Investor Relations Call

Moderator: David Rudnick
August 10, 2011
8:00 a.m. ET

Operator: Good morning, my name is (Nicole) and I will be your conference operator today. At this time, I would like to welcome everyone to the China Ceramics second quarter 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 wish to ask a question during this time, simply press star then the number one on your telephone key pad. To withdraw your question, press the pound key. I would now like to turn the call over to Mr. David Rudnick to begin. Please go ahead sir.

David Rudnick: Good morning and good evening and welcome to China Ceramic's second quarter 2011 earnings conference call. With us today are China Ceramics Chairman and Chief Executive Officer, Jaidong 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 prepared 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 under 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. I refer you to a more detailed discussion of the risks and uncertainties with the company's filing with the Securities Exchange Commission. In addition, any projections of the company's future performance represent management's estimates as of today, August 10, 2011. China Ceramics assumes no obligation to update these projections in the future as market conditions change. As supplement and financial results presented in accordance with IFRS, management may make reference to certain non-gap financial measures which the company believes provides meaningful additional information to understand the company's performance.

A statement reconciling any non-gap measures to nearest gap equivalents can be found on the earnings press release distributed earlier today. And now, it is my pleasure to turn the call over to China Ceramics Chairman and CEO, Mr. Jaidong Huang, and China Ceramics' CFO, Mr. Edmund Hen, who will be translating for Mr. Huang. Mr. Huang, you may proceed.

Jaidong Huang: On behalf of the company, I would like to welcome everyone joining our 2011 second quarter earnings conference call. We are very excited to report another quarter of exceptional results, achieving double digit growth in both top line and bottom line performance. (inaudible) increase in sales volume of Ceramic tile and coupled with a 5 percent increase in our rapid selling price, revenues in the second quarter were up about 37 percent (inaudible) to $272.3 million or U.S. dollars $57.3 million. This result demonstrates our superior product, quality, and China Ceramics compelling (inaudible) . Including a non-cash share based (inaudible) expenses, non-gap net profits (inaudible) $74.8 million or U.S. dollars $11.5 million, an increase of 32 percent year over year due to our increasing price power.

In addition to generating strong quarterly results, we are also focused on expanding our annual capacities from 42 million square meters of ceramic tile to 72 million square meters by the end of 2011. For the (inaudible) facility our plan is to increase capacity to 42 million square meters by the end of 2011, up 30 percent from the current 32.2 million square meters. The total capital expansion in 2011 for (inaudible) are estimated to be $175 million, equivalent to U.S. dollars $27 million.

And for the (inaudible) facility we plan to increase the production capacity to 13 million square meters by the end of quarter three 2011. (inaudible) utilization in the fourth quarter, (inaudible) 200 percent increase from 2010 level. The total capital expenditure associated with this expansion is expected to be (inaudible) $195 million or U.S. dollar $30 million. The total capital expenditures for both facilities are (inaudible) $270 million or U.S. dollar $57 million.

In the second quarter of 2011 we started to produce a new product here, a polished glazed tile which are large sizes ceramic tile with quality surfaces and marble-like presence under the brand name of (inaudible) Capital of (inaudible) Dynasty. The large (inaudible) and are confident that this new product will be well-received by our customers because it represents both a functional and cost effective replacement for actual marble or stone material.

Our brand name, (inaudible), was recently awarded one of China's 500 most valuable brands as certified by the World Brand (inaudible).

We are very pleased with our second quarter financial performance and optimistic with our opportunities ahead. I look forward to sharing more information on China Ceramics operational and financial program in the quarters ahead.

With that, I would like to turn over the call to our company's Chief Financial Officer, Mr. Edmund Hen who will discuss the company's second quarter 2011 earnings results in more detail. Thank you.

Edmund Hen: Thank you Mr. Huang. I will now move on to a more detailed discussion of our financial results. Revenue for the second quarter of 2011 for (inaudible) $272.3 million equivalent to U.S. dollar $57.3 million, up 36.7 percent compared to the same quarter last year. The increase was primarily driven by 29.2 percent increase in the sales volume of ceramic tiles to 13.7 million square meters from 10.6 square meters in the same period last year.

We also raised the selling price of our (inaudible) tile by 5 percent in February, 2011, which led to U.S. dollar $1.2 million of our revenue increase.

Gross profits for the second quarter of 2011 (inaudible) $213.4 million or U.S. dollar $17.5 million, up 33.7 percent from the last year.

