

# **China Ceramics First Quarter Earnings Conference Call**

## **Participants:**

JiaDong Huang, Edmund Hen, David Rudnick, Crocker  
Coulson

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## **Introduction and Safe Harbor: Crocker Coulson, CCG Investor Relations**

Good morning and good evening. And welcome to China Ceramics first quarter 2011 earnings conference call. With us today are China Ceramics chairman and chief executive officer, Mr. Jiadong Huang, and chief financial officer, Mr. Edmund Hen.

Before I turn the call over to Mr. Huang, may I remind our listeners that during this call, management's prepare 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. And we refer you to a more detailed discussion of the risks and uncertainties with the company's filing with the Securities and Exchange Commission. In addition, any projections as to the company's future performance represent management's estimates as of today, May 9, 2011. China Ceramics assumes no obligation to update these projections in the future as market conditions change.

To supplement its financial results presented in accordance with IFRS, management may make reference to certain non GAAP financial measures, which the company believes provides meaningful additional information to understand the company's performance. A 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.

## Opening Remarks: Mr. Huang, CEO of China Ceramics

谢谢Crocker。

欢迎大家参加我们2011年第一季度利润报告电话会议。

Thank you, Crocker.

Welcome to everyone joining our 2011 first quarter earnings conference call.

我们非常高兴在这里跟大家分享又一个杰出的季度报告。

We are very pleased to report another quarter of exceptional results.

第一季度的财务数据亮点有：

- 收入比去年同期增长了 34.4%，达到三亿零七百九十万人民币，约合 4680 万美元
- 毛利润比去年同期增长了 37.5%，达到 9530 万人民币，约合 1450 万美元
- 毛利润率为 31.0%，相比去年同期的 30.2%有所增长。
- 净利润比去年同期增长了 19.2%，达到 5400 万人民币，约合 820 万美元
- 不包括非现金以股票为基础的奖励计划费用，非通用会计准则的净利润为 6110 万人民币，约合 930 万美元，上涨了 34.9%
- 全面摊薄的每股收益为 2.96 人民币或 45 美分

The highlights for the first quarter include:

- Revenues up 34.4% to RMB 307.9 million, equivalent to \$46.8 million;
- Gross profit was RMB 95.3 million, equivalent to \$14.5 million, representing a 37.5% increase from previous year;
- Gross profit margin was 31.0%, compared to 30.2% in the same period of 2010.
- Net profit was RMB 54.0 million, or \$8.2 million, up 19.2% from the same period of previous year.
- Excluding the non-cash share-based compensation expenses, Non- GAAP net profit was RMB 61.1 million or US\$ 9.3 million, up 34.9% from the first quarter
- Earnings per fully diluted shares were RMB 2.96, equivalent to 45 US cents.

从去年年初开始，我们就一直致力于扩大公司的产能。2010 年年初，我们仅有晋江恒达一个工厂，瓷砖的年产能为 2800 万平米。在 2010 年 1 月份收购了高安的恒达利工厂并且不断升级两个工厂的设施以后，两家工厂目前的瓷砖年产能为 4220 万平米，预计在 2011 年年底，年产能将达到 7200 万平米。

Since early last year, we have been committed to expanding our production capacity. At the beginning of 2010, our only facility was the Hengda Plant, capable of producing 28 million square meters of ceramic tiles per year. With the Hengdali Plant in Gaoan acquired in January 2010 and the ongoing upgrade of both facilities, overall capacity at the two facilities is currently 42.2 million square meters of ceramic tiles. This capacity is expected to reach 72 million square meters by year end 2011.

进入 2011 年，公司将继续进行新的产品研发。2011 年第二季度，中国陶瓷开始生产釉面仿古砖，这些砖尺寸较大，表面光滑，并且具有大理石般的纹理。我们认为这种新产品兼具功能与价格优势，将是大理石或其它石材的很好替代品。这些新产品的名称是“大唐陶都”

As we move forward into 2011, the company continues to explore further opportunities in product development. In the second quarter of 2011, China Ceramics started to produce a new product series of polished glazed tiles which are large-sized ceramic tiles with glossy surfaces and marble-like patterns. We believe that this new product represents both a functional and cost-effective replacement for actual marble or stone materials. The brand name for this new product series of polished glazed tile is “Pottery Capital of Tang Dynasty”.

