

CHINA CERAMICS CO., LTD.

INVESTOR RELATIONS CALL

Mr. Jaidong Huang, CEO

Mr. Edmund Hen, CFO

Moderator: David Rudnick, CCG Investor Relations

May 14, 2013

8:00 a.m. ET

Operator: Good morning my name is (Kimberly) and I will be your conference operator today. At this time, I would like to welcome everyone to the China Ceramics First Quarter 2013 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 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. David Rudnick, you may begin your conference.

David Rudnick: Thank you, (Kimberly). Good morning ladies and gentlemen and good evening to those of you who are joining us from China. Welcome to China Ceramics first quarter 2013 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 remind all listeners that during this call management's prepared remarks contain 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 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 filings with the Securities and Exchange Commission. In addition, any projections as the company's future performance represent management's estimates as of today, May 14th, 2013. 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 issued earlier today.

And now, it is my pleasure to turn the call over to China Ceramics' Chairman and CEO, Mr. Jia Dong Huang; and China Ceramics CFO, Mr. Edmund Hen. CCG's (Mabel Zhang) will be translating for Mr. Huang. Mr. Huang, you may proceed.

Jia Dong Huang: Thank you, David. On behalf of the company, I would like to welcome everyone to our first quarter 2013 earnings conference call.

We recorded lower than expected financial results for the first quarter of 2013 due to continued challenging market conditions in China's real estate and construction markets. These conditions resulted in a decrease in the sales volume and average selling price of our ceramic tile products for the quarter. The intensified price competition that has occurred in our sector caused us to reduce the price of our products to retain market share beginning in the fourth quarter of 2012. While our pricing has begun to improve, our strategy to

reduce price on some of our products continued to affect our financial results in the first quarter.

Though we were able to generate positive cash flow, this pricing strategy to retain our market position caused a decline in revenue and gross margin, which resulted in a net loss for the quarter. Given that our financial results were due to a general contraction in our sector, we believe that we have retained our competitive positioning and are well positioned for a turnaround in the market.

In order to further adjust to the current market conditions and reduce operating costs, we shut down additional plant capacity in the first quarter. We are currently utilizing production facilities capable of producing 20 million square meters per year, a decrease from the total annual production capacity of 56 million square meters utilized in the fourth quarter of 2012. We will continue to monitor the macro environment for signs of an inflection point, and we are confident that our modern and efficient production capacity will enable us to generate superior performance once conditions improve.

We are confident that urbanization and demographic trends in China are a long-term phenomenon and will lead to arising future demand for our products as current real estate fluctuations moderate over time. We continue to be strategically positioned as a producer of high-end ceramic tiles that are becoming a standard in many new construction and development projects.

Even as we adopt measure in the short-term to enable us to reach our customers more effectively, we are confident that our branding and positioning will enable us to successfully execute upon our long-term strategies, which is to be a preeminent producer of specialized building material products.

At this time, I would like to turn over the call to the company's Chief Financial Officer, Mr. Edmund Hen, who will discuss the company's 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 preliminary financial results for the first quarter end March 31st, 2013.

Our revenue for the first quarter of 2013 was RMB 149.2 million or US\$ 24 million, down 59.9 percent from the first quarter of 2012. The year-over-year decrease in revenue was due to a 47.9 percent decrease in the sales volume of ceramic tiles to 6.1 million square meters in the first quarter of 2012 as compared to the year-ago quarter, as well as a 23.3 percent decrease in the company's average selling price versus the comparable year-ago quarter. We attribute the reduced sales volume in the quarter to the challenging business conditions in China's construction sector, and the decrease in our average selling price to competitive pressures and our strategy to hold our market position.

Gross profits for the first quarter of 2013 was RMB 5.1 million or US\$0.8 million as compared to RMB 113 million or US\$18 million for the first quarter of 2012. The year-over-year decrease in gross profit was due to lower sales volumes and the decrease in the average sales price of our ceramic tiles in the most recent quarter.

