

INVESTOR RELATIONS CALL

Moderator: Crocker Coulson
November 11, 2011
8:00 a.m. ET

Operator: Good morning. My name is (Katora) and I will be your conference operator today. At this time, I would like to welcome everyone to the China Ceramics' Third Quarter 2011 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, press the pound key. Thank you.

I would now like to turn the conference over to Crocker Coulson, President of CCG Investor Relations. Please go ahead, sir.

Crocker Coulson: Thank you very much operator. Good morning, ladies and gentlemen, good evening those of you who are joining us from Asia. We'd like to welcome all of you to China Ceramics' Third Quarter 2011 Earnings Conference Call. I'm pleased to say that with us today are China Ceramics Chairman and CEO, Mr. Jia Dong Huang, the company's Chief Financial Officer Mr. Edmund Hen, and also we have Bill Stulginsky, a member of the company's Board of Directors.

Before I turn the call over to Mr. Huang, for his opening remarks, I'd like to remind our listeners that during this call, management's prepared remarks contain forward-looking statements, which are subject to risk and uncertainties. In addition, management may make additional forward-looking

statements in response to your questions. Therefore, the company claims the protection of the Safe Harbor for forward-looking statements, that's contained in the Private Securities Litigation Reform Act of 1995.

Actual results may differ from those discussed today. We'd like to refer to a more detailed discussion on the risk and uncertainties with the company's filings for the SEC. In addition, any projections as the company's future performance represent management's estimates as of today, November 14, 2011. China Ceramics assumes no obligation to update these projections in the future as market conditions change.

To supplement the company's financial results presented in accordance with IFRS, management may make reference to certain non-GAAP financial measures which the company believes provide meaningful additional information to better understand the company's performance. A statement reconciling any non-GAAP measures to the nearest IFRS can be found in the earnings press release that went out earlier this morning.

Please note that the conference call this morning is going to be limited to a discussion of the company's third quarter earnings and operations. The call will be opened up to questions and answers at the conclusion of management's presentation. Due to the limited time allocated for the call, we'd like to ask participants in the Q&A to limit their questions and comments to this topic only.

With those formalities now out of the way, it's my great pleasure to turn this call over to China Ceramics' Chairman and CEO, Mr. Jia Dong Huang and China Ceramics' CFO Mr. Hen, who'll be translating for Mr. Huang. Mr. Huang, you may proceed.

Jia Dong Huang: (Speaking in foreign language).

Edmund Hen: Thank you, Crocker.

Jia Dong Huang: (Speaking in foreign language).

Edmund Hen: On behalf of the company, I'd like to welcome everyone (turning) our 2011 third quarter earnings conference call.

Jia Dong Huang: (Speaking in foreign language).

Edmund Hen: We are very pleased to report another quarter of excellent operating and financial results, recording 28 percent and 20 percent year-over-year growth in revenue and net income respectively.

Jia Dong Huang: (Speaking in foreign language).

Edmund Hen: Our increase (inaudible) ceramic tiles and expanded production in capacity for the key drivers of revenue growth for the third quarter. The year-over-year increase in total (live) performance was driven by 28 percent increase in sales volume of ceramic tiles, as a result of our increased utilization of new production capacity. During the quarter, we also successfully completed expansion of our Hangda facility enabling us to produce 42 million square meters of ceramic tiles per year, up from 32 million square meters in the second quarter of 2011. It illustrates the continuous strong demand for building materials and our exceptional execution and delivery capabilities. This was a substantial achievement for us and our key element of our strategic growth plan.

Jia Dong Huang: (Speaking in foreign language).

Edmund Hen: As a results, our current total annual production capacity of ceramic tiles which is 52 million square meters, we remain on track to complete phase II to Hangda it by the end of 2011, by which time our annual total capacity, maybe increase to 72 million square meters of ceramic tiles, of 38 percent from our current slab.

Jia Dong Huang: (Speaking in foreign language).

Edmund Hen: As for the industrial, as many of you are aware, in 2011, (U.S.) funding for our portable housing has been introduced to the market in response to (inaudible) excessive landing for property speculation. These include

insurance funds, the housing provident funds and for the both housing fund and selling vehicles.

Jia Dong Huang: (Speaking in foreign language).

Edmund Hen: Further, according to recent stature, China's Portable Housing Program is picking on momentum. So, further by China's plan to build 36 million units of portable housing during the (throughout supply) year plan. We view this as a positive sign to diversify growth FA, custom, (inaudible) as well as overall economic growth.

Jia Dong Huang: (Speaking in foreign language).

