

CHINA CERAMICS CO., LTD.

3RD QUARTER 2012 EARNINGS CALL

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

China Ceramics Chairman and Chief Executive Officer, Mr. Jia Dong Huang
Chief Financial Officer, Mr. Edmund Hen

Operator: Good morning and welcome to the China Ceramics Third Quarter 2012 Earnings Call.

David, you may begin your conference.

David Rudnick: Thank you. Good morning, ladies and gentlemen, and good evening to those of you who are joining us from China. Welcome to China Ceramics Third Quarter 2012 Earnings Conference Call.

With us today are China Ceramics Chairman and Chief Executive Officer, Mr. Jia Dong Huang, and the Chief Financial Officer, Mr. Edmund Hen.

Before I turn the call over to Mr. Huang, I'll remind our listeners that during this call, the management's prepared remarks contain forward-looking statements, which are subject to risks and uncertainties, and management may make 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 refer you to more detailed discussion of the risks and uncertainties with the Company's filing with the Securities and Exchange Commission.

In addition, any projections as the Company's future performance represent the management's estimates as of today, November 14, 2012. 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 references to certain non-GAAP financial measures, which the Company believes provides meaningful additional information to understand the Company's performance. The statement reconciling any non-GAAP measures to nearest GAAP equivalence can be found on the earnings press release distributed earlier today.

And now, it's my pleasure to turn the call over to China Ceramics' Chairman and CEO, Mr. Jia Dong Huang, and China Ceramics CFO, Mr. Edmund Hen, will be translating for Mr. Huang.

Mr. Huang, you may proceed.

Jia Dong Huang: (Speaking in Foreign Language).

Edmund Hen: Thank you, (David).

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

Jia Dong Huang: (Speaking in Foreign Language).

Edmund Hen: We achieved a sound financial results in the third quarter of 2012. As the Company generates steady revenue, earnings and cash flow results despite challenging conditions in China's real estate and construction market.

Although our sales volume decreased, our financial performance in the third quarter was down just modestly from the year ago quarter sustained by a 14 percent increase in the average selling price of our products as compared to the third quarter of 2011. This is due to our continued migration to higher margin investor performance ceramic tiles produced using our new plants and equipments of our Hengdali facility.

Jia Dong Huang: (Speaking in Foreign Language).

Edmund Hen: We successfully executed our capacity expansion plan earlier this year and although we now have the productive capacity to produce 72 million square meters of ceramic tiles per year. We are keeping a portion of this capacity offline and are using capacity capable of producing 56 million square meters of ceramic tiles annually. We will closely monitor the macroeconomic environment in China to manage our existing production capacity, and we'll only bring additional capacity online as business conditions and customer demand dictate.

The current utilization of the Company's (two) plant facility for the third quarter of 37 percent indicative of still a high level of efficiency though it is down for the second quarter 36 percent of utilization.

Jia Dong Huang: (Speaking in Foreign Language).

Edmund Hen: As a result of slowing economic conditions in China, the Company has modest capital expenditures in the third quarter, followed by no capital expenditures in the first two quarters of the year. This is unlikely that we are engaging any material capital expenditures in the fourth quarter of 2012. The capital expenditure expense, we undertake that next year, we will be subject to the business outlook at that time.

Although the average selling prices for our ceramic tiles are still strong this quarter, we anticipate possible price decreases in the next quarter and combine that with reduced backlog for the fourth quarter but will see a decrease in company revenue looking forward.

However, in terms of the construction such as long term fundamentals, urbanization and demographic change in China prefers the construction and building material sector as the government support for the construction of affordable housing.

Jia Dong Huang: (Speaking in Foreign Language).

Edmund Hen: We continue to leverage the effort of our research and development department, which has resulted in the commercialization of new innovative product to realize higher margins. Our new plant facilities have been an integral part of our strategy to be the market leader in the – in this respect as it enables us new design and production capability that gives us a sustainable company advantage.