Our gross profit margin for the first quarter was 3.4 percent compared to 30.4 percent for the same period of 2011 and was caused primarily by a decrease in the average selling price of ceramic tiles in the quarter

We incurred a loss from operations before taxes for the first quarter of 2013 of RMB 6.5 million or US\$1.1 million, as compared to earnings from operations before taxes of RMB 96.6 million or US\$15.4 million in the first quarter of 2012. Although we had a positive EBITDA of RMB 11.5 million or US\$1.9 million for the first quarter, we reported a net loss of RMB 5.4 million or US\$0.9 million as compared to a net income of RMB 71.7 million or US\$11.4 million in the same period of 2012. The net loss was the result of the decrease in sales volume and lower gross profit in the period.

The loss per fully diluted share were RMB 0.26 or US\$0.04 for the first quarter of 2013 as compared to earnings per fully diluted share of RMB 3.51

or US\$0.56 in the first quarter of 2012. Per share calculations for the first quarter of 2013 and 2012 were computed using 20.4 million shares.

The quarter's non-GAAP net loss, which excludes share-based compensation expenses, was RMB 4.6 million or US\$0.7 million in the first quarter of 2013 as compared to non-GAAP net earnings of RMB 73.4 million or US\$11.7 million for the comparable quarter of 2012. The first quarter's non-GAAP losses per fully diluted share, which exclude the share-based compensation expenses, was RMB 0.23 or US\$0.04 in the first quarter of 2013, as compared to the non-GAAP earnings per fully diluted share of RMB 3.59 or US\$0.57 during the first quarter of 2012.

Turning to our balance sheet, as of March 31st, 2013, we had cash and bank balances of RMB 151.3 million or US\$24.4 million, compared to RMB 89.4 million or US\$14.4 million as of December 31st, 2012. The increase in cash and bank balances was due to a reduced level of receivables and a reduced purchase of inventory during the first quarter of 2013. Our total debt is RMB 60 million or US\$9.6 million as of March 31st, 2013 unchanged from that of year-end fiscal 2012.

As of March 31st, 2012, we had an inventory turnover of 110 days compared to 101 days as of December 31st, 2012. The increase in inventory turnover reflects the decrease in sales volume of ceramic tiles, which resulted in slower moving of finished goods, as of March 31st, 2013, and the price reduction in the first quarter of 2013. The methodology for the first quarter of 2013 uses cost of sales for the trailing 12 months, consistent with what was used in the previous period.

Trade receivables turnover was 118 days as of March 31st, 2013, compared to 117 days as of December 31st, 2012. The methodology for the first quarter of 2013 gives us revenue for the trailing 12 months, consistent with what was used in the previous period. The company extended the credit period for certain customers to 150 days to address funding pressures of those customers since the quarter ended December 31st, 2012.

Moving on to our business outlook. As discussed by our CEO, Mr. Huang, as a result of slowdown in China's construction and real estate sectors, we experienced a contraction in both our sales volume and average selling price in the first quarter of 2013 relative to the comparable year-ago quarter. The company's sales volume was 6.1 million square meters of ceramic tiles in the first quarter of 2013, a decrease of 47.9 percent as compared to the year-ago quarter, and the average selling price of company ceramic tiles decreased 23.3 percent in the first quarter of 2013, as compared to the year-ago quarter.

As stated last quarter, we experienced an increase in our average selling price or ASP in February and March from the lows that occurred at the end of December to January time frame, where we reduced our ASP in order to meet competitors' sharp discounting and retain market share. We note that since the company does not record its sales until shipment, typically 90 days from the order date, there is a lag between the order date and the shipment dates and the effects that an improved ASP has on the financial statements. Based on the company's backlog of order and its estimate of sales volume for April and May 2013, the company's ASP of RMB 26.3 for the April and May 2013 shows a 7.8 percent increase from its average selling price of RMB 24.4 per square meters of ceramic tiles in the first quarter of 2013.