Edmund Hen: Therefore, due to continued positive fundamentals, we see a strong pile of order for the remaining quarters of this year. We view this as the execution of our strategic plan to increase production capacity, to enhance our competitive advantage and ultimately secure market share gains in the industry.

Jia Dong Huang: (Speaking in foreign language).

Edmund Hen: In conclusion, we are very pleased with our third quarter financial performance, confident, as to our market position and optimistic about opportunities the lay ahead for us with our ongoing capacity expansion. And new stay-offs through facilities. I look forward to sharing further information as to China Ceramics' operational and financial progress in the quarters to come.

Jia Dong Huang: (Speaking in foreign language).

Edmund Hen: That said, I would like to turn over the call to the company's Chief Financial, Mr. Edmund Hen, who will discuss this company's third quarter 2011 earnings results in more detail. Thank you. Thank you, Mr. Huang.

I will now move on to a more detailed discussion of financial results. Revenue for the third quarter of 2011 was RMB406.9 million, equivalent to US\$63.4 million, up 13.4 percent compared to the same quarter last year. The increase was primarily driven by 28.1 percent increase in the sales volume of

ceramic tiles to 14.6 million square meters from 11.4 million square meters in the same period of last year. We were able to increase our volume due to increase the production capacity and a Hangda facility together with our (Pro-S) capacity from the Hangda Lee facility both are which, operate at full capacity during the quarter.

Gross profit for the third quarter of 2011 was RMB419.1 million or US\$18.6 million up 27.5 percent from the last year. Gross margin was 29.3 percent compared to 31.8 percent for the same period last year. The decrease in the gross margins was due to higher production costs as we are (floating) in the higher material and higher labor costs.

To further explain this decrease in gross margins, there has been a general increase in the company's raw material cost over the last year. For example, one of our major raw materials, clay has strenuous price increase, 8.6 percent in the third quarter versus to the comparable year ago quarter. Coal, our second major raw material inputs increased 9.8 percent in price in the current third quarter from the year ago quarter.

Other production process has increased yield for the year as well, including glazing up 6.8 percent, coloring up 6.5 percent, as well as a three percent increase in FA labor cost as compared to the year ago period. All these materials and labor costs contribute to the decline in the third quarter's gross margin as described.

However, in order to address this issue, from time to time, we consider our ability to raise our selling prices as cost grounds of such increased cost. The company historically has enabled to increase its average selling prices each year, in the first quarter of the year and last years' currency plan. We plan to increase our selling prices once again in the first quarter of 2012.

Profit before taxes, for the third quarter was RMB102.3 million or US\$15.9 million up 19.8 percent on the comparable period last year. The year-over-year increase was a result of high revenue, though somewhat offset by higher production, selling and administrative expenses as discussed earlier.

Net profit for the third quarter 2011 was RMB75.8 million or US\$11.8 million, up 19.9 percent from the comparable period in 2010 resulting from high revenue though offset by higher production, selling and administrative expenses.

Now, on cap net profits, which should exclude the sales, share based compensation expenses was RMB78.2 million or US\$12.1 million, up 23.5 percent year-over-year. Earnings per fully diluted share were RMB4.16 or US\$0.65 for the third quarter of 2011 down.

Diluted EPS for the third quarter of 2011 were (inaudible) using at 10.3 million shares while diluted EPS for the comparable period a year ago was (inaudible) using 11.1 million shares.

Now, on cap earnings for fully diluted share, which excluded the federal share based income compensation expenses was RMB4.29 million or US\$0.67 compared with RMB5.69 or US\$0.84 in the same period in 2010.

Turning to our balance sheet, as of September 30, 2011, we had a cash of RMB48.5 million or US\$7.6 million as compared to RMB263.5 million or US\$39.9 million at the end of last year. Cash was spent on capital expenditures to purchase of new pills and production lines to replace older manufacturing increments at Hangda as well as the continuation of phase II construction, and handling during the nine months of 2011.

As of September 30, 2011, we had an inventory turnover of 78 days compared to 73 days as of December 31, 2010. Our receivables turnover was 95 days and the payable turnover was 79 days. (Cramus brokering), were RMB195 million or US\$30.6 million up from US\$14.7 million as of the year end. The increase in (Cramus brokering) was for working capital and providing a better cash position in lights of capital expenditure with (Cramus).

Capital expenditure for the nine months ended September 30, 2011 were approximately RMB277.8 million equivalent to US\$58.2 million, of this amount approximately RMB155.3 million or US\$23.9 million was related to the Hangda facility.

