

Operator:

Good day, ladies and gentlemen. Welcome to the China Ceramics 1Q10 earnings conference call. My name is Leticia, and I will be your operator for today.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to your host, for today's call. Mr. Ed Job, please proceed.

Ed Job:

Thank you, operator. Good morning and good evening and welcome to China Ceramics' 1Q10 earnings conference call. With us today are China Ceramics' Chief Executive Officer, Mr. JiaDong Huang, and Chief Financial Officer, Mr. Edmund Hen.

Before I turn the call over to Mr. Huang, may I remind our listeners that in this call, management's prepared remarks contain forward-looking statements, which are subject to risks and uncertainties, and management may make additional forward-looking statements in response to your questions.

Therefore, the Company claims the 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 therefore we refer you to a more detailed discussion of the risks and uncertainties in the Company's filings with the Securities & Exchange Commission.

In addition, any projections as to the Company's future performance represent management's estimates as of today June 1st, 2010. Unless otherwise required by law, China Ceramics assumes no obligation to update these projections in the future as market conditions change.

And now it is my pleasure to turn the call over to China Ceramics' CEO, Mr. JiaDong Huang, and CFO Mr. Edmund Hen, who will be translating for Mr. Huang. Mr. Huang and Edmund, you may proceed.

JiaDong Huang:

(speaking in foreign language)

Edmund Hen:

Thank you, Ed. Welcome everyone, and thank you for joining us today.

JiaDong Huang:

(speaking in foreign language)

Edmund Hen:

We are very pleased to report another quarter of solid results. We are also pleased with the progress we made in our business plan, as we were able to successfully ramp up our Gaoan plant, and eliminate our reliance on outsourced manufacturing.

JiaDong Huang:

(speaking in foreign language)

Edmund Hen:

The highlights for the 1Q10 include revenue of RMB229.1 million, up 34.8% compared to the same period in 2009; gross profit of RMB69.3 million, up 50.7% compared to the same period in 2009; gross profit margin of 30.2%, compared to 27.1% in the 1Q09; net profit of RMB45.3 million, up 45.2% from the 1Q09; and we ended the quarter with RMB130 million in cash, and RMB90 million in short- and long-term debt.

JiaDong Huang:

(speaking in foreign language)

Edmund Hen:

Subsequent to the end of the quarter, we were able to purchase 996,051 public warrants at a price of US\$1 per warrant in privately negotiated transactions. We believe this transaction creates value for all our shareholders, and we will continue to work with our financial advisors and Board of Directors to further optimize our capital structure in the quarters ahead.

JiaDong Huang:

(speaking in foreign language)

Edmund Hen:

As we look to the future, we continue to believe that the outlook for our business remains positive. Recent government measures to contain rising property prices, in our view, are intended to cool down pricing excesses, which we believe affects mostly the so-called Tier-1 cities, which represents less than 10% of our revenue. We believe the multi-year trends driving the growth in demand for housing in China remain unchanged, including secular increases in personal income and urbanization.

In addition, the government is also committed to increasing the supply of housing for low-income urban families. As some of you may know, in March the Chinese Premier Wen Jiabao promised at the annual legislative session that the nation would build 3 million apartments for low-income families and renovate 2.8 million shanty houses. In the past few days the government has allocated the equivalent of US\$2.5 billion towards accomplishing this objective.

JiaDong Huang:

(speaking in foreign language)

Edmund Hen:

As a result, we remain committed to expanding our Gaoan plant capacity from 10 million m² to 24 million m² by the end of 2010, at a cost of approximately US\$20 million, bringing us one step closer to our goal of expanding our total production capacity to 70 million m² by the end of 2011.

JiaDong Huang:

(speaking in foreign language)

Edmund Hen:

In all, we believe we are well positioned, with a strong brand, a national distribution network, a new plant and a strong balance sheet, to participate in the expected growth of the Chinese construction materials industry in the years ahead, and we look forward to taking your questions at the end of this call.

Now that I have completed translating Mr. Huang's comments, I would like to spend a few minutes discussing China Ceramics' business performance in more detail.