We also plan to strengthen our direct sales efforts to large property developers and believe that our experience and knowledge of our customers will enable us to continue to optimally surface our Tier I and Tier III markets.

We are confident that the construction industry will rebound and with our available capacity progression and strong brand recognition, China Ceramics is still well positioned to be successful in our industrial sector in the long term.

Jia Dong Huang: (Speaking in Foreign Language).

Edmund Hen: With that, I would like to turn over the call to the Company's Chief Financial Officer, Edmund Hen, who will discuss the Company's third 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 third quarter of 2012 was RMB 386.3 million, or \$62.1 million, down 5.1 percent from RMB 406.9 million, or \$63.4 million, in the third quarter of 2011.

The year-over-year decrease in revenue was due to a 16.4 percent decrease in the sales volume of ceramic tiles to 12.2 million square meters in the third quarter of 2012 from the third quarter of last year, partially offset by 14 percent increase in the Company's average selling price. The improved ASP was due to an improved sales mix with more sales coming from our new higher-priced rustic and glazed series of ceramic tiles produced out of our facility – Hengdali facility.

Gross profit for the third quarter 2012 was RMB 110 million, or \$17.7 million, down 7.6 percent from RMB 119.1 million, or \$18.6 million, for the third quarter of 2011. The year-over-year decrease in gross profit was due to lower sales volume of our ceramic tiles in the most recent quarter.

Our gross profit margin for the quarter was 28.5 percent compared to 29.3 percent for the same period in 2011 due to lower sales volume in the third quarter of this year.

Profit before taxes for the third quarter of 2012 was RMB 97.9 million, or \$15.7 million, down 4.3 percent from RMB 102.3 million, or \$15.9 million, in the third quarter of 2011.

Net profit for the quarter – third quarter 2012 was RMB 72.8 million, \$11.7 million, down 4 percent from RMB 75.8 million, or \$11.8 million, in the same period of 2011. The year-over-year decrease in net profit was the result of lower gross profit, offset by lower administrative expenses and lower income tax expenses.

Earnings per fully diluted share were RMB 3.56, or \$0.57, for the third quarter of 2012, down from RMB 4.16, or \$0.65, in the comparable year of third quarter. EPS in the quarter was computed using 20.4 million shares, while third quarter 2011 EPS was computed using 18.3 million shares.

Non-GAAP net profit, which excludes the share-based compensation expenses, was RMB 74.1 million, or \$11.9 million, in the third quarter of 2012, down 5.4 percent from RMB 78.3 million, or \$12.2 million, in the third quarter of 2011.

And non-GAAP earnings per fully diluted share, which excludes the share-based compensation expenses, was RMB 3.63, or \$0.58, in the third quarter of 2012 as compared to RMB 4.29, or \$0.67, in the same period a year ago.

Turning to our balance sheet. As of September 30, 2012, we have a cash and bank balances of RMB 122.6 million, or \$19.5 million, compared to RMB 42.1 million, or \$6.7 million, as of December 31, 2011.

The increase in cash and bank balances over the nine months was the result of sustained revenue and the modest level of capital expenditure making the year-to-date.

We also reduced our total debt for the nine months to RMB 60 million, or \$9.6 million, from RMB 185 million, or \$29.4 million, from the beginning of the year.

As of September 30, 2012, we have then inventory turnover of 101 days compared to 86 days – 84 days as of December 31, 2011. The increase in inventory turnover reflects a normal pattern, which we introduced a new series of ceramic tiles for testing by our customers, which are temporarily slower moving, while thereafter the new series produced in the – in accordance with the actual customer's order.

Moving on to our outlook, looking at the rest of the year, our backlog of order for delivery in the fourth quarter of 2012 is approximately RMB 290.9 million, or \$46.3 million, representing a year-over-year decrease of 28.1 percent compared to the fourth quarter of 2011, which has significantly changed from that of previous quarter, which has strong positive year-over-year comparison.