RMB170.5 million or US\$26.3 million was related to Phase II of the Hangda Lee facility and RMB52 million or US\$8 million was related to Phase III of the Hangda Lee facility which was part of the company's 2012 expansion plan. The company is currently in the process of revealing and updating its capital expenditure plan for fiscal year 2012.

Our cash flow from operations combined with our cash balances and borrowing capacity to be sufficient to meet the remaining capital expenditure requirements of the production capacity expansion associated with the Hangda Lee facility.

Moving on to our outlook, looking into the future, the company's backlog of order for the reference in the fourth quarter of 2011 is approximately US\$54.2 million, but the same time a year-over-year growth rate of 26.6 percent compared to the fourth quarter of 2010. The expansion in sales volume, in the fourth quarter of 2011 is approximately 12.5 million square meters.

Our marketing position continues to be secured. Soon after we were what one of the China's 500 most valuable brands, in September we were awarded one of the top 100 fastest growing enterprises for China building materials and the top 500 enterprise by the China building material price mentioned in association. Once again, this demonstrates our excellent brand recognition the press on with the marketplace and which enable us to maintain pricing power with our customers.

We are confident as to the continued demand for our building materials products given our focus on Tier 2 and Tier 3 cities. And as (Huang) mentioned in his opening market, we noted that our portable housing spurred by the (capital) and user stimulus material compared to product housing properties and can be used as immune to sustain and grow in product of our GDP.

Finally, we said that the new capacity at Hangda and the Phase II of Hangda Lee ran up to full utilization within two to three months of completion. And we look forward to seeing additional products and marketing developments in tandem with our successful capacity expansion program.

With that, we'd like to open up the call to any questions pertaining to the quarter and the company's performance. Operator?

Operator: Thank you sir. At this time, I would like to remind everyone, in order to ask a question, please press star then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Again, in order to ask a question, please press star, one. As a reminder, to ask a question, please press star then the number one on your telephone keypad.

Crocker Coulson: Operator, we have three people in queue, maybe we can start with those.

Operator: Your first question comes from the line of Michael Shelton with Clear Harper.

Michael Shelton: Good morning everyone. Edmund, I've just, I was curious about your outlook, it looks like it's sequentially down despite the capacity expansion. Is that just a seasonal thing or are we seeing some slowdown in your markets, you know, it has been widely advertised construction in China?

Edmund Hen: That's slowed down. But for further secure the completion of our new production lines, we just need more inspections through our production line. And I guess we will soon be completed, I mean the Phase II or Hangda Lee. And after completion we will still have 72 million square meters of ceramic house by the end of this year.

Michael Shelton: OK. But so then, your Ford sales forecast declining from you know, almost 15 million square meters to 12.5 million square meters for the quarter, that's to do – just bringing Hangda Lee back on line, is that right, is that what I'm hearing?

Edmund Hen: You mean the fourth quarter backlog number of which?

Michael Shelton: Yes, the backlog and sales forecast yes.

Edmund Hen: And also, we are changing our cotton mix. We are selling some higher priced products into cotton mix so that we do not need such high volume of the ceramic tiles according to the average selling price.

Michael Shelton: OK.

Bill Stulginsky: This is Bill Stulginsky, I just needed to clarify a bit. The 12.5 increase was for both backlog as of September 30, 2011, is that correct?

Edmund Hen: Yes, yes, correct.

Bill Stulginsky: And as I spoons, I think the orders that will be booked and delivered during the fourth quarter.

Edmund Hen: Yes.

Michael Shelton: OK. But I'm looking at your sequential backlog, in other words, at the end of, on last quarter's call, you've projected 14.6 million square meters to be delivered. And as for the fourth quarter, you're down to 12.5 million square meters?

Edmund Hen: And also the fourth quarter is the winter season, normally it's the low season for the year.

Michael Shelton: OK, so OK. You really, you're not really seeing a slowdown in your business related to, you know, the overall construction situation.

Edmund Hen: No, we do not see any slowdown. We still found a backlog and requirement is risk drawn.

Michael Shelton: OK. And then, my other question was just, you know, on the margin compression that you're seeing and you mentioned that you think you'll be able to recover those margins when, I guess, you're going to change prices in the first quarter. But can you give us some insight, I mean, what happens I guess, everyone, no one's prediction inflation to come down or predicting disinflation in China. How do you, are you at risk for the whole, you know, the cost inflation for the whole year. I guess, you set prices in the first quarter and then, are you putting yourself kind of at risk for cost inflation for the whole year until you can reset them again and the following at the beginning of the following year?

