

**CHINA CERAMICS CO., LTD.
2Q 2013 Earnings Call**

**Mr. Jaidong Huang, CEO
Mr. Edmund Hen, CFO
Moderator: David Rudnick, CCG Investor Relations
August 12, 2013
8:00 a.m. EST**

Operator: Good morning. And welcome to the China Ceramics Second 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. I'll now turn the call over to David Rudnick.

David Rudnick: Thank you, Keilum. Good morning, ladies and gentlemen, and good evening to those of you who are joining us from China. Welcome to China Ceramics second quarter 2013 earnings conference call. With us today are China Ceramics' Chairman and Chief Executive Officer, Mr. Jia Dong Huang; and Chief Financial Officer, Mr. Edmund Hen.

Before I turn the call over to Mr. Huang, may 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. Refer to 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, August 12, 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 additional information to understand the company's performance. As statement reconciling any non-GAAP measures to nearest GAAP equivalents can be found in 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 Gabrielle Zhou 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 second quarter 2013 earnings conference call. We are pleased to report improved financial performance for the second quarter of 2013 in line with our expectation of a rebound in the real estate infrastructure and construction sectors market environment.

The quarter saw improved sale volume of our ceramic tiles and a rising average selling price relative to the first quarter which resulted in stronger sequential revenue and net earnings. On a quarter-to-quarter sequential basis revenue was up 49 percent, gross profit was up 332 percent and EBITDA was over 150 percent.

While our pricing has begun to improve, business activity is still significantly slower relative to the year ago comparative quarter. For the second half of 2013, we see room for a further return to the more normalized market environment of a year ago and continued strengthened financial results for the company as the recovery in our sector's fundamentals develops additional

traction. We believe that we have taken the appropriate steps to retain our competitive positioning and are well poised for a turnaround in the market.

In the second quarter, we maintained a reduced utilization of existing operating plant capacity in order to adjust to the market environment and lower our operating costs. We are currently utilizing plant protection facilities capable of producing 28 million square meters of ceramic tiles per year, an increase from the annual production capability of 20 million square meters utilized from the first quarter.

We are being conservative as to when to deploy unused plant capacity and we bring additional capacity online as the market environment dictates. In addition to the improved market environment, we believe that our close relationships with our customers account for our volume and price increases in the second quarter and that our marketing will enable us to continue to penetrate Tier II and Tier III markets to generate stronger results in the quarters ahead.

The urbanization and demographic trends in China are a long-term phenomenon that we believe will lead to rising future demand for our products even as China's challenging real estate environment moderates over time. We continue to be strategically positioned as a producer of high-end ceramic tiles and we will continue to innovate and offer a superior product mix to our customers so as to sustain our competitive advantage.

With our pricing now pointing higher due to which the potential inflection point composing that towards higher, historical levels, we can now strive to optimize our mix to spur strategic sale of our better performing products and improve our margins. We continue to be well positioned in our industry and believe that our exceptional main brand recognition and state-of-the-art plants well position us for a further turnaround in the market.

With that, I would like to turnover the call to the company's Chief Financial Officer, Mr. Edmund Hen, who will discuss the company's final result 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 second quarter June 30th, 2013.

Our revenue for the second quarter end June 30, 2013 was RMB 222.7 million or \$36.1 million, an increase of 49.2 percent from the first quarter but down 49.5 percent from the second quarter of 2012. The sales volume of ceramic tiles in the second quarter was 8.3 million square meters, an increase of 36.2 percent relative to the downfall in our 6.1 million square meters in the first quarter but a 39 percent decrease from 13.6 million square meters in the year-ago quarter.

The average selling price in the second quarter rose 9.4 percent to RMB 26.7 per square meter from the first quarter average selling price of RMB 24.4 per square meter but it still represented a 17.9 percent decrease from the average selling price of the comparable year-ago quarter. Though improved from the first quarter of 2013, the company attributes its reduced sales volume to the continuous challenging business conditions in China's real estate and construction sector.

Gross profit for the second quarter of 2013 was RMB 22.2 million or \$3.6 million, a sequential rise of 331.6 percent from the first quarter of the year but still the difference being lower than RMB 128.6 million or \$20.3 million, record for the second quarter of 2012. The year-over-year decrease in gross profit was due to lower sales volumes and the decrease in the average selling price of the company's ceramic tiles in the quarter.

Our gross profit margin for the second quarter was 10 percent compared to 29.2 percent for the same period of 2012 and was caused primarily by a decrease in the average selling price of ceramic tiles in the quarter.

