

**CHINA CERAMICS**

**Moderator: David Rudnick**  
**March 7, 2012**  
**8:00 a.m. ET**

Operator: Good morning. My name is (Jennifer) and I will be your conference operator today. At this time, I would like to welcome everyone to the China Ceramics Fourth Quarter and 2011 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speaker's 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.

Mr. Rudnick, you may begin your conference.

David Rudnick: Thank you. Good morning, ladies and gentlemen and good evening to those who are joining us from China. Welcome to China Ceramics Fourth Quarter and Full Year 2011 Earnings Conference Call.

With us today, our China Ceramics Chairman and Chief Executive Officer, Mr. Jiadong Huang; and the Chief Financial Officer, Mr. Edmund Hen.

Before, I'll turn the call over to Mr. Huang, may I remind our 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, March 7th, 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 release issued 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: (Speaking in Foreign Language).

Edmund Hen: Thank you, David.

Jiadong Huang: (Speaking in Foreign Language).

Edmund Hen: On behalf of the company, I would like to welcome everyone (turning) of 2011 fourth quarter and full year earnings conference call.

Jiadong Huang: (Speaking in Foreign Language).

Edmund Hen: In the fourth quarter of 2011, we are pleased to report quite a strong financial results, achieving 48 percent revenue growth, year-over-year and 52 percent income growth over the comparable period, closing 2011 on a strong note.

For the full year 2011, I'm pleased to announce that we produce recompilation results, with revenue of USD \$231 million, up 40 percent from fiscal 2010. And net income of USD \$46 million, up 30 percent from 2010.

Jiadong Huang: (Speaking in Foreign Language).

Edmund Hen: Our robust revenue growth was driven by the increase sales volume of ceramic tiles due to our expanded production capacity. During the quarter, we sold approximately 12.4 million square meters of ceramic tiles representing 23 percent year-over-year increase. And despite a challenging (new aspect) environment in China. We were able to increase our average selling price to RMB 32.7 per square meter in the most recent quarter, up 20 percent compared to the fourth quarter in 2010.

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

Jiadong Huang: (Speaking in Foreign Language).

Edmund Hen: 2011 was also a (banner) year for China Ceramics and that we successfully expand our annual production capacity of ceramic tiles to 52 million square meters an increase of 40 million square meters of annual capacity by the end of 2011. We completed the expansion of phase II of Hengdali of an additional 20 million per meters of ceramic tiles annual production and tile production has been running smoothly.

(Inaudible) ran up production of phase II and expected to be fully operational by the end of the second quarter. By then our total annual production of ceramic tiles will be expanded to 72 million square meters which represent nearly 90 percent increase from our capacity level at the end of 2010.

Jiadong Huang: (Speaking in Foreign Language).

Edmund Hen: For the first half of 2012, we will be focused on executing a smooth round up of phase II of the Hengdali facility to meet customer demand. We will also continue to seek to control cost, improve efficiency and promote our brand

name so as to continue to effectively market our product, homeland and abroad.

We have an innovative and experienced R&D team, which has lead to the development of more than 2,000 products. We have a robust pipeline of new products to be tested and marketed in the near future. These are all exciting initiative for China Ceramics in 2012.

Jiadong Huang: (Speaking in Foreign Language).

Edmund Hen: For our backlog of orders in the first quarter of 2012 represents 21 percent growth year-over-year. With our increased capacity expansion, proven R&D capabilities, (inaudible) brand recognition and (inaudible), China Ceramics is bound positioned to utilize our competitive advantage to secure additional growth and market shares gained in the industry.

Jiadong Huang: (Speaking in Foreign Language).

Edmund Hen: In conclusion, we are very pleased with our fourth quarter and record full year financial performance. We believe that the future of China Ceramics is very bright and (in view of) market positioning as very secure. Our asset position capacity not only makes us more competitive but this enables us to be highly agile to industry trend as well as to (elite) industrial innovation.

I look forward to sharing further report as to China Ceramics operational and financial program in 2012.

Jiadong Huang: (Speaking in Foreign Language).

Edmund Hen: With that, I'd like to turn over the phone to the company's Chief Financial Officer, Mr. Edmund Hen, who will discuss the company's fourth quarter and full year 2011 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.