Edmund Hen: Historically, we normally increased our selling price in the first quarter every year. So, that we estimate the inflation for the whole year so that we can actually come from order cost inflation for the whole year.

Michael Shelton: I see. OK. OK, thank you. Congratulations on another great quarter.

Edmund Hen: Thank you.

Jia Dong Huang: Thank you.

Operator: Your next question comes from the line of (Peng Quasu) with Roth Capital Partners.

(Peng Quasu): Hello, good morning. First, congratulations on another good quarter. So, my first question is on your capacity. So, as management mentioned is that by the end of this year as a total capacity will reduce 82 million square meters, up from 42 million square meters in the beginning of 2011. So, my question is with such a big jump in the total capacity. So, can you elaborate on your business development initiatives to increase sales volumes accordingly and maintain a high utilization rate going forward in 2012?

Edmund Hen: Yes, first of all, we are adding new (descriptive) every year. And for example, at the beginning of this year we increased three (descriptive) at the same time, we normally we're new (descriptive) by at the beginning of the year. And we announced to the public to this topic once we confirm with new (descriptive). And also, we're negotiating some new direct sales to directly to the developer in China. And also, we announced that once the contract is concluded. And at the same time, we are seeking to new opportunity to export our product overseas by specialty like the new market (inaudible). And we see a lot of demand from this part of the world also.

(Peng Quasu): OK. So just a quick follow-up question, so, for the direct sales to real estate developers, so, how much sales volume do you see will come from this channel in 2012?

Edmund Hen: In 2012 we currently we estimate we have about 13 percent of our sales are from the direct sales from the real estate developer. In 2012, we believe we

can have about 15 percent to 18 percent range of the total revenue from the direct sales from the real-estate developers.

(Peng Quasu): So, 15 percent to 16 percent range right?

Edmund Hen: 15 percent to 18 percent.

(Peng Quasu): 15 percent to 18 percent, sorry. OK, 15 percent to 18 percent, good, OK. So, another follow up question is on your overseas market. You mentioned that exploring our overseas opportunities is also very important strategy for the China Ceramics. But I heard is that earlier in this year, several countries have proposed to file our entire dumping investigations against China produced indoor ceramics so, because that is indoor ceramics, not related to your outdoor ceramics. But I want to know that how do your management see the potential impact on your overseas market of business?

Edmund Hen: Yes, I think such impact pass is a subject to European countries. And other parts of the world, (inaudible) some of these countries do not have any – they only have a small amount of the import for the Middle East countries. So, also the South East Asia for they are under strong development, also one of our target to sell our product to such countries.

(Peng Quasu): OK, OK. So, again, how big was the overseas market (allowing) in 2012?

Edmund Hen: Right. Currently we have approximately seven percent of the revenue from the open space. And we think in 2012, the sales will be still within about 10 percent but it is more than seven percent.

(Peng Quasu): OK. So, is it from about seven percent to 10 percent from overseas market?

Edmund Hen: Yes.

(Peng Quasu): OK, OK, that's excellent. My last question is regarding your Hangda Lee facility. You know, I've asked that before, you will have a big capacity increase in 2012. And most – so your capacity addition will come from your Hangda Lee facility. So, we know Hangda is very famous in China. But relatively speaking Hangda Lee is less implicit in China market. So, with

such a big jump in Hangda Lee facility, so what specific actions will you take to ensure us that sales volumes at Hangda Lee facility will be (inaudible) Hangda facility?

Edmund Hen: Yes, when the Tenneco requirement is much sure, Hangda Lee will produce more products for Hangda brand. And now we are also developing the new brand such as Hangda Lee et cetera. At the same time, we also produced top class of the ceramic tiles by Hangda brand in Hangda Lee factory. So, by 2012, we expect more products beyond the branding of Hangda from Hangda Lee.

(Peng Quasu): OK, OK. So, my last question is a follow-up question from under the listener, so, regarding your gross margin. So, going forward should we expect gross margin in the level of 29 percent or we should expect gross margin to rebound back to 31 percent range?

Edmund Hen: I think that we will rebound to 31 percent range.

(Peng Quasu): OK.

Edmund Hen: In the next quarter.

(Peng Quasu): OK, OK, cool. Thanks very much. So, that's all my questions. Thanks for taking my questions.

Edmund Hen: OK.

Operator: Your next question comes from the line of Chris White with Green Capital Management.

Chris White: Yes. Edmund, just I wanted to let's say when you're at 72 million square meters. And assuming no additional expansion or CAPEX, what would be the maintenance CAPEX for Hangda and in Hangda Lee in on an annual basis you think on 72 million square meters?