另外，第一季度公司还跟恒大地产集团旗下的广州恒大材料设备有限公司签订了合同，将为其提供大多数外墙砖。恒大地产集团是中国最大的房地产开发商之一，在中国拥有超过 200 个房地产项目，仅 2011 年一季度，房屋销售面积就达到 300 万平米。合同有效期自 2011 年 1 月 1 日至 2011 年 12 月 31 日止。该合同的销售额将从今年第二季度开始体现。

Also during the quarter, China Ceramics signed a contract with Guangzhou Evergrade Materials and Equipment Co. Ltd, a subsidiary of Evergrade Real Estate Group to supply most of its exterior wall ceramics. Evergrade Real Estate Group is one of the largest property developers in China, with over 200 projects across China. We recorded sales volume from this account of 3 million square meters in the first quarter of 2011 alone. Sales from this contract will be recognized beginning in our second quarter this year.

我们非常高兴有机会跟大家分享这些积极的成果，并为我们的客户和股东创造价值。我很期待在下次季度利润电话会议中继续跟大家进行汇报。

We are very excited with the opportunities we have for delivering positive results and creating value for our customers and

shareholders. And I look forward to reporting on our progress every quarter during our earnings conference calls.

Now that I have completed translating Mr. Huang's comments, I would like to spend a few minutes discussing China Ceramics business performance. Before I go into the financials for the first quarter of 2011, let me start by providing some background about our business and industry.

China Ceramics is a manufacturer of ceramic tiles used for exterior siding and interior flooring in residential and commercial buildings. We now have two facilities, one located in JinJiang, Fujian province and the other in Gaoan, Jiangxi province. Both locations were strategically chosen for their specific site resources, within the major ceramic tile manufacturing areas in China.

The company was founded by our CEO, who has spent most of his career in the construction and materials distribution business. China Ceramics has benefited from Mr. Huang's extensive experience in and knowledge of the ceramics tile industry.

China Ceramics has a very broad product offering with six different types of tiles with over 2,000 different combinations of products. About 90% percent of our products are sold through our 40 distributors. About 90% of our products are custom-made, which enables premium pricing, and we also differentiate ourselves through our strong R&D capabilities. In 2010, China Ceramic was the only ceramics company recognized among Asia's top 500 brands.

We are confident with the growing demand for our products which is driven by a robust property development market in China. The key underlying trends supporting the growth of our business include, first of all, vastly improved GDP per capita in China, which has spurred construction as well as a sustained urbanization trend in China; secondly, the continued growth of Tier II and Tier III cities in China, which is our primary market. With respect to Tier II and Tier III cities, in light of a new wave of tightening policies released by municipal governments to control rising property prices in Tier I cities, real estate developers have tapped into Tier II and Tier III cities where less restrictions are imposed. The influx of land supply recorded in Tier II and Tier III cities in 2010 will be transferred to the construction pipeline in the next several years, creating large

demand for construction materials which includes ceramics products. The third trend key trend underlying our growth is the government's plan to invest in low income housing. The current target is to build 36 million units of low income housing over the next five years, of which 10 million will be built this year.

With this macroeconomic scenario as a backdrop, we see the significant opportunity for China Ceramics to grow its top and bottom line in the years ahead while we expand the capacity of our two production plans to meet customer demand.

Now, moving on to a more detailed discussion of our financial results....

**[Overview of 1Q results: Edmund Hen, Chief Financial Officer]**

**Revenue** for the first quarter of 2011 was RMB 307.9 million, equivalent to \$46.8 million, up 34.4% compared to last year. The increase was primarily driven by a 29.5% increase in output from 8.8 million sq. meters to 11.4 million sq. meters, as a result of upgraded production capacities at both the Hengda and

Hengdali plants. We also raised the selling price of our porcelain tile by 5% in February 2011, which led to \$1.6 million of the revenue increase.