Revenue for the fourth quarter, end December 31st, 2011 was RMB 404.5 million, equivalent to USD \$63.8 million, up 48.1 percent compared to the

same quarter last year. The year-over-year increase in revenue was highly driven by 22.8 percent increase in the sales volume of ceramic tiles to 12.4 million square meters in the fourth quarter of 2011, from 10.1 million square meters in the fourth quarter of 2010.

Also, the average selling price increased in the fourth quarter of 2011. The RMB is 32.7 per square meter compared it to RMB 27 per square meters in the comparable quarter due to more sales coming from higher priced ceramic tiles.

We were able to increase our sales volume due to the increase of production capacity at the Hengda facility together with our current capacity from the Hengdali facility. Both of which operate at full capacity.

Gross profit for the fourth quarter end December 31st, 2011 was RMB 139.4 million or USD \$21.9 million, up 52.3 percent from the same quarter last year. The increase in gross profit was mostly driven by the higher sales volume in the most recent quarter.

Gross profit margin was 34.5 percent compared it to 33.5 percent for the same period in 2010. Profits before for the fourth quarter end December 31st, 2011 was RMB 125.4 million or USD \$19.7 million, up 52.9 percent from the same period last year.

Net profit for the fourth quarter end December 31st, 2011 was RMB 92.2 million or USD \$14.5 million, up 52.4 percent for the same period in 2010.

Non-GAAP net profit which excludes the share-based compensation expenses was RMB 97.5 million or USD \$15.3 million in the fourth quarter end December 31st, 2011, an increase of 61.2 percent from the fourth quarter of 2010.

In the fourth quarter of 2010, there was no non-GAAP adjustment.

Earnings per fully diluted share were RMB 4.51 or USD \$0.71 for the fourth quarter end December 31st, 2011, up 21.6 percent from RMB 3.71 or USD \$0.58 over the same period in 2010.

Earnings per fully diluted share in the fourth quarter of 2011 were computed using 20.4 million share while that earnings per fully diluted share in the fourth quarter of 2010 were computed using 16.3 million share.

For the full year end December 31st, 2011, revenue increased by 39.6 percent to RMB 1,491.6 million or USD \$231.4 million compared to year-end December 31st, 2010.

Gross profit was RMB 467.2 million or USD \$72.5 million, up 37.8 percent from last year.

Gross margin was 31.3 percent compared to 31.7 percent in the same period of 2010.

Net profit for the year was RMB 294.4 million or USD \$45.7 million, up 30.6 percent from 2010.

Non-GAAP net profit, which excludes the share-based compensation expenses, was RMB 311.7 million or USD \$48.4 million, an increase of 38.2 percent from RMB from 2010 for which period there was no non-GAAP adjustment.

Earnings per fully diluted share were RMB 14.41 or USD \$2.24 for the year 2011 and RMB 15.26 or USD \$2.37. On a non-GAAP basis versus RMB 15.96 or USD \$2.53 in 2010.

Earnings per fully diluted share for the year 2011 were computed using 20.4 million share while net earnings per fully diluted share for the year 2010 were computed using 13.3 million shares.

Turning to our balance sheets, as of December 31st, 2011, we have a cash and bank balances of RMB 42.1 million or USD \$6.7 million as compared with RMB 263.5 million or USD \$39.9 million as of December 31st, 2010. The decrease was attributed to the purchase of new kilns and production lines to replace older manufacturing equipment at the Hengda facility as well as the

continuation of Phase II construction at the Hengdali facility during the year-end December 31st, 2011.

As of December 31, 2011 we had inventory turnover of 84 days compared with 73 days as of December 31st, 2010. We expected a decrease in production volume due to the spring festival in January 2012. Thus we store our inventory by year-end to meet the delivery requirement in early 2012 which resulted in the increase of the inventory turnover.

Bank borrowings were RMB 185 million or USD \$29.4 million as of December 31st, 2011. The increase in the bank borrowing was for working capital and to provide better cash position in light of capital expenditure requirements.

Capital expenditures for the year-end December 31st, 2011 were approximately RMB 441.6 million or USD \$68.5 million. Of this amount, approximately RMB 155.3 million or USD \$23.9 million related to the Hengda facility, RMB 220 million or USD \$34.1 million related to Phase II of the Hengdali facility and RMB 66.3 million or USD \$10.5 million related to Phase III of the Hengdali facility which is part of the company's 2012 expansion spend.

The Company's expected capital expenditures for 2012 will be about USD \$38 million, the majority of which will be associated with the Phase III expansion of Hengdali. And after that, management regularly reviews the level of capital expenditures spent throughout the year and may adjust its capital expenditures subject to market conditions.

