China of a new Parallel Imported Vehicle scheme. We believe this scheme will enable us to compete more strongly with all authorized auto dealers in cities where the scheme has been implemented, including Shanghai and Tianjin.**

**We also anticipate possibly seeing stronger results in our Financing Services business if we can put our cash flow to better use going forward.**

**Before answering any questions you may have, let me now hand the microphone over to Lawrence who will walk through the financial highlights of the year 2015.**

**Lawrence?**

**LAWRENCE: Thank you very much Ken. And hello again to those of you joining us on this call.**

**Needless to say, the key problem our Company has been dealing with over the past several quarters has been the slowing Chinese economy which has created intense competition in the luxury imported auto segment. We see this segment as nevertheless continuing to grow and we have continued to fight hard to retain our leadership position in it. Our main weapon has been pricing and this has had and will continue to have a negative effect on our profit margins. We managed a slight improvement in our margins in 2015 as a result of our strategy to focus on the high end of the luxury market.**

**We saw gross profit margin in 2015 increase to 1.16%, which was up from a gross profit margin of 1.10% last year. During the year this was achieved on the sale of 4,199 automobiles compared with 3,737 in 2014 - - an increase of approximately 12.36%. The higher end luxury models sold for approximately \$105,000 each in both years. Nevertheless, we incurred a net loss attributable to shareholders for the year ended December 31, 2015 of approximately (\$12,015,000) or a loss per share of (\$2.98) compared with a loss of approximately (\$26,863,000) or a loss per share of (\$6.66) in the prior year. This actually was a year over year improvement of approximately 55.28%.**

**We achieved this on net revenues for 2015 of just over \$448 million, up approximately 11.4% from approximately \$402.3 million in the prior year.**

**There were a number of expenses which contributed to a loss despite the increase in revenues. Among them, the Company recorded a reserve for an uncollectable account on a receivable related to financing services in the amount of approximately \$3,217,000. In addition, the Company recorded an impairment of goodwill and intangible asset in the amount of approximately \$4,281,000 on the Sales of Automobile unit which was acquired through the Zhonghe acquisition in November 2013.**

**The Company recorded net other expenses in 2015 of approximately \$7,242,000 including interest expense related to the Zhonghe acquisition and short-term borrowings.**

**Also, included in operating expenses was a “Recovery of reserve in due from Car King Tianjin” this totaled approximately \$1,781,000, as increased liquidity at the used car joint venture permitted it to pay back the full amount owed to the Company.**

**Helping to clarify somewhat the role of these expenses in creating the net loss, it should be noted that EBITDA (Earnings before interest, tax, depreciation and amortization) for the year ended December 31, 2015 was a net loss of approximately (\$3,250,000). This compared with a net loss of approximately (\$19,877,000) in 2014. Excluding the impairment**

**charges on goodwill and intangible assets and the Airport International Auto Mall property, EBITDA was a net income of approximately \$1,032,000 in 2015 compared with a net loss of approximately (\$832,000) in 2014.**

**As explained in our filings - - since the Company owns less than 50% of Car King Tianjin - - the latter's financial statements are not consolidated into the Company's financial statements. What we recorded on our books is rental income which in the year ended December 31, 2015 was approximately \$1.79 million. This actually included deferred rent for the period from July 1, 2014 to December 31, 2014. What is stoking our optimism regarding used car sales going forward is the sharp growth in used car sales this past year - - actually an increase of 135% from approximately \$3.4 million in 2014 to approximately \$8.1 million in 2015.**

**With respect to our balance sheet and cash flow, as detailed in our press release and our 10-K, net cash used in operating activities for the year ended December 31, 2015, was approximately \$(7,380,000). Net cash provided by investing activities was approximately \$4,922,000. This primarily reflected proceeds from the sale of the Company's equity interest in Zhengji (which had no material operations in 2015) in the amount of approximately \$3 million. Cash flow provided by financing activities was approximately \$2,191,000, and cash and cash equivalents at the end of 2015 was approximately \$7,120,000.**

**Of note, as of December 31, 2015, the Company had a working capital deficit of approximately \$30,802,000, including roughly \$67,291,000 in current liabilities for short-term borrowings due between January and August 2016. Additionally, approximately \$35,742,000 related to the Zhonghe Acquisition is payable to Hezhong. As we said earlier, approximately \$18.5 million of this amount is due on May 30, 2016. The remaining amount is due in November 2016.**

**The working capital deficit as of December 31, 2015 that I just described, the net loss for the year, as well as other factors, led to a**

**decision by the Company's Independent Registered Public Accounting Firm to include a going concern opinion in its report.**

**I'll be pleased to answer any questions you may have, but at this point, let me turn the podium back to Ken for any final comments.**

**Ken?**

**Ken: Thank you, Lawrence. Mr. Tong wanted to conclude on this positive note. Namely, in a difficult year for the Chinese economy, in 2015 the Company was able to record a double digit percentage increase in its sales for the year as well as a year over year improvement in gross profit and profit margin. Mr. Tong also is encouraged by steps the government has been taking to maintain the growth in China's economy. He believes this will have a positive impact on CALI sales going forward, which also are likely to be helped by the new Parallel Imported Vehicles rules. He is encouraged as well by the potential growth in used car sales. The Company also continues to explore other higher margin services that it may implement as its financial position improves. For example, retail auto sales. OK, I will now ask the operator to please open the meeting to your questions.**

**OPERATOR?**

**Operator:**

Thank you. If you'd like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We'll pause for a moment to allow everyone an opportunity to signal.

