INVESTOR RELATIONS CALL

Moderator: David Rudnick
May 14, 2012
8:00 a.m. ET

Operator: Ladies and gentlemen, thank you for standing by and welcome to the China Ceramics First Quarter 2012 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 that 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. It is now my pleasure to turn the conference call over to David Rudnick. Please go ahead, sir.

David Rudnick: Thank you, (Raquel).

Good morning, ladies and gentlemen, and good evening to those of you who are joining us from China. Welcome to China Ceramics' First Quarter 2012 Earnings Conference Call.

With us today are China Ceramics' Chairman and Chief Executive Officer Jiadong Huang and the chief financial officer, Mr. Edmund Hen.

Before I turn the call over to Mr. Huang, I remind all listeners that during this call management's prepared remarks contains forward-looking statements which are subject to risk 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's 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 risk and uncertainties with company's filings with the Securities and Exchange Commission.

In addition, any projections as the company's future performance represents management's estimates as of today, May 14, 2012. China Ceramics assumes no obligation to update these projections in the future as market conditions changed.

To supplement its 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 understand the company's performance. The statement reconciling any non-GAAP measures to nearest GAAP equivalents can be found on the earnings press release 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 who will be translating for Mr. Huang. Mr. Huang, you may proceed.

Jiadong Huang: (Foreign Language Spoken)

Edmund Hen: Thank you, David.

On behalf of the company, I would like to welcome everyone joining our first quarter 2012 earnings conference call.

In the first quarter of 2012, we are pleased to report record strong financial results, achieving 21 percent revenue growth, year-over-year and 33 percent income growth. Our robust revenue growth was driven by the increased sales volume of ceramic tiles due to our expanded production capacity, as well as an increase in average selling prices of our products, which increased 18 percent as compared to the first quarter of 2011.

This goes to illustrate that our excellent reputation and highly recognizable brand name continues to instill competence in our customers, which leads to continuous strong demand for our products.

Jiadong Huang: (Foreign Language Spoken)

Edmund Hen: We successfully executed on our capacity expansion plan in our two facilities in 2011 so that our annual production capacity of ceramic tiles now stands at 56 million square meters, nearly 50 percent from our capacity level at the beginning of 2011.

Our utilization of our current capacity is currently about 96 percent, which signifies continued healthy customer demand for our products. However, as we are being very thoughtful as to the business climate and macroeconomic outlook in China, we will look to further expand our plan's capacity depending on the business outlook and as determined by customer demand.

However, we believe that our gross margins are sustainable and our profits, which shows healthy year-to-year comparison as our customers continue to transition from the lower-margin ceramic tiles to better performing higher-margin products.

Jiadong Huang: (Foreign Language Spoken)

Edmund Hen: (Inaudible) in the first quarter, our capital expenditure were nil. And for the year we have estimated them to be (approximately) US $$38 million, which we will likely be able to raise the back half of the year.

As indicated, we will carefully monitor the macroeconomic environment throughout the year, and we will add additional capacity as business condition and customer demand (warrants).

Should we experience a drop of (inaudible) demand for our products, our plan would be to phase in an additional 16 million square meters of capacity at our Hengdali facility so that we will ship a total of 72 million square meters of annual production of ceramic tiles in 2012.

Jiadong Huang: (Foreign Language Spoken)

Edmund Hen: We are continuing to re-file our distribution strategy by going direct to large property developers, and we have a robust time line of new products to be tested and market in the near future. These are all exciting initiatives for China Ceramics in 2012.

With our increased capacity expansion, proven R&D capabilities, strong brand recognition and eminent track record, China Ceramics is well positioned to utilize our competitive advantage to secure additional growth market shares gained in the industry.

In conclusion, we are very pleased with our first quarter performance, and I look forward to sharing further (progress) report as to China Ceramics operational and financial progress in 2012.

With that, I would like to turn over the call to the company's chief financial officer, Mr. Edmund Hen, who will discuss the China Ceramics' first quarter 2012 earnings results in more detail. Thank you.

Thank you, Mr. Huang. I will now move on to a more detailed discussion of our financial results.

Our revenue for the first quarter 2012 was RMB 372.5 million, or US $59.1 million, up 20.9 percent from RMB 307.9 million, or US $46.8 million, from the first quarter 2011. The year-over-year increase in revenue was driven, in part, by 2.6 percent increase in the sales volume of ceramic tiles to 11.7 million square meters in the first quarter of 2012 from 11.4 million square meters in the first quarter of 2011.

In addition, the average selling price increased in the first quarter of 2012 to RMB 31.8 per square meter compared to RMB 26.9 per square meter in the comparable quarter of 2011 due to a change in the sales mix, with more sales coming from our new higher-priced rustic series of ceramic tiles, which is being produced from our new Hengdali facility. The decrease in sales in the first quarter of 2012 as compared to the fourth quarter of 2011 is primarily due to a 5.6 percent decrease in sales volume from r12.4 million square meters.