With current backlog now reflecting the impact of weaker customer demand, we estimate that our sales volume for ceramic tiles in the fourth quarter of 2012 will be approximately 8.7 million square meters, a significant decrease from the current quarter as well as that of the fourth quarter last year.

As indicated in the September news and announcements, the Company attributes this reduction to a general slowdown in the construction industry in China where customers are deferring order and/or waiting to start new projects.

Further, some of the Company's customers may be delaying projects to see if the government will adopt new policies to aid the construction industry. To mitigate the effects of slowing demand, the Company may consider shutting down some existing capacity on a temporary basis, (should you go) and use it in order to generate cost savings.

However, it will maintain its currently wide range of product offerings and continue to augment it with new products from its research and development program, which has the potential to result in products that realize higher margins.

The Company believes that a core competitive advantage is its ability to innovate and introduce new products into the product mix that you offer to your customers.

China Ceramics' new plant facilities also have new design and production capabilities as well as the ability to operate more efficiently.

We are optimistic as to the long-term prospects of our business and plan upon working even closer with our customers during this challenging time in order to take advantage of the opportunities available to us.

In this regard, we look to have an important announcement to make in the near future as it pertains to a significant contrast with a large project developer.

With that, we would like to open up the call to any questions for attending to the first quarter financial operation results.

I will not that board member, Bill Stulginsky is also on the call and available to respond to questions as well.

Operator?

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

Again, that is star one to ask an audio question.

And your first question is from the line of John Harrell with Harrell and Associates.

John Harrell: I see that your cash position is significantly higher at the end of Q3 than it was at the end of last year. You know, and in the past, the Company has rejected a \$7.50 going private proposal. Now the stock is at \$1.50. Do you have any regrets not accepting the proposal? And have you been looking into or received any offers for any new going private offers?

Edmund Hen: We are still enjoying benefits to be a listed company in the U.S. to do business in China. And we have never regret for being public rather than to go private.

And we have a lot of – we have hear a lot of noise from the market that – asked the Company to go private. But we have not considered any of that.

John Harrell: So you don't have any regrets from not accepting the \$7.50 going private proposal?

Edmund Hen: No.

John Harrell: OK, thanks.

Operator: Once again, to ask an audio question, please press star one.

And your next question is from the line of Steven Martin with Slater Capital Management.

Steven Martin: Hi there. Edmund, do you – and I know you generally don't give guidance. But can you tell us based on your backlog and your estimate of expected shipments in the fourth quarter whether you expect to be profitable in the fourth quarter?

Edmund Hen: We are still expecting profit in the fourth quarter. And we found the fourth quarter shipment still stable according to our backlog number. And we've – we are not going to make a loss what we believe in the fourth quarter.

Steven Martin: OK. When you look out, you may – your commentary may – was about the first quarter said that you expected the soft – the weakness into the first quarter of '13. Do you expect that you will continue to make a profit in the first quarter of '13?

Edmund Hen: Yes, we do. We believe that in the first quarter of 2013. We still can make profits. Yes.

Steven Martin: OK. With respect to inventories and receivables ...

Edmund Hen: Yes.

Steven Martin: ... with the backlog and the shipments slowing ...

Edmund Hen: Yes.

Steven Martin: ... do you expect that those numbers, \$54 million and \$76 million, should come down significantly over the course of the next – of fourth quarter and be down significantly at the end of December?

Edmund Hen: And your question is for the numbers of the inventory and the (trailing 2000) number?

Steven Martin: Yes.

Edmund Hen: Yes, we do also expecting the number will decrease because of our revenue to sales volume decrease in the first quarter of 2013.

Steven Martin: OK. And would you intend – you should generate a fair amount of cash in the fourth quarter because of that.

Edmund Hen: Yes.

Steven Martin: Would you expect to pay down more debt or is the debt being paid down on a schedule?

Edmund Hen: We will further pay down some of that on schedule. And, you know, we always want to minimize our debts.

Steven Martin: Would you expect to pay down the debt to zero if it keeps – if you keep generating cash?