**Moderator:**

Operator, while we're waiting for possible other questions, I've gotten a few questions from the investors that I will ask now, as promised. The first question is: "It's hard to see how CALI will be able to make its next payment on the Airport Mall acquisition. Can you tell us or give us more information on how you intend to pay it off?"

**Company:**

Okay, so the Company is trying our best to have a resolution on the second quarter and that we are already planning on this.

**Moderator:**

I'm sorry, could you repeat that? It was hard to understand.

**Company:**

Oh sorry. So, the Company is planning on fully resolving the issue. We are trying our best to have the definitive resolution on the second quarter.

**Moderator:**

Ah, okay. All right. I have another question here again about the Airport Auto Mall. Do you think that the value of the mall has increased since you acquired it?

**Company:**

So Ken, so the—yes, so we don't think that the—we estimated—three years ago, we estimated that there will be increase but it didn't happen yet.

**Moderator:**

Okay. All right.

**Company:**

Ken, basically the value is pretty flat. I mean, the major part of the Zhonghe acquisition is the Auto Mall which the value is pretty consistent from the day that we acquired to the latest day, so we don't see too much of appreciation on the value.

**Moderator:**

Okay. Let me ask—Operator, are there any questions from our audience?

**Operator:**

None at this time.

**Moderator:**

Okay. Then I'll continue with a few of these which were e-mailed to me. Are you—you've said that you're thinking about getting into the retail automobile sales business with your sales now primarily to dealers. Why haven't you—or have you begun to do this or is this still something you plan to do, retail sales?

**Company:**

So Ken, so we started up this part of the business and—but the percentage—the ratio of this business in our wholesale is still small but we actively do this.

**Moderator:**

Ah, so you have begun to—this business out of the...

**Company:**

This business, yes.

**Moderator:**

Okay. Very good. Let me ask you...

**Company:**

Ken, let me add a little bit. What they mean they started doing the retail, we started selling automobiles to the individual retail customers. In the past, our core sales is all to—at a wholesale level. I mean, we have—on and off we sell at the retail level but I mean it's not like we have like a major plan on selling at the retail level at this point. So.

**Moderator:**

You don't, okay. Because that was one of the goals initially with a new site that you have, the Auto Mall.

**Company:**

Yes, and for Mr. Yang, I mean the Company is still looking actively into expanding the retail sale of the operations.

**Company:**

Oh, it is? Okay. All right. In the US the news in the last few days has been that there's been a sharp increase in sales of luxury cars in China, in particular Mercedes reported sales up almost 40% over the same month last year, and Toyota sales which had been impacted last year are also up strongly. Do you think this is going to have a favorable impact over the remainder of the year?

**Company:**

So Ken, so the Company also did a good job in the first quarter compared to last year, but the number is not finalized yet. They are really looking forward to the sales (inaudible)

**Moderator:**

Okay. I guess tied into that, do you share the—I guess it's optimism that government officials have stated about the outlook for the current year talking about 6.5% overall growth in the economy. Do you—are you—do you share that optimism?

**Moderator:**

Yes, this is for the Chinese economy as a whole, not Europe business.

**Company:**

So Ken, so the economy growth of China is getting back but we still believe that the expectation from the government, that 6.5% will be realized.

**Moderator:**

Ah, okay.

**Company:**

So, we are optimistic.

**Moderator:**

Very good. Another question I have had is "Given the price of the stock now, has Management considered—or why isn't there any insider buying at this low price of the stock?"

**Company:**

So Ken, so we are really confident of the Company—the future of the Company, and one of the shareholder—one of the corporate member is actually paying out of her pocket for some of the payments. So, we are working on this. We're still discussing and see how it works out.

**Moderator:**

Okay. Okay, so there's—that's the way that Management is showing its support with those payments. Tell me this, the last—one of the last questions I have—let's see—I guess there have been—has the Company ever considered—what is the Company's position on possibly being acquired, or as many other companies in China have done who were listed in the US, going private?

**Company:**

So Ken, so we're not thinking about that right now.

**Moderator:**

Good. Okay. I guess that's the end of the list of questions that I've had; except for some questions on individual businesses. You had a strong year in used car sales. Do you see this—do you continue to be optimistic about

used car sales, and will you be using markdowns as you did last year to increase sales?

**Company:**

So Ken, so in China the market of used car sales is still in the first stage of the development, so we are not really optimistic for this business for this year. Although we're trying to help to grow this to understand the used car sales to market.

**Moderator:**

Okay. All right. Then I see I have one last question here which is on the competitiveness in the auto sales area. Do you see this easing anytime soon with some of your competitors perhaps going out of business or other factors that would make this less competitive and allow better margins for you?

**Company:**

So Ken, so the luxury car sales market in China is not doing as well so we can see that some of our competitors are quitting the market and we strongly believe that that will help us to develop our Company in the future.

**Moderator:**

Ah, okay. Operator, let me ask again if there are any other questions.

**Operator:**

None at the present time, sir.

**Moderator:**

Okay. Well in that case, I guess we will conclude our conference call for today. Our thanks again to all of you who've listened in and/or participated. I guess that's the end of our call, Operator.

**Operator:**

This concludes today's conference. Thank you for your participation. You may now disconnect.