In connection with the preparation of our financial statements for the fiscal year 2009, we determined that we had been incorrectly applying IAS 18, Revenue. Historically, the Company recorded sales rebates and discounts as selling and distribution expenses rather than as a reduction to revenue. As a result, we adjusted our revenue for fiscal year 2009 and restated revenue for the fiscal years ended 2007 and 2008. There was no adjustment or restatement to previously announced net income or earnings per share for any of the prior periods. Additional information can be found in the Annual Report on Form 20-F we filed with the Securities and Exchange Commission on May 17th, 2010.

Now, moving on to a more detailed discussion of our financial results for the quarter, our net revenue for the 1Q10 was RMB229.1 million, up 4.3% from the 4Q09 and up 34.8% from the 1Q09. The quarter-over-quarter increase was driven by higher sales volume, and the year-over-year increase was primarily driven by a 26.3% increase in volume and a 6.6% increase in average selling price in this quarter.

Our gross profit for the 1Q was RMB69.3 million, down 3.3% quarter over quarter but up 50.7% year over year. Gross profit margin was 30.2%, compared to 32.6% in the 4Q09 and 27.1% for the same period last year. The sequential decrease in gross margin was driven by lower production volume due to the Chinese New Year holiday, resulting in higher unit cost; and the year-over-year increase in gross margin was mostly driven by growth in revenue in excess of growth in cost of sales, as management maintained tight cost controls.

Selling expenses were RMB1.5 million, or US\$0.2 million, or 0.7% of sales, compared to RMB1.5 million, or 0.9% of sales, in the 1Q09. Administrative expenses were RMB5.8 million, or US\$ 0.8 million, compared to RMB2.7 million for the 4Q09, and RMB2.6 million for the 1Q09. Higher administrative costs in the quarter were driven by additional expenses incurred for the newly acquired Gaoan facility as well as legal and other expenses related to China Ceramics status as a public company.

Profit from operations for the 1Q was RMB62 million, down 10.7% quarter over quarter and up 47.6% year over year. The sequential decline in operating profits resulted from lower gross margin as well as higher administrative expenses. The year-over-year increase was the result of higher revenue and improved gross margin, only partially offset by higher operating costs.

Our net profit for the 1Q was RMB45.3 million, or US\$6.6 million, up 45.2% from the same period in 2009, and up 74.5% compared the 4Q09. Earnings per fully diluted share were RMB4.45 or US\$0.65 for the 1Q10, up 46.9% from the 4Q09, and down 18% from in the same period in 2009.

Turning to our balance sheet, we had cash of RMB131.9 million or US\$19.3 million at the end of March 31st, 2010. As of the balance sheet date, we had inventory turnover of 73 days, receivables turnover was 109 days and payables turnover was 79 days. Bank borrowings were RMB90 million or US\$13.2 million.

Our trade receivables turnover increased slightly from 102 days as of the end of last year to 109 in the 1Q. Our trade receivables include 17% value-added tax, while our reported revenue is net of VAT. Trade receivables turnover excluding VAT amounts was 93 days as of March 31st, 2010, compared with 87 days as of December 31st, 2009.

Let me now turn to our growth plans and future outlook. Our backlog of orders for delivery in the 2Q is at approximately RMB285.94 million or US\$41.8 million, representing a year-over-year revenue growth rate of 29.1%. The expected sales volume in the 2Q10 is approximately 10.6 million m² representing a 21.9% increase from 8.7 million m² sold in the 1Q10.

Despite recent efforts by the Chinese government to tighten monetary policy and contain excessive real estate prices in the so-called Tier-1 cities such as Beijing, Shanghai, Shenzhen, and Guangzhou, the outlook for our business remains stable. As Mr. Huang mentioned, our exposure to Tier-1 cities is limited to an estimated 9.7% of our revenue in the 1Q, and we expect any weakness in the Tier-1 cities to be offset by continued demand growth in the Tier-2 and Tier-3 cities, driven by secular urbanization trends as well as by the government's commitment to low-income housing.