Edmund Hen: Probably not. I think we need to keep a small number of debts in order to have some kind of relationship with the bank.

Steven Martin: All right. And another question, your indication was you didn't expect to build anything going forward. Does that mean capital expenditures should be zero or close to zero in the fourth quarter and the first quarter of '13?

Edmund Hen: There will not be some significance or major capital expenditure in the fourth quarter of – first quarter in 2013.

Steven Martin: Is that – does that mean it's 1 million, less than 1 million or you just don't have any way of knowing?

Edmund Hen: Less than 3 million or 4 million, I mean, U.S. dollars.

Steven Martin: In each quarter?

Edmund Hen: We still have some equipment need some replacement for the old equipment. So we will minimize this replacement for the – during this time.

Steven Martin: OK. And in your product mix for the fourth quarter, do you expect it to continue to have the higher margins and higher selling prices?

Edmund Hen: Not necessarily. But we will try to maintain the higher margin product to be sold in the fourth quarter and first quarter of 2013.

Steven Martin: OK. Thank you very much.

Operator: Your next question is from the line of (Howard Linker) with (Linker and Company).

(Howard Linker): (Speaking in Foreign Language).

Jia Dong Huang: (Speaking in Foreign Language).

(Howard Linker): I have a question about the wording.

Edmund Hen: Yes.

(Howard Linker): You say the average selling price of the ceramic tiles is 14 percent in the third quarter relative to last year. And that's the fourth double digit increase in a

row. You mean, fourth quarter double digit increase in a row of higher selling prices?

Edmund Hen: You mean, the fourth quarter? Not necessarily because ...

(Howard Linker): No, no, no. No.

Edmund Hen: Sorry?

(Howard Linker): It said in the third quarter.

Edmund Hen: Yes.

(Howard Linker): The average selling price is 14 percent, above last year's third quarter. And that's ...

Edmund Hen: Yes.

(Howard Linker): That's the fourth double digit increase. You mean, the fourth quarter in a row or four years?

Edmund Hen: This is the third quarter. The third quarter record – average selling price is 14 percent higher than the same period last year.

(Howard Linker): So that's four quarters in a row when that happened. Is that what you meant?

Edmund Hen: No, the fourth quarter depends on the actual sales. I cannot say right now.

(Howard Linker): No, not the fourth quarter. But how many quarters in a row have selling prices increased over the last year?

Edmund Hen: Right. I think this is the third quarter we have recorded the average selling price that's been higher than last year.

(Howard Linker): Oh, I see, OK. (Speaking in Foreign Language).

Edmund Hen: Thank you very much.

Operator: Your next question is from the line of (Amber Kai) with Goldman Sachs.

(Amber Kai): Hello?

Edmund Hen: Hello.

(Amber Kai): Mr. Hen? Could you please share with us, if you have, any estimate about ceramic tiles inventory level in China?

And we know that the National Bureau of Statistics have inventory data series in U.S. dollars. But we think that the national inventory level and the unit of square meters will be more helpful for us. Thank you.

Edmund Hen: You mean the average level of the national standard?

(Amber Kai): Yes, the inventory level in China of ceramic tiles.

Edmund Hen: I'm sorry I do not have the statistics for the national figures right now. Probably, you know, probably we also need to do some study on that.

(Amber Kai): OK. So if we have the series in U.S. dollars, I mean, the value of inventory, do you have any suggestion that we can make – like, how should we convert the numbers?

Edmund Hen: How should we convert the number into U.S. value?

(Amber Kai): No, how should we convert the value in U.S. dollars? These values are the ceramic tiles. How should we convert them back to square meters? Do you have any suggestions about that?

Edmund Hen: No, I do not have such information.

(Amber Kai): OK.

Bill Stulginsky: Edmund, this is Bill.

Edmund Hen: Yes?