Growth margin was 30.5 percent compared to 31.1 percent for the same period last year. This slight increased growth margin was due to high production costs. (inaudible) and distribution expenses were (inaudible) $3.1 million or U.S. dollar $1.5 million compared to (inaudible) $1.5 million or U.S. dollar $1.2 million in the second quarter of 2010.

The year over year increase was primarily due to increased (inaudible) and advertising expenses. Administrative expenses for the second quarter were (inaudible) $5.6 million or U.S. dollar $1.5 million, up 50 percent from last year. The year over year increase was primarily due to the addition of expenses of U.S. dollar $ (inaudible) million of non-cash share based (inaudible) expenses. We elected to an expansive program to retain (inaudible) and senior management.

Property (inaudible) for the second quarter was (inaudible) $97.9 million or U.S. dollar $15.1 million, up 28.6 percent from the comparable period last year. The year over year increase was the result of high revenue though somewhat offset by higher selling and administrative expenses discussed earlier. Net profits for the second quarter of 2011 were (inaudible) $72.4 million or U.S. dollar $11.1 million up 28.1 percent from the comparable (inaudible) in 2010 resulting from high revenue which was offset by higher selling and administrative expenses.

Non-gap net profits which include the share-based (inaudible) expenses was (inaudible) $74.8 million or U.S. dollar $11.5 million, up 32.4 percent year over year. (inaudible) this year were (inaudible) $3.97 or U.S. dollar $1.61 for the second quarter of 2011, up 20.5 percent from the same period last year. Diluted (inaudible) for the second quarter of 2011 were computed using 18.3 million shares while diluted (inaudible) for the comparable period a year ago were computed using 10.2 million shares.

Non-gap earnings were reported out of this share which included the effect of share-based (inaudible) expenses was (inaudible) $4.1 or U.S. dollar $1.63

compared with (inaudible) $5.55 or U.S. dollar (inaudible) in the same period in 2010. A review on the first half of 2011 financial performance is as follows.

Revenue for the six months end June 30, 2011, was (inaudible) $680.2 million or U.S. dollar $104.1 million, up 35.7 percent compared to the same period last year. Gross profits was (inaudible) $208.7 million or U.S. dollar $32 million, an increase of 35.4 percent compared to the same period last year. Growth margin was 38.7 percent which was the same for the same period last year. Net profit was (inaudible) $126.4 million or U.S. dollar $19.4 million, up 24.3 percent year over year.

Non-gap net profits, which includes the share-based (inaudible) expenses, were (inaudible) $135.9 million or U.S. dollar $20.8 million compared to (inaudible) $101.7 million or U.S. dollar $14.9 million in the first half of 2010. Earnings per fully (inaudible) share were (inaudible) $6.93 or U.S. dollar $1.06 on a non-gap basis, compared to (inaudible) $7.45 or U.S. dollar $1.14 in the first six months of 2010.

Turning to our balance sheet, as of June 30, 2011, we had cash of (inaudible) $51.6 million or U.S. dollar $10 million as compared to (inaudible) $263.5 million or U.S. dollar $39.9 million at the end of last year. Cash was spent on capital expenditures to purchase of new kiln and production line, to replace older manufacturing equipment at (inaudible) as well as the continuation of the phase II construction at (inaudible) during the first half of 2011.

As of June 30, 2011, we had (inaudible) of (inaudible) compared to 73 days as of December 31, 2010. What was difficult, however, was 95 days and the (inaudible) turnover was 81 days. (inaudible) were (inaudible) $137 million or U.S. dollar $31.2 million, up from U.S. dollar $14.7 million as of year end. Capital expenditures for the first half were approximately (inaudible) $244.5 million equivalent to U.S. dollar $37.4 million (inaudible) approximately (inaudible) $129.1 or U.S. dollar $19.6 million related to the (inaudible) facility and (inaudible) $115.4 million or U.S. dollar $17.8 million related to (inaudible) facility.

Total capital expenditure for the physical year 2011 are planned to be an estimated (inaudible) $270 million or U.S. dollar $57 million. We believe that our cash flow from operations (inaudible) combined with our cash balances and borrowing capacity will be sufficient to (inaudible) the remaining capital expenditure requirements of the production capacity expansion association with the (inaudible) and (inaudible) facilities.