As widely reported, China's real estate sector has been alleged to be under price pressure due to speculative buying activities, and there have been reports of possible government policies intended to rein in rising prices. The company believes that uncertainty as to government policy has contributed to a general slowdown in the real estate and construction sectors in China as customers could be deferring orders and/or are waiting to start new projects to see what any new government measure to counter speculation might be. In particular, because of an imposition of a 20 percent real estate tax and tighter mortgage lending second home have been dampening influences and many developers have been looking to see if the government might adopt offsetting incentives to aid the construction industry.

Given the continued challenging climate, we are currently utilizing plant facilities that can produce 20 million square meters of ceramic tiles annually,

a decrease in plants capacity utilizing from what we used in the fourth quarter 2012 of 46 million square meters of ceramic tiles annually.

In terms of the construction sectors long-term fundamentals, we believe that China's urbanization trends will continue into the foreseeable future and favor the building of new residential properties in China, while government supports for an increase in both affordable and senior housing should also generate opportunities for real estate development companies as a sign of continued government support.

China's continued strong migration into major cities from rural areas has caused the government to allocate more resources to infrastructure and has included extending social security, education and health care benefits to new city dwellers. We believe that the government's involvement in helping people coming into China cities from the rural area will be a positive growth factor for the next decade.

Finally, an additional potential boom for construction is the need for some of China's existing housing stock to be upgraded to meet today's market standards. We are confident that we can be a nimble and cost effective in terms of putting capacity back online to meet the sectors eventual turnaround in growth and demand.

In order to retain our competitive age, we will maintain our currently wide range of product offerings and continue to augment it with new products from its research and development program that has proven to be successful in the markets. We are optimistic as to the long-term prospect 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.

With that, we would like to open up the call to any questions, pretending to our quarters financials and operating performance. Operator?

Operator: As a reminder, if you would like to ask an audio question, please press star then the number one on your telephone keypad. If you are on speakerphone,

please pickup the handset before you register star one. One moment for your first question.

Your first question comes from the line of (Howard Flinker).

Howard Flinker: (Foreign Language).

Edmund Hen: (Foreign Language).

Howard Flinker: I've a few questions, Edmund. First, what would your capital expenditures be for the rest of the year?

Edmund Hen: That probably will be to the minimum within RMB 10 million or RMB 15 million range I think because most of them would be used to replace whole equipment or have some modifications to the existing equipment.

Howard Flinker: OK. Second, while you were talking, I calculated roughly your run rate of sales for April and May and the higher price, and tried to calculate what you might earn for the June quarter. My guess – please correct me if I'm wrong, my guess is that you might earn in June quarter what you did earn in the December quarter, is that approximately correct, at current production rates and current prices?

Edmund Hen: Can you repeat your question? I'm sorry.

Howard Flinker: Yes. You mentioned what your sales volume and units would be for April and May. So, I added June at the same rate and then I added a higher price to the raised price since December, or since January, and I tried to guess at what your profits might be at that rate, my assumptions of course, not yours, what your profits might be in the June quarter. And it looks like the profits would be in the June quarter at that rate what they were in the December quarter. Is that approximately correct?

Edmund Hen: This is very difficult to say at this moment because we have not finalized all this roughly in June.

Howard Flinker: Yes, I know.

Edmund Hen: Yes.

Howard Flinker: I'll state it in another way. At the current run rate are you in the black?

Edmund Hen: The current rate?

Howard Flinker: Yes.

Edmund Hen: And what would be there for the second quarter this year will be a bit better, and we can only tell you after all this has been finished.

Howard Flinker: A little bit better would be a small profit in other words, right?

Edmund Hen: Yes.

Howard Flinker: OK. And finally, there's a calculation at some old timers like me engage in. It's called networking capital, which is basically current assets minus all liabilities, not only short-term liabilities, all of them, and for your company, it comes up to US\$4.60 a share. It's also known as networking capital or net-net in the United States. Is there any way you could use your balance sheet to gain more customers from your competitors or obviously in hurting as well or worse than you?