We remain committed to our growth plans, and expect to end the 2010 with a total production capacity of 52 million m² up from 38 million m² today representing growth in excess of 36%.

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

Echo He, Maxim Group:

Hi JiaDong and Edmund. The first question is about the real estate market. In terms of m² construction, how large is the Tier-1 cities compared to the Tier-2 and Tier-3 cities?

JiaDong Huang:

(speaking in foreign language).

Edmund Hen:

According to Mr. Huang, what we estimate is that in China for Tier-1 cities, they occupies about 40% of the building capacity in China. And for the Tier-2 and Tier-3 cities, the building capacity has about 60%.

Echo He:

OK. Thanks for that. And what about your selling price to the Tier-1 city projects compared to Tier-2 and Tier-3 cities project?

Edmund Hen:

(speaking in foreign language).

Alright. We do not see any differentiation between the Tier-1 city, Tier-2 and Tier-3 city group, because what we found is our product is only occupying about 2% to 3% of the whole construction projects. So, we normally have an average selling price for the Tier-1 city, Tier-2 and Tier-3 city group, almost the same.

Echo He:

OK. I understand. So your Company is basically stronger in the Tier-2 and Tier-3 cities, right? Can I conclude that?

Edmund Hen:

(speaking in foreign language).

You may say that. For the 1Q, what we estimate, our sales to the Tier-1 cities is approximately 9.7% of our total sales. That means approximately more than 80% to 90% of our sells are for the Tier-2 and Tier-3 cities group.

Echo He:

Right. So, is that reflecting the historical percentage of revenue mix? Is that like you have higher market share in Tier-2 and Tier-3 cities? I would say that would be more than 2% to 3% of the whole projects in the whole country?

(speaking in foreign language)

Edmund Hen:

In terms of historical, two or three years ago we sold more our products to the Tier-1 cities. But accordingly to the recent development of China's urbanization chain, we started to sell our projects more to the Tier-2 and Tier-3 cities from the past one or two years. And nowadays, for the 1Q we have already only about 9.7% of our sales that are sold to the Tier-1 cities.

Echo He:

OK. I understand that. Also, another question is in terms of sales and marketing, you are increasing your capacity in a very significant scale. Are you going to also increase sales and marketing in the future?

Edmund Hen:

(speaking in foreign language)

As you may notice from our press release, we have already increased two distributors for our distribution network, and nowadays we already have 37 distributors, and in 2009 we only had 31 exclusive distributors for our Company. Together with our expansion on the Gaoan facility, we also expand our distribution network to other areas where we do not have a very strong penetration.

Echo He:

OK. So the sales and marketing expenses is going to be increasing, and in what kind of proportion?

Edmund Hen:

(speaking in foreign language)

As you may notice from our annual report, we used to record our rebates and commission on the sales and distribution expenses, but we have applied incorrectly, as upon our auditors, and nowadays we did such portion of our expenses directly from revenues and this expenses normally occupy our revenue approximately 5% to 8%. This is the major part of our selling distribution expenses and apart from that we do not have a very large portion of the selling and distribution expenses related to revenue.

Echo He:

OK. I understand. Those were all my questions. Thank you so much.

Arnaud Ajdler, Crescendo Partners:

Hi. First congratulations on the quarter and congratulations for buying Gaoan. My question was the following: the stock now is traded at approximately let us say 2x earnings, which I think is now too low given the prospects of the Company. My best guess would be that one of the reasons why the stock is so cheap is because there is no float of the common.

And so, to increase float I guess you have two ways to solve the problem, the first one would be to raise equity but raising equity at 2x earnings that is probably not a good idea for the shareholders. So the other alternative and that is what I wanted to ask you, whether you guys are considering that and what would be the pros and cons of doing that, would be to have a tender offer where you would ask the warrant holder to convert the warrant into shares.