Gross profit for the first quarter 2012 was RMB 113 million, or US $ 18 million, up 18.6 percent from RMB 95.3 million, or US $ 14.5 million, for the first quarter of 2011. The year-over-year increase in the gross profit was mostly driven by the change of sales mix, with more sales coming from higher margin rustic series of ceramic tiles. Gross profit margin was 30.4 percent for the first quarter ended March 31, 2012 compared to 31 percent for the same period of 2011. The year-over-year increase in gross profit margin was the result of the higher revenue partially offset by increased material cost and labor cost.

Profit before taxation for the first quarter 2012 was RMB 96.6 million, or US $ 15.4 million, up 29 percent from RMB 74.9 million, or US $11.4 million, in the first quarter of 2011. The year-over-year increase in profit before taxation was the result of higher gross profit as well as lower administrative expenses.

Net profit for the first quarter 2012 was RMB 71.7 million, or US $ 11.4 million, up 32.8 percent from RMB 54 million, US $8.2 million, in the same period of 2011. The year-over-year increase in net profit was the result of higher gross profit as well as the aforementioned lower administrative expenses.

Non-GAAP net profit, which excludes share-based compensation expenses, was RMB 73.4 million, US $11.7 million, in the first quarter 2012, an increase of 20.1 percent from RMB 61.1 million, or US $9.3 million, in the first quarter of 2011.

Non-GAAP earnings per fully diluted share, which excludes share-based compensation expenses, was RMB 3.59 million, or US $0.57 million, in the first quarter 2012, up 7.2 percent from RMB 3.35 million, or US $0.51 million, in the same period of 2011.

Turning to our balance sheet, as of March 2012, we had a cash and bank balances of RMB 76.1 million, or US $12.1 million, as compared to RMB 42.1 million, or US $6.7 million, as of December 31, 2011. The increase in cash and bank balances was the result of sustained revenues and no capital expenditures during the quarter ended March 31, 2012.

As of March 31, 2012, we had an inventory turnover of 109 days compared to 84 days as of December 31, 2011. The increase in inventory turnover was mainly due to an increase in finished goods to the slow moving of new series of ceramic tiles produced from our new Hengdali facility.

Moving to our outlook, looking into the future, our backlog of orders for delivery in the second quarter of 2012 is approximately RMB 440.6 million, US $70 million, representing a year-over-year growth rate of 18.3 percent compared to the second quarter of 2011. This year-over-year growth rate is lower than that of previous quarters, reflective of the impact of a slow-moving macroeconomic environment. We estimate that our sales volume of ceramic tiles in the second quarter of 2012 will be approximately 12.9 million square meters.

This figure represents a slight rise from that of the fourth quarter and is attributable to the seasonality of our business.

Our new production capacity enables us to more efficiently produce medium to high-end ceramic tile products implement tight operations management so as to offer an optimal product mix for sale to its end-users. We continue to effectively capitalize upon our research and development efforts and have introduced large-sized tiles into the market that have experienced excellent market receptivity and have substantial profit potential.

Finally, we continue to monitor the macroeconomic environment in China in terms of the general business activity and domestic infrastructure investment such as that occurring in the real estate sector. We continue to focus on Tier I, Tier II, and Tier III cities, and our intent upon both strengthening our distribution network and engaging in more active direct sales with large developers.

With that, we would like to open up the call to any questions presenting to the first quarter financial and operational performance.

Operator?

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

Your first question comes from the line of Panhua Xu with Roth Capital Partners.

Panhua Xu: Good evening. First, congratulations, another good quarter. So my first question is about your capacity expansion at Hengdali facility. So you mentioned in the press release that you know – 4 million of Hengdali phase two expansion became operational in first quarter of 2011.

So I want to know (inaudible) when you will – when will the remaining (12 million) capacity of phase two of Hengdali facility will become, you know, operational.

Edmund Hen: You mean the phase two of the Hengdali when…

Panhua Xu: Yes.

Edmund Hen: …the (inaudible) to be operational?

Panhua Xu: Yes, yes.

Edmund Hen: And at this moment, we are still waiting the power supply from the local authorities, and we believe by the end of the second quarter we will be receiving the power supply from the local power authority. And from that, the new facility will be put into operation.

Panhua Xu: So can I assume that, you know, the remaining (12 million) capacity will not become operational in the second half of 2012. In other words, you know, they can only provide, you know, they can only become operational in 2013?

Edmund Hen: And you are correct. We are expecting the new facility will be operated from the third quarter of this year.

Panhua Xu: The third quarter of this year, so you mean that in the first quarter of 2012, you know, we will have the 72 million capacity, right, total capacity in the fourth quarter.

Edmund Hen: For the annual capacity, we will reach 72 million. For the whole year 201, probably…

Panhua Xu: OK.

Edmund Hen: …that will be less than the 72 million. That will take the average number from the whole operation.

Panhua Xu: OK, OK. So my second question is regarding your SG&A expenses. So, you know, currently, you know, CCCL intends to sell more produces directly to these large real estate developers.

So from my understanding, you know, you were able to sell directly to new developers, you know, that may incur additional expenses – selling and marketing expenses.