Edmund Hen: And just still will be around five percent to seven percent of our cost of goods for the maintenance cost. And currently the maintenance cost is around 6 percent of the cost of sale.

- Chris White: And so, I mean, thinking about Hangda and Hangda Lee, you know, one plant is obviously, you know, newer and perhaps more efficient. Should we expect greater EBIT, what should we think about as EBITDA margins between the two facilities?
- Edmund Hen: That, we approximately they're seeing because Hangda has just finished with improvement during the year. And the EBITDA, you know, EBITDA level compared to Hangda Lee, we are approximately the same plus the increment depreciation will come to about same rates for both of the plant.
- Chris White: And then, just a quick question. I hear that Bill's on the call. But you know, with a lot of the CAPEX going into the background here in the near future. How does the management and the board think about returning some of the free cash flow to shareholders and some from a dividend program. And where are you at when you're thinking on that?
- Edmund Hen: We will consider the – such program at this capital expansion has completed. And also the cash stop generator from the operations. Yes, but this will be – probably will be later or next year or even in 2013, probably....
- Bill Stulginsky: And this is Bill, if I could jump in, a good question. By the end of this month, the management and the board will be coming together with this finalization of the 2012 budgets both for operations, CAPEX and as a result in cash flow. And we will together determine the best use of the available cash in 2012 and it remains to be seen as to how that cash will be deployed. So, I think that it is something that management and the board, continues to consider. And the awards we finalized for 2012 budgets make sure we look at the best use of the available cash.
- Chris White: Yes. And I think you know, obviously that's appropriate and you do get a very high return on capital. I suppose I have somewhat of a concern as the shareholder when – in a way to differentiate yourself from other Chinese, U.S. listed Chinese companies. Perhaps it's more prudent to say there is an allocation in a percentage of free cash that should be allocated to a dividend program in an effort to differentiate yourself. So, you know, typically, you know, companies that get a return on capital like you guys, you wouldn't do

that. But I think perhaps these circumstances are a little bit different than, you know, and probably you know takes some thinking out of the box. But congratulations on a good quarter and we look forward to following you guys.

Edmund Hen: Thank you.

Operator: Your next question comes from the line of John Howell with Howell & Associates.

John Howell: Good morning and congratulations on beating analyst's estimates this quarter. I've got a couple of questions. Back on October 14, a notorious China small cap short seller by the name of Geo Investing, decided to come out with a preliminary report on China Ceramics. And it seemed to be rather favorable. They did save the time that they were going to present some more questions to the company. And my question is have they presented those questions and if so, have they been answered. And does the company feel comfortable in meeting analyst's earnings per share estimate in 2012, was \$3.29. Thank you.

Edmund Hen: Yes, Bill, can you help on this question.

Bill Stulginsky: Yes. On Geo Investing, let me turn back to our offense with (Coulson). I don't recall at the moment there being any follow-up questions I've had to circulate. And is that fair David?

Crocker Coulson: Not that I've seen. I haven't seen any follow-up questions from Geo Investing. And there was a press release going out to address some other issues early in the week, last week.

Bill Stulginsky: Right, right. Those were some of the initial reports.

Crocker Coulson: Right, right.

Bill Stulginsky: Not so many insolvent questions. So, through our collective knowledge, I believe it's fair to say we have not received any questions at this stage. And then, Edmund, the remaining question was on the 2012 earnings per share estimate.

Edmund Hen: Can you repeat your question on the earnings per share?

John Howell: Yes, my second question was does the company feel comfortable that they can either meet or beat analyst expectations for earnings per share in 2012, \$3.29?

Edmund Hen: Yes, we are still comfortable on that. And because of the current situation in China, and also all the opportunities within the Tier 2 and Tier 3 cities, we have interacted, again, 2012 the demand for ceramic tiles is due very strong. And also to be one of the most famous brands for this – ceramic tiles, we believe that we can be the target.

John Howell: Great. Thank you very much. Congrats again.

Edmund Hen: Thank you.

Operator: There are no further questions at this time. Gentlemen, you may proceed.

Crocker Coulson: OK. Great, thank you operator. We'd like to thank all of you for your interest and participations, (powerful) questions on the call this morning. If any of you are visiting China, we always are happy to receive visits from our shareholders. And contact us if you want to arrange for that. And with that operator, I think we're going to conclude our China Ceramics' third quarter 2011 earnings call. Thanks a lot.

Operator: Thank you. This concludes today's China Ceramics' Third Quarter 2011 Earnings Conference Call. You may now disconnect.

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