Bill Stulginsky: I think, Edmund, just let me clarify – just kind of clarify this question. The significant part of the inventory recorded is in raw materials. So we have a

significant stockpile of coal and clay that are components of the inventory value. There's a piece that is finished kind of product, and that we probably – Edmund, I don't know if we have at hand on the square meters we have on hand at the end of the third quarter and what the value of that inventory is as a component of our total inventory number. So it's a little hard to directly convert the total value of inventory in square meters because much of it is sitting in raw materials is my point.

(Amber Kai): OK, I see.

Bill Stulginsky: Yes. But do we have, Edmund, the number of square meters we have in inventory at the end of September and what the dollar value of that finished inventory is?

Edmund Hen: Yes.

(Amber Kai): OK.

Edmund Hen: You can approximate the estimate of our average selling price with our inventory level. Approximately 30 percent of our inventory is the raw material. So you can easily estimate how many square meters on our inventory.

(Amber Kai): Yes. OK, thanks.

Edmund Hen: Thank you.

Operator: Once again, as a reminder, to ask an audio question, please press star one.

And your next question is from the line of (Ling Soo) with (Kian Capital).

(Ling Soo): Hi, Edmund. Just wondering, in facing a challenging real estate environment in China, you have continuously demonstrated the ability to broaden your product mix and enhanced the product mix at consistent margin and, you know, you have also stated the potential to shut down some of the production lines that is currently, you know, active to save cost.

But what about, you know, are there any initiative that you are taking or plan to do that will, you know, perhaps help support your order backlog? In other words, to help you out increase or grow your top line as opposed to just to save cost at this point. I mean, are you proactively looking to geographic expansion to extend your sales distribution channels? Can you provide some updates on this front? Thank you.

Edmund Hen: Yes. We always try to have new customer or some direct dealing with developers. And I – as I mentioned on the call earlier, we are announcing a new customer very soon, which we have signed direct contract with this developer. This will be very significant contract for our company in the future development.

And also we have just signed a contract. So we will have such an announcement probably later of the month.

(Ling Soo): OK. It's good. And now in terms of the ASP, you know, you mentioned that in the third quarter, you know, it was the – like, a third quarter that shows, you know, third consecutive quarter shows year-over-year's increase in ASP. How about in terms of sequentially if it's looking at 2012, you know, quarter by quarter or what – how is it trending?

Edmund Hen: Quarter by quarter, I cannot exactly remember the first quarter. But, you know, quarter to quarter, we have recorded the increase in ASP since the beginning of this year compared to last year.

Also, we have more higher selling – a higher selling price new order to be sold to our customer since beginning of this year.

(Ling Soo): OK. Is that continuously to trend up from earlier this year?

Edmund Hen: Yes.

(Ling Soo): OK, great. All right, thank you.

Edmund Hen: Thank you.

Operator: Your next question is from the line of Steven Martin with Slater Capital Management.

Steven Martin: Edmund?

Edmund Hen: Yes?

Steven Martin: Hi. When we were at the annual meeting ...

Edmund Hen: Yes.

Steven Martin: ... and we had a discussion on the phone ...

Edmund Hen: Yes.

Steven Martin: ... we talked – you talked and (Paul) talked or (Kelly) talked about a board meeting at the end of November or early December ...

Edmund Hen: Yes.

Steven Martin: ... to discuss 2013 and the cash that was available and the possibility of a share repurchase or a dividend or some other shareholder action. And I was wondering if that meeting had been held or if it were going to be held and would you still expect to have a discussion of a – of that kind of matter?

Edmund Hen: The meeting has not been held. And I think that will be held very soon, as we mentioned, the 30th – probably the end of November or earlier December. And we will announce to the public once we have any decision on this topic.

Steven Martin: OK. I apologize. I got on the call a couple of minutes late.

Edmund Hen: That's fine.

Steven Martin: Thank you.

Edmund Hen: Thank you very much.

Operator: Once again, to ask an audio question, please press star one.

At this time, you have no further questions.

David Rudnick: Thank you, Operator.

And on behalf of the entire China Ceramics management team, we'd like to thank all of you for your interest and participation on this call.

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

Operator: Thank you. You may now disconnect.

END