Moving on to our outlook. Looking into the future, the company's backlog of orders for delivery in the first quarter of 2012 is approximately RMB 372.6 million or USD \$59.2 million, representing a year-over-year growth rate of 21 percent as compared to the first quarter of 2011. We estimate the sales volume of ceramic tiles in the first quarter of 2012 will be approximately 11.7 million square meters.

We will attend the upcoming 24th Annual Roth Conference in Orange County, California. I will be presenting at the conference on March 13th at

5:00 p.m. Also, in 2012, our management will continue to actively attend industrial trade fairs to promote our products at home and abroad.

I had comment of Huang's opening remarks. In the China's Ceramic market positioning continues to be secured and we remain optimistic as to industry outlook.

As many of you are aware, in February 2012, People's Bank of China cut the bank reserve ratio by half percentage points using as much as USD \$64 million for lending. With the inflation falling to 4.5 percent in January 2012, the Chinese government is likely to adopt a gradual easing policy to maintain the economic growth. We see (solvency) in the real-estate market in China and demand continues to be stable in tier two and tier three cities.

We also think we will benefit from the government's mandate on affordable housing which targets 36 million units of new housing by 2015 at a cost of nearly USD \$600 billion. We are looking forward to achieving full utilization of Hengdali phase II capacity by the end of second quarter and introducing new ceramic tiles to (miss) customers demand for innovative and high quality products.

With that, we would like to open up the call to any questions presenting to fourth quarter and full year financial and operation performance.

Operator?

Operator: At this time, if you would like to ask a question, press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from Kun Tao with Roth Capital Partner.

Kun Tao: Hey, congratulations on the good quarter. First question is regarding your backlog, how soon you think you can recognize your backlog given the 59.2 million in the first quarter?

Edmund Hen: You mean how soon we can recognize the full backlog for the first quarter?

- Kun Tao: Yes, you reported first quarter backlog as 59.2 million, right?
- Edmund Hen: Yes. I think this is preliminary number for our first quarter. Therefore the fully recognition for the whole backlog of revenue and we will – we'll recognize it until the end of March.
- Kun Tao: OK. So basically that's your revenue guidance?
- Edmund Hen: Yes. This is a revenue guidance for the first quarter.
- Kun Tao: OK. OK. So what is your backlog? Your backlog is also 59.2.
- Edmund Hen: You mean the first quarter?
- Kun Tao: No, as of today – yes. As of year-end of 2011, what was your backlog?
- Edmund Hen: That wasn't – lower than our recognized revenue for the fourth quarter. I mean the revenue reported in the last quarter. And yes, we always provide a (consultative) figure before we have a fully recognition for our revenue.
- Kun Tao: OK.
- Edmund Hen: We only announce the backlog which we foresee at this point.
- Kun Tao: OK. And then in your guidance or your backlog, what's your embedded ASP increase in Q1?
- Edmund Hen: You may challenge our guidance on the backlog so that it is easily you can see that, you can calculate from our, approximately first quarter revenue and the first quarter backlog by square meters.
- Kun Tao: OK. So I just use the 59.2 divided by 11.7? Is that what you mean?
- Edmund Hen: Yes.
- Kun Tao: OK. In terms of CAPEX, you guided 2012 CAPEX of 38 million, I have two questions in here. When do you expect to spend this CAPEX, whether it's throughout the year, evenly distributed to each quarter, or maybe mainly paid in first half or second half, that's the first question.

The second one is, what do you think given the company has over 6 million cash, how do you come out with all these CAPEX?

Edmund Hen: And for your first question, the new capacity in our Hengdali Phase II is still under the ramping up period. And we estimate that the whole year capacity from this new facility will provide approximately 20 million square meters for a year. And this is our estimation at this moment. And for convenience, you may divide it by fourth quarter so that we can have about 5 million square meters per quarter.

And for your second question, we expect our – we have cash generated from operations so that we do not need fund raising from the capital market to support our construction on the phase III.

Kun Tao: OK. All right. My last question is where did your order come from? I mean what type of customers or industries given real estate sectors was performing really bad in 2011?

Edmund Hen: 2011 you mean?

Kun Tao: Yes.

Edmund Hen: And what we found is the construction is still very popular everywhere in China and especially the tier two and tier three cities, lots of construction undergoing. And also because we also sell our products to the commercial and also residential housing so that we actually do not find a very high-pressure from the market.