So I want to know that, you know, can you provide some estimates or guidance you know, how much SG&A expenses will be for the remainder of 2012?

Edmund Hen: Oh, your question is expenses related to the direct sales to the real estate developer – what is…

Panhua Xu: Yes., I want to know the total expenses. You know, previously our company, you know, mainly, you know, sell products through distributors, right? So that really, you know, bring the selling expenses lower, so now, you plan to – you plan to sell more to developers. So from my understanding, that will increase your expenses – your selling expenses so I want to know how much will be increased for the remainder of 2012, if any, or in other words, you can give us an idea of, you know, what is the percentage of selling – SG&A expenses to the total revenue for the remainder of 2012?

Edmund Hen: I think the general cost – the most significant cost which related to the sales is the commission, which is already developed largely from the revenue. And from that, we normally provide five to 80 percent of the commission to our distributors.

For the direct sales to the developers, we have a higher margin or a higher – or a higher selling price direct to these property developers compared to our – compared to our distribution network.

And from the selling price, we sell to – sell direct to our – these property developers – their view normally have three to five percent higher than the normal product sale through the distribution network. And that means we will save about three percent of the commission from the direct sales channel.

Panhua Xu: And so you are saying that you know, by selling directly to the developers, you know, the (uploading) margin, you know, were increased, right, instead of decreasing. OK.

Edmund Hen: The gross margin will increase. For the average SG&A, probably we will keep that around three – around three percent (still).

Panhua Xu: OK, cool. So that's all my questions. Thanks for taking my questions again.

Operator: As a reminder, in order to ask a question, please press star one on your telephone keypad.

Your next question comes from the line of John Harrell with Harrell & Associates.

John Harrell: Good morning. I see in your earnings press release that growth is going to, of course, start slowing down this year. To replace that growth, does the company finally plan on issuing a cash dividend to shareholders to show some place in the company?

Edmund Hen: And, first of all, we are – we are focusing on the business for the operation right now. And we also have much concern on the macroeconomic.

For the dividends to the shareholder, I think we will look at such possibility or any availability by the end of this year after the third quarter also to look at the situation at that time.

Before that, we – at this moment, we do not consider any dividend or cash paid to the shareholder right now.

John Harrell: So the company is indeed worried about macroeconomic conditions in China this year?

Edmund Hen: Not really. But for the dividend policy, we I think, at this moment, because we still have the phase three or further capital expenditure in our projection. And we will only look at the – if there is any excess cash by the end of the year so that we will consider the dividend policy.

John Harrell: OK. Thank you.

Edmund Hen: Thank you.

Operator: Once again to ask a question, please press star one on your telephone keypad. Your next question comes from the line of Steven Martin with Slater Capital.

Steven Martin: Congratulations on a good quarter.

Edmund Hen: Thank you.

Steven Martin: What do you expect? You said that the CapEx for the rest of the year would be about $38 million and it would be second half weighted. So if you look out to the second quarter, what would you expect CapEx to be in the second quarter?

Edmund Hen: At this moment, we expect the CapEx will be minimal at the second quarter before the phase two of our operation can be put into production. And that means we are waiting the power supply for our new facility before we invest any money into the new (phase).

Steven Martin: OK. And again for second quarter, if I read your – on administrative expenses, if I read you expenses right and you exclude the non-cash compensation expense, your expenses for the selling and administrative expenses for the first quarter were about $1.2 million. Is that a good run rate for the rest of the year?

Edmund Hen: And that will be one-way expenses, I mean, the 1.2 million. Also, this is the kind of fruition for the – for the lower price of our inventory. Also, some of these products we need to put into production, which is selling at a lower price under the cost, so that we make some provision for such kind of a product, and this is a kind of one-way (event).

Steven Martin: OK. To the extent that you're not adding capacity in CapEx is lower, you obviously paid off debt in the first quarter. Should that – is that your intention for the next quarter or two while you're not building more plan capacity to continue to pay down bank borrowings?

Edmund Hen: We also want to minimize our liability if the situation adhere, and it's the reason why we pay off some debt in the first quarter.

Steven Martin: So, should we expect that you're going to – since your – there's no CapEx in the second quarter, you would pay down more debt in the second quarter.

Edmund Hen: If we have excess cash, we will pay down some debts.

Steven Martin: OK. And likewise, should that lower your interest expense?

Edmund Hen: Oh, that will lower our interest expense.

Steven Martin: All right. Thank you very much.

Edmund Hen: Thank you.

Operator: Once again, to ask a question, please press star one on your telephone keypad.

This concludes the question-and-answer session. I will now turn the conference over to Mr. Rudnick for any closing remarks.

David Rudnick: Thank you very much. And on behalf of the entire China Ceramics management team, we want to thank all of you for your interest and participation in this call.

This concludes China Ceramics First Quarter 2012 Earnings Conference Call. Thank you all very much.

Edmund Hen: Thank you.

Operator: Thank you, ladies and gentlemen, for participating in today's conference call. You may now disconnect.

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