Profit before taxes for the second quarter of 2013 was RMB 9.9 million or \$1.6 million as compared to RMB 115.6 million or \$18.2 million in the second quarter of 2012. However, there was a sequential turnaround from the loss before taxes of RMB 6.5 million or \$1.1 million in this first quarter of 2013.

Net profit for the second quarter of 2013 was RMB 9.6 million or \$1.5 million as compared to RMB 86.1 million or \$13.6 million in the same period of 2012. The year-over-year decrease in net profit was the result of lower gross profits in the period. However, this also represented a sequential turnaround from the first quarter of the year of a net loss of RMB 5.4 million or \$0.9 million.

Earnings per fully diluted share were RMB 0.47 or \$0.08 for the second quarter of 2013 and was computed using 20.4 million shares. Non-GAAP net profits which excludes share-based compensation expenses was RMB 10.1 million or \$1.6 million in the second quarter of 2013 as compared to a net loss of RMB 4.6 million or \$0.7 million in the first quarter of the year, but down from a positive RMB 87.4 or \$ 13.8 million in the second quarter of 2012.

And non-GAAP earnings per fully diluted share which excludes share based compensation expenses was RMB 0.49 or \$0.08 in the second quarter of 2013 as compared to a loss of RMB 0.23 or \$0.04 in the first quarter of the year and diluted non-GAAP EPS of RMB 4.28 or \$0.67 in the second quarter of 2012.

For the six months ended June 30, 2013, revenue was RMB 271.9 million or \$60.1 million, a decrease of 54.3 percent that's compared to the six month ended June 30, 2012. Gross profit was RMB 27.3 million or \$4.4 million, down 88.7 percent from the same period of 2012. Gross margin for the six months ended June 30, 2013 was 7.3 percent compared to 29.7 percent for the same period of 2012. Net profit for the six months ended June 30, 2013 was RMB 4.2 million or \$0.7 million down 97.3 percent from the same period of 2012. Non-GAAP net profit which exclude share based compensation expenses was RMB \$5.4 million or \$0.9 million, a decrease of 96.6 percent from the six month ended June 30, 2012. Fully diluted EPS for the six month ended June 30, 2013 was RMB 0.21 or \$0.03. On a non-GAAP basis, fully diluted EPS was RMB 0.27 or \$0.04.

Turning to our balance sheet, as of June 30, 2013, we had cash and bank balances of RMB 217.4 million or \$35.4 million, compared to RMB 89.4 million or \$14.4 million as of December 31, 2012. The increase in cash and

bank balances was a result of a reduced level of receivables and an increase in bank borrowings received in the second quarter of 2013.

As of the end of the second quarter, our total debt was RMB 75.6 million or \$12.3 million as compared to a total debt with RMB 60.0 million or \$9.6 million as of year-end fiscal 2012.

As of June 30, 2013, we had an inventory turnover of 133 days compared to 111 days as of December 31, 2012. The increase in inventory turnover reflects the decrease in sales volume of ceramic tiles, which resulted in slower moving of finished goods at June 2013 and the price reductions in the first six months of 2013. The methodology for the second 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 147 days as of June 30, 2013 compared with 119 days as of December 31, 2012. The methodology for the second quarter of 2013 uses 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 end December 31, 2012.

Moving on to our outlook, as discussed by our CEO, Mr. Huang, although the economic climate for real estate development and construction in China improved in the second quarter, the company is being conservative as to when to deploy unused plant capacity.

The company is currently utilizing plant facility capable of producing 28 million square meters of ceramic tiles annually out of annual production capacity of out of 72 million square meters that is available to the company.

As a result of a better market environment, we experienced gain in both our sales volume and average selling price in the first quarter of 2013 relative to the first quarter. Although we still have some room to go to match year-ago metrics, the company's sales volume was 8.3 square meters of ceramic tiles in the second quarter of 2013, an increase of 36.2 percent as compared to the first quarter and the average selling price of the company's ceramic tiles

increased 9.4 percent quarter-to-quarter. As many of you recall, we experienced an increase in our average selling price or ASP in February and March from the lows that occurred in the December to January timeframe, where we reduced our average selling price in order to meet competitors' sharp discounting and retain market share.

As indicated, the company's sales volume was 8.3 million square meters of ceramic tiles in the second quarter of 2013, and the company estimates that its sales volume of ceramic tiles in July and August of 2013 will be approximately 8.8 million square meters. In addition, the company's estimate of its average selling price of RMB 27.3 per square meter of ceramic tiles for July and August 2013 represents a 2.2 percent increase from its average selling price of RMB 26.7 per square meters of ceramic tiles in the second quarter of 2013.

As of June 30, 2013, the company's backlog of orders for delivery in July and August of 2013 is approximately RMB 240.43 million or \$39.2 million, or 82.1 percent of the approximately RMB 292.78 million or \$47.7 million of backlog of orders for delivery for the same period of 2012.