And this is – and the major reason, what we think is we very highly recognize the brand in China. And also for our housing project, they (apparently) spend about 2 to 3 percent of their cost on the (exterior wall) ceramics. And this is why they would like to buy some high-quality of the (exterior wall) ceramic tiles like our brand.

Kun Tao: OK. All right. That's all my questions. Thank you.

Edmund Hen: Thank you.

- Operator: Your next question comes from (Ben Prissy) with China Ceramics.
- (Ben Prissy): Hey, congratulations on the quarter. So I'm kind of curious, you guys, I think recognize that there's a public relations problem with Chinese companies and United States. And I think you guys have been kind of proactive in addressing that, but have you thought about more independent directors in getting your independent directors involved with communication? You know, shareholders in the United States?
- Edmund Hen: As you may notice from our (inaudible), we are going to have the annual shareholder meeting on May 15th, 2012. And for the normal financial operation, we invite our other committee and the independent director to get involved in lots of communication with our auditor. And so that we believe that our financial reporting will be fully reliable and trustful from the – to the investor.
- Bill Stulginsky: Edmund, let me just jump in here. For those on the call, this is Bill Stulginsky, I'm a board member and Chair of the Audit Committee. In relation to the last question, as it relates to communication of the independent directors with shareholders, I did participate in the third quarter audience call, I am on this call also and I do expect I will continue to participate in additional calls going forward.
- Yes, I do think there is an increased awareness for director interaction with shareholders and it's best exemplified most recently by at least my participation in these calls.
- (Ben Prissy): Yes, thanks a lot. I didn't realize you're on the call. That's pretty amazing.
- Bill Stulginsky: I'm only to – as to jump in as I can and help management – this is primarily a management call but I'm here to support management and jump in as needed.
- (Ben Prissy): Yes. And I – you know, I am a subscriber to this (Q) investing website and they did a little bit of on the ground due diligence. And I know as you guys commented on that, but you know, one of the things they identified was that, you guys were very near to facility that was owned by, I think it was the

CEO's brother or something like that? And you know, it's still – you said, you know, you don't co-mingle or anything but it's still, that proximity can make people uncomfortable.

Bill Stulginsky: Yes, I understand that. And I could tell you from clearing the plants, myself, there is a distinct separation between the two facilities. We worked with our auditors to probe any related party activity that we should be aware of, we have done some extra work on that in 2011. Although the results are preliminary at this stage, we found no activity that is troublesome to the board at this stage, and we'll continue to pursue that as we wrap up the 2011 audit.

(Ben Prissy): OK. Yes. I mean, thanks. One last question, have you been to China and seen the facilities ever built?

Bill Stulginsky: Yes, I was to both facilities in October of last year.

(Ben Prissy): Wow. OK. Thanks. Cool. I appreciate it. Yes, I'll quit bugging you guys on that. So, thanks.

Edmund Hen: Thank you, Bill.

Bill Stulginsky: You're welcome.

Operator: To ask a question, press star one.

Your next question comes from Michael Scholten with Clear Harbor.

Michael Scholten: Good evening guys and congratulations on another great quarter. My question was about the ASPs, just that 20 percent increase. I was curious if that was due to just an overall increase in prices across product line? Or if there's a change in mix where higher margin product is being sold now?

Edmund Hen: It was a change in mix, for the mix. We sold some of the new products from our new facility in the fourth quarter. And they were selling at very high selling price so that the average selling price has been – goes up by about 20 percent. And this is kind of the new project. It's very large pieces ceramic tiles that 800 times 800 and the selling price of that can be up to \$20 – can be up to \$20 per square meters.

Michael Scholten: OK. OK. And then my other question was about the inventory. You mentioned on the call that you increased inventory in anticipation of a spring festival sale or something like that and the press release mentions that inventory was accumulated through test runs of the plant expansion. And I was – could you talk about that a little more and the timing – I guess what I'd like to know is this kind of your inventory as a percentage of sales going forward or do you intend to deplete that some to – go back to a more normal level?

Edmund Hen: Going forward, because we are producing some of the new products, we need to store more raw materials for our new products. So that – I think the inventory turnover growth for the run-up period, will remain about the same as the – at the end of 2011, and up to the run-up period, we expect the inventory turnover will go to (some) for a little and go back to normal.

Michael Scholten: OK. So is that – like are you thinking by the end of the second quarter or is that – are we looking further out in that?