Edmund Hen: You mean in China?

Howard Flinker: Yes.

Edmund Hen: I think in China it's a very different situation. It's very difficult to use the balance sheet to (trade) or to have better relationship with our customers. And ...

Howard Flinker: And why – go ahead.

Edmund Hen: And it's just a very different way to do business in China.

Howard Flinker: So, you can't, for example, extend better terms to your customers or faster delivery because you can stock more goods. Can you do that or not?

Edmund Hen: We can do that. But that will not be a very large portion for our business. Only a few percentage of – a few customer or supply would like to look at it in such way.

Howard Flinker: All right, OK. Actually, I've one more question. Have any of your competitor shut down capacity or closed altogether?

Edmund Hen: Yes. Some of our small competitors have already closed down their production facility and even closed – some of them even closed down their business.

Howard Flinker: And some of the large ones, have they reduced capacity the way you did or not?

Edmund Hen: Yes, they do.

Howard Flinker: They had, they do, OK. And those are my only questions. Thanks.

Operator: The next question comes from the line of Steven Martin.

Steven Martin: Yes, I apologize I'm on a cell phone. As a follow-up to the previous caller's question, what efforts can you make to reduce your inventory further and your receivables because while sales were down dramatically, inventory is still very high?

Edmund Hen: As you know, we have decreased selling price in December and January in order to maintain certain levels of the relationship with our customers. And from now, we just also slowed down our capacity, and we believe before we have give up our spare capacity, we have to decrease our inventory. And that

means we tried to defer our inventory as much as possible in the coming quarters before we use our fair capacity in our country.

Steven Martin: So, should – let me ask the question this way, should we expect that your inventory at June 30th is going to be lower than inventory of March 31st?

Edmund Hen: We believe we have much reasonable inventory level in the end of June.

Steven Martin: OK. And should we expect that receivables will continue to come down lagging the sale (inaudible)?

Edmund Hen: We are trying our best and also we believe that the receivables will be much better in the coming quarters.

Steven Martin: Therefore our cash balance in June should be higher especially since you're not going to build any – you're not going to spend anymore CapEx?

Edmund Hen: Yes, we do not have very aggressive plan to expand on the CapEx.

Steven Martin: OK. Can you talk to us about your efforts to sell internationally and the arrangement you made with that government organization that you announced, I guess it was four or five months ago?

Edmund Hen: Yes. We are still following up with the customer. And we also – the (inaudible) sometimes you follow up especially just after the Chinese New Year. Probably – we hope we will have some orders from them in the coming quarter or very soon; and at this moment, just after Chinese New Year for about two months, so a lot of things have to be followed up at this moment.

Steven Martin: OK. Thank you very much.

Edmund Hen: Thank you.

Operator: Again, if you would like to ask an audio question, please press star one. You have a follow-up question from the line of (Howard Flinker).

Howard Flinker: Hi, Edmund.

Edmund Hen: Hi.

Howard Flinker: Did you say to me your CapEx for the rest of the year will be 10 million to 15 million, or for the whole year will be 10 million to 15 million?

Edmund Hen: We have no forecast on this except CapEx at this moment. But we believe that we'll be around that range, and most of them will be used for this replacement or modification for the existing (procurement).

Howard Flinker: That range for what period? For the nine months or for the 12 months?

Edmund Hen: For the nine months.

Howard Flinker: OK, thank you.

Operator: And there are no further questions at this time. Again, if you would like to ask an audio question, please press star one.

There are no further questions. I would now like to turn the call back over to Mr. David Rudnick.

David Rudnick: OK. Thank you, Kimberly. On behalf of the entire China Ceramic's management team, we would like to thank all of you for your interest and participation on this call. This concludes China Ceramics first quarter 2013 earnings conference call. Thank you all very much.

Operator: That does conclude the call. You may now disconnect.

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