Let us say that you have to say that for every five warrants you can receive one share, just to pick an example, or maybe for four ones you get one share, the warrant holders would have an incentive to convert it to stock and you would significantly increase the number of shares outstanding, you would increase the float, you would probably have enough shares then to go and list the stock on NASDAQ, which would also increase the liquidity and my guess is that that would help the stock to go higher and get a multiple that is more adequate for the Company with your prospects.

So my question is whether you guys are considering such tender offer for the warrants and whether you are seeing that would make sense and I guess what are your thoughts on these things? Sorry for the long question.

Edmund Hen:

(speaking in foreign language)

Thank you for your question. We are working hard with our financial advisors and Board of Directors to further optimize our capital structure in the quarters ahead and we will update you of the developments of the warrant issues.

Arnaud Ajdler:

Alright. Thank you. I guess my only comment is I would encourage you to not to go ahead with raising equity because the price is too low, I would encourage first to try to do some type of exchange, increase the number of shares outstanding therefore increasing the float, going NASDAQ, that would help the stock to go higher.

And once you have a higher stock price, maybe then you guys go and raise money if that is what you guys want to do, although I am not sure you guys need to do that anyway, but if that is something you would want to do, I would encourage you to wait and do that when the stock is at a much higher level after first, you know, going to NASDAQ and then with the capital structure. Thank you very much, and again congratulations for the numbers

Ephraim Fields, Echo Lake Capital:

Hi. I had one question and one comment. My question was, it was very helpful that you provide some information about the backlog of orders, but I was wondering if you could help us understand what that would mean for your revenue and gross profit for the upcoming quarter.

Edmund Hen:

(speaking in foreign language)

As you may notice from our press release, we have already put down our estimated backlog for the 2Q. And we also have average price for our backlog, so you may have the approximately estimation for our 2Q revenue from this information.

Ephraim Fields:

I am sorry. What was the average price you are expecting for this quarter?

Edmund Hen:

For our 1Q...

Ephraim Fields:

Sorry. When you say the backlog of orders, you said the backlog of orders is RMD285 million. Is that what you expect your revenues to be? Because often there is a difference between backlog and what the actual revenues are and that is where I am confused.

Edmund Hen:

Yes. This is approximately the 2Q revenue, rather than the backlog.

Ephraim Fields:

OK. So, as a follow on, what do you expect your gross margin to be for the quarter, relative to what it was in the last quarter? Will gross margins be up this quarter, in the 2Q, compared to the 1Q?

Edmund Hen:

(speaking in foreign language)

As we mentioned earlier, in the 1Q we had the Chinese New Year holiday, and normally this is the slowest season for us. And also we have the new facility ramp-up period in the 1Q. What we expect in the coming quarter, we can at least maintain our current 1Q margins.

Ephraim Fields:

OK. Thank you. And my one comment was, I just wanted to say that as a shareholder we also agree with the previous caller, who said that selling equity right now would be a terrible mistake, and we agree with that shareholder as well. Thank you.

Edmund Hen:

Thank you. We will take your comment into consideration.

Eiad Asbahi, Prescience Investment Group:

Hey, guys. I wanted to add to some of the comments that were already discussed. I think that the biggest issue in relation to the equity is that it is just far too illiquid. And I was hoping that you guys could give some kind of estimate on how long you expect to take, or how long it will take you in order to come up with some kind of strategy to alleviate this low amount of liquidity. How long is it going to take you to begin to work on this, or to have a plan in place?

Edmund Hen:

(speaking in foreign language)

We are planning to list to NASDAQ, but we are not able to provide further details at the time.

Eiad Asbahi:

OK. So, can you give no indication as to how long or what kind of timeframe you are working with?

Edmund Hen:

We are also working hard with our financial advisors and our Board Directors to continue to optimize our capital structure. And we will update you as the development goes.

Eiad Asbahi:

OK. Fair enough.

Operator:

At this time there are no further questions. I will turn it back over to management for closing remarks.

Edmund Hen:

On behalf of the entire China Ceramics management team, we want to thank you for your interest and participation on this call. Operator?

Operator:

Thank you for participating in today's conference call. You may now disconnect.

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