Edmund Hen: Probably – yes, by the end of second quarter or third quarter.

Michael Scholten: OK. Great. Thank you. And congratulations again on another great quarter.

Edmund Hen: Thank you very much.

Operator: Your next question comes from (Izzy Jared) with (Silver Rock).

(Izzy Jared): Great quarter. I have a simple question here on you're essentially estimating for the (inaudible) at the end of the year, (inaudible). Correct?

Edmund Hen: I'm sorry. I cannot hear very clear.

(Izzy Jared): Yes. The capacity (inaudible) estimates to be (60) square meter?

Edmund Hen: You are correct. By the end of the year of 2011, there was approximately 52 million square meters.

(Izzy Jared): 2012, (inaudible)?

Edmund Hen: And by the end of 2012, we are expecting the capacity that goes up to 72 million square meters because of the new facility, phase II of the Hengdali will become (fitted) for the operations.

(Izzy Jared): OK. So the first quarter, why units only be 11.7? Is this just – the first quarter is usually (inaudible)?

Edmund Hen: And because the second phase is still under the testing period. So that we do not – (can) the testing period into the new capacity.

(Izzy Jared): OK. (Inaudible). Now, are you also going to grow anymore probably after that set for the capacity?

Edmund Hen: Yes, we also have a plan to be (inaudible) to phase III from Hengdali. And that is other construction. You may see from press release that our plants expansion and cover those expenditure updates.

(Izzy Jared): OK. (Inaudible), right?

Edmund Hen: Sorry?

(Izzy Jared): (Inaudible).

Edmund Hen: I'm sorry. I cannot hear very clear.

(Izzy Jared): I'm saying the total capacity, 86?

Bill Stulginsky: Edmund, I think the question he was asking about the additional increase capacity resulting form phase III.

(Izzy Jared): Right.

Edmund Hen: The additional capacity result from phase III will be additional 40 million square meters of the ceramic tiles.

(Izzy Jared): OK. OK. All right, you got 52 now and you go to 72 and then it's there to 216, am I correct?

Edmund Hen: No. We go from 52, goes to 72 and then it goes to 86.

(Izzy Jared): To 86? That's on 2013.

Edmund Hen: Yes, 2013.

(Izzy Jared): OK. OK. Thanks.

Edmund Hen: Thank you.

Operator: Your next question comes from the Chris White with Greenstone.

Chris White: Yes. Hi, I wanted to – Edmund, because the 38 million in planned CAPEX on Hengdali could you break that down on what you wish and how you planned it on a quarter by quarter basis? Are you going to spend 10 million this quarter, you know, x amount in Q2, could you break that down for us, please?

Edmund Hen: You mean the capital expenditure in 2012? You want the breakdown?

Chris White: Yes, please. Thanks.

Edmund Hen: And currently, we do not give such detailed forecast for the capital expenditure quarter by quarter. But what we estimated in 2012 specific for the phase III expansion will be approximately USD \$38 million.

Chris White: Are you willing to disclose how much you've already spent those so far year-to-date and is it front end loaded for the first half of the year or is it backend loaded towards the latter half of the year?

Edmund Hen: It depends on the progress for the construction and the installment written on the facility. And at this moment, you maybe not very accurate to estimate the exact base payment for such expenditure.

As I just mentioned, we expect the whole year, capital expenditure maybe around 38 million for the phase III.

And for the first quarter, because the New Year, Chinese New Year is a pretty much early this year. We just spend very little in the first quarter at this moment.

Chris White: OK. And then just on the backlog, I think the first question, the gentlemen was asking about the backlog for Q1 and you – I think the way I interpreted was, you said was that was your revenue for Q1 roughly, approximately. But then you have – or you also have approximately another 50 million or a comparable amount in backlog. Could you explain that again? Your Q1 revenue versus the backlog?

Edmund Hen: The backlog is just a kind of recognized orders from our customer. And this also a kind of guidelines for the first quarter for the revenue. And for the whole quarters, recognition for revenue, we only can recognize it until the end of first quarter. Once we deliver the goods to our customer.

Chris White: OK. Thanks, guys.

Operator: Again, to ask a question, press star one.

At this time, there are no questions.

David Rudnick: Yes. Thank you, everybody. This is David Rudnick from CCG. 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 Fourth Quarter and Full Year 2011 Earnings Call. Thank you very much.

Operator: This does conclude today's conference call. You may now disconnect.

END