**Gross profit** for the first quarter of 2011 was RMB 95.3 million, or \$14.5 million up 37.5% from the last year. Gross margin was 31.0%, compared to 30.2% for the same period last year.

**Administrative expenses** for the first quarter were RMB 15.6 million, or \$2.4 million, up 169% from last year. The year over year increase was primarily due to the additional expenses of \$1.1 million of non-cash share-based compensation expenses related to an incentive program to retain directors and senior management.

**Profit before taxes** for the first quarter was RMB 74.9 million or \$11.4 million, up 23.8% from the comparable period last year. The year over year increase was a result of higher revenue though somewhat offset by higher administrative expenses, discussed earlier.

**Net profit** for the first quarter of 2011 was RMB 54.0 million, or \$8.2 million, up 23.8% from the comparable period in 2010, resulting from high revenue but somewhat offset by higher administrative expenses.

**Earnings per fully diluted share** were RMB 2.96, or \$0.45, for the first quarter of 2011, down 33.5% from the same period last year. The year over year decrease in earnings per share was due to an increase in shares outstanding year to year.

**Non-GAAP earnings per fully diluted share**, which excludes the effect of share-based compensation expenses, was RMB 3.35, or \$0.51, compared with RMB 4.45 or \$0.65 in 2010. Again, this decrease is attributable to the increase in the company's shares outstanding from the first quarter of last year.

Turning to our balance sheet, we had cash of RMB 84.9 million, or \$13.0 million as of March 31, 2011, compared to RMB 263 million or \$39.9 million at the end of last year. Cash was spent on capital expenditures related to the upgrade of both the Hengda and Hengdali plants.

As of March 31, 2011, we also have an inventory turnover of 83 days compared to 73 days as of December 31, 2010. Our receivables turnover was 91 days, and the payables turnover was 82 days. Bank borrowings were RMB 97 million, or \$14.8 million, up just modestly from \$14.7 million as of year end.

Capital expenditures for the first quarter were approximately RMB 164.2 million, equivalent to \$25.0 million. The company invested RMB 35.1 or \$5.4 million to replace and improve older manufacturing equipment at the Hengda facility. Further improvements in 2011 are expected to result in total production capacity at the facility of 42 million square meters per year. Total expenditures in 2011 for Hengda are estimated to be RMB 175 million or \$27 million.

For Hengdali, capital expenditures were approximately RMB 129.1 million or \$19.6 million in the first quarter. Additional expansion is expected to result in total production capacity at the facility of 30 million square meters per year. Total expenditures for Hengdali in 2011 are estimated to be around \$30 million.

The completion of Phase III at Hengdali will be postponed to the end of 2012. Capex for Phase III is expected to be approximately \$35 million and it is expected to provide an additional 14 million square meters of capacity in 2013.

The Company believes that its cash flow from operations combined with its cash balances and borrowing capacity will be sufficient to meet the remaining capital expenditure requirements of the production associated with the Hengda and Hengdali facilities.

**Moving on to our outlook:**

Turning to our outlook, the Company's backlog of orders for delivery in the second quarter of 2011 is approximately \$56.9 million, representing a year-over-year growth rate of 36.9% compared to the first quarter of 2010. The expected sales volume in the second quarter of 2011 is approximately 13.8 million square meters, representing a 30.2% increase from the same period last year. Overall, we are very excited about our future prospects. And we look forward to reporting positive results in quarters ahead.

We are committed to providing investors with that great and timely information to allow them to make a fair assessment of the value of

their investment in China Ceramics common stock. We will continue to work with our board and our legal and investor relations advisors to ensure we can consistently maintain an adequate level of disclosure.

As a final note, Mr. Huang and I will be presenting at the Oppenheimer Dragon Conference to be held in New York on May 17<sup>th</sup>. Please refer to our website for this as well as all other presentation events.

With that, we would like to open up the call to your questions.  
Operator?