As widely reported, China's real estate sector has been under price pressure due to speculative buying activities and there have been reports of possible government policies intend to rein in rising prices. The company believes that uncertainty as to government policy has contributed to general slowdown in the real estate and construction sectors in China as customers could be deferring orders and are waiting to see what new government measures to counter speculation might be. Previous government regulations to limit speculation especially in Tier I cities have included limiting home purchases, narrowing credit to developers and tightening on down payment requirements. However, recent signals portend an improved real estate sector with new construction levels reported to be within reasonable levels as deemed by the government.

In terms of construction sectors' long-term fundamentals, as stated by Mr. Huang, we believe that China's urbanization trend will continue into foreseeable future and will stimulate the building of new residential properties

in China, while government supports for an increase in both affordable and senior housing should also generate opportunity for real estate development companies. An additional potential boom for construction is needed for some China's existing housing stock to be upgraded to meet today's market standards.

We have been able to weather the challenging market condition and slow – lowering demand by shifting our sales and results among our wide range of product offerings. Further, we believe that our ability to augment this mix from our research and development program also gives us a sustainable competitive advantage. China Ceramics new plants facility offer new design and product capabilities that has substantive competitive edge, as well as the ability to market new and creative building material solutions to it customers.

We will continue to stay very close to our customers and work with them to meet their building materials needs, as well as to operate efficiency so as to generate solid return for our shareholders.

With that, we would like to open up the call to any questions, pertaining to our second quarter's financial and operating performance. Operator?

Operator: At this time if you have a question, please press star then the number one on your telephone keypad. We'll pause for a moment to compile the Q&A roster. The first question is from Howard Flinker of Flinker & Company.

Howard Flinker: Edmund, hi.

Edmund Hen: Hi. Hello Howard Flinker.

Howard Flinker: Hi. I hear that some of your small competitors have gone out of business, is that true?

Edmund Hen: Yes. Some of the – our small competitors have gone out of the business already.

Howard Flinker: So, some of that business is available for everybody, including China Ceramics.

Edmund Hen: Yes.

Howard Flinker: I also hear that some other customers – some other competitors are being pressured by the banks to close because the banks don't think they can continue in business, is that also true?

Edmund Hen: Yes. There are also from the banks have some pressures from banks to pressure small competitors, too.

Howard Flinker: So you might be able to get some of that business too.

Edmund Hen: Yes. If the market goes smoothly.

Howard Flinker: Yeah. Right. So that's an addition to what's already going on in the upturn in demand. That's pretty encouraging. I don't have any other questions.

Edmund Hen: Thank you very much.

Howard Flinker: Thanks.

Operator: Again, to ask a question, please press star then the number one on your telephone keypad. The next question is from line of James Huang of Oppenheimer.

James Huang: Jia hi.

Jia Huang: Hi.

James Huang: My question is a follow up to Howard Flinker's question. I'm wondering have you done anything yet to go after any of this business from some of your smaller competitors.

Edmund Hen: Well, we're still working with our distributors and our marketing team, still promoting our products for some or recently we have obtained this China's 500 most valuable brands and we are still promoting ourselves to be one of the best solid producers to our customers to – in order to - have have some more orders from the market.

James Huang: Okay. Let me serve extend this. I think, you should be saying that some of the business will naturally come to you because customers will be concerned about who they were buying from and they'll be aware of the fact that you are one of the most recognizable brands and will simply gravitate toward you. Is that true?

Edmund Hen: Yeah. Some of these customers will come to us directly.

James Huang: Have you considered making any deals though with some of the smaller competitors, taking advantage of your better situation?

Edmund Hen: Yeah. We stand for a very good position to have the new contracts from this type of the customers. But yeah it's just – I think the market just share some of its customer base.

James Huang: And if that happens, I suppose, there would be announcement about it from you.

Edmund Hen: Yeah.

James Huang: Okay. And last question is do you have any comment about the overall outlook for the business internationally and in China, do you feel that there is a risk of dramatically increased softness in China or not?

Edmund Hen: Of course, we are working very hard in China. And at the same time, we also try to export some export sale to overseas.

James Huang: Have you given any thought to coming to America?

Edmund Hen: Sorry?

James Huang: Have you given any thought to selling your products in the United States?

Edmund Hen: Yeah. We are still investigating on this topic and we actually have sent some of our products to overseas like, for example, to U.S. and we are still exploring this market.

James Huang: Okay. Well, thank you.

Edmund Hen: Thank you very much.

Operator: There are no further questions. I'd like to turn the call back over to the presenters.

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

Operator: You may now disconnect.

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