Moving on to our outlook, looking into the future, the company (inaudible) for the third quarter of 2011 is approximately U.S. dollar $61.9 million representing a year over year growth rate of 36.1 percent compared to the third quarter of 2010. The expanded (inaudible) volume in the third quarter of 2011 is approximately 14.6 million square meters. We are confident in the continued demand for our products served by a sustained urbanization trend in China, our continued focus on tier 2 and tier 3 cities which continue to realize (inaudible) construction growth and a continued improvement of GDP per capita have been recently named a professional provider of building materials for suitable housing, a government program which (inaudible) the building of 10 million this year of a total 36 million housing units which is further testimony to the prominence of our name brand in China.

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

Operator: As a reminder in order to ask a question please press star and the number one on your key pad. We will pause for just a moment to compile the Q and A roster. Your first question is from the line of (inaudible) of (inaudible) Capital Partners.

Male: Hello, good evening. First congratulations on the good quarter. My first question is about the pricing. So, I just wondered whether you can provide us with (inaudible) your (inaudible) price by the brands, say, what is the (inaudible) for (inaudible) brand and what is the AST for (inaudible) brand?

Edmund Hen: For brand only (inaudible) has the higher average selling price and this is approximately 28 (inaudible) per square meter and for (inaudible) that has around 25 to 26 (inaudible) on average selling price, it’s a newer brand.

Male: OK, as we all know that (inaudible) is a very famous brand of China Ceramics and we feel confident in the (inaudible), however, (inaudible) a new brand introduced last year and we feel (inaudible) accept this brand. So, can you also comment on the (inaudible) for the (inaudible) brand?

Edmund Hen: Yes, for (inaudible) the market strategy is for the medium to high end market. Since we had a new factory last year we have to (inaudible) the market so we issued a new brand name, the (inaudible), aiming for the medium market on our strategy to produce some medium cost or to test on the market and for a long run across the, as I mentioned, (inaudible) aiming for medium to high end product and for (inaudible) for established company like (inaudible) it is very normal to have more than one brand to aim for different levels of the market.

Male: OK, OK, thanks. And, my next question is about the DIO (inaudible) material outstanding and the DSO. So, per our calculation, for this quarter, DIO increased from 73 days at the end of fiscal year 2010 to 87 days now and the DSOs also increased from 113 days – sorry, increased from 95 days to 113 days and so, so, can you provide us some color as to why the DIO and DSOs increased so much?

Yes, (inaudible) question my question is that, you know, first it is not year over year, it is the DIO for the end of this quarter compared to the DIO at the end of the fiscal year 2010. So, basically, I can (inaudible) by myself so (inaudible) DIO/DSO (inaudible) .

Edmund Hen: First of all, from our (inaudible) as of June 30th we have 83 days. This is because we have increased our inventory on the raw materials. Also, this is -- we have to meet the demands for the third quarter which was the (inaudible) season during the year and, also, the price of raw material has been increasing which is why we have some fair inventory for such strategies to meet up our new demands in the third quarter and for the DSO I think you may also notice from our press release naturally have the same 95 days for our (inaudible) as of June 30th, 2011. And also the December 31, 2010.

Male: Also, you mentioned that the DSO now is also 95 days?

Edmund Hen: Yes, correct.

Male: OK, so how (inaudible) is 113 days, so, so, we can (inaudible) maybe after the call and we can – we can talk about some formulas we use to compare why we get different answers, OK?

Edmund Hen: Sure, OK?

Male: So my last question is about the – the (inaudible). So, based on your fiscal year (inaudible) so – so we estimate that the (inaudible) for second half 2011 is about (inaudible) $126 million so, given that as a cash in hand now is only (inaudible) $56 million while cash flow from operations seems not able to make up the gap, so what do you think China Ceramics will finance the (inaudible) in the second half of 2011?

Edmund Hen: First of all we do believe the cash generated from our operating activity can sustain the (inaudible) for our second half this year and all this (inaudible) will be on schedule and in case if we need some cash (inaudible) for our (inaudible) or working capital we have the borrowing capacity from the bank which we believe can also sustain our working capital or the (inaudible) in the second half of the year.

Male: OK, thank you very much. Again, congratulations on the good quarter.

Operator: Again, in order to ask a question, please press star and then the number one on your telephone key pad. That is star1 to ask a question. There are no questions at this time. I would now like to turn the call back over to Mr. Rudnick.

David Rudnick: Hello.

Operator: Are there any closing remarks?

David Rudnick: This concludes China Ceramics second earnings conference call. We appreciate all of your participation on the call. Thank you very much. If you need additional information please contact the company or those of us at CCG. Thanks again, have a good day everybody.

Operator: Thank you. This concludes today's conference. You may now disconnect.

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