

**CHINA CERAMICS
2Q 2012 EARNINGS CALL**

**Moderator: David Rudnick
August 15, 2012
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 Second Quarter 2012 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 would now like to turn the call over to your host, David Rudnick, CCG Investor Relations. Please go ahead, sir.

David Rudnick: Thank you, (Kimberly). Good morning, ladies and gentlemen, and good evening to those of you who are joining us in China. Welcome to China Ceramics' second quarter 2012 earnings conference call.

With us today are China Ceramics' Chairman and Chief Executive Officer, Mr. Huang Jia Dong; Chief Financial Officer, Mr. Edmund Hen; and Board of Directors member, Bill Stulginsky.

Before turning the call to Mr. Huang, I remind all listeners that during 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 protection (from the) Safe Harbor for forward-looking statements that is contained in the Private Securities Litigation Reform Act of 1995 as results may differ from those discussed today. 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 projection of the Company's future performance represents management's estimates as of today, August 15, 2012. China Ceramics assumes no obligation to update its projections in the future as market conditions change.

To supplement its financial results presented in accordance with IFRS, management may make references to non-GAAP financial measures which the company believes provides meaningful additional information to understand the Company's performance. A statement reconciling any non-GAAP measures to the nearest GAAP equivalents can be found in the earnings press release distributed earlier today.

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

Huang Jia Dong: (Spoken in Chinese)

Edmund Hen: Thank you, David.

Huang Jia Dong: (Spoken in Chinese)

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

Huang Jia Dong: (Spoken in Chinese)

Edmund Hen: In the second quarter of 2012 we are pleased to report (some) financial results as the Company achieved (inaudible) revenue and earnings growth year-over-year.

Huang Jia Dong: (Spoken in Chinese)

Edmund Hen: Our revenue growth was driven by the increase in the average selling price of our products. This increased to 20 percent as compared to the second quarter of 2011. This illustrates our continued migration to higher margin and the better performing ceramic tile products as well as our excellent reputation and highly recognizable brand name among our customers.

Huang Jia Dong: (Spoken in Chinese)

Edmund Hen: We successfully executed our capacity expansion plan, our two facilities in 2011 and 2012 so that our annual production capacity of ceramic tiles is now 72 million square meters, out of which we are utilizing production facilities capable of producing 56 million square meters per year. With the power now on last month at our Hengdali facility, so as to (power us to full production capacity).

We will continue to monitor the macroeconomic environment in China to determine when it would be prudent to bring online additional production capacity as business conditions and customer demand dictate. Internal utilization of the Company's two plant facilities is currently 96 percent, which is indicative of the high level of efficiency of the productive capacity that we have currently being used.

Huang Jia Dong: (Spoken in Chinese)

Edmund Hen: Consequently, as a result of slowing economic conditions in China, the Company had no capital expenditures in the first and second quarter of 2012. Also, (whether) the Company engages in capital expenditures in the second half of 2012, they will be subject to the business outlook at that time.

Should we experience additional demand for our products, our plan will be to phase in the additional 16 million square meters of annual productivity capacity. We have currently in place (inaudible). For the time being, we have decided to delay the additional (inaudible) capacity at Hengdali. That will be

(inaudible) producing an additional 14 million square meters of ceramic tiles pending a review of the prevailing business conditions.

Huang Jia Dong: (Spoken in Chinese)

Edmund Hen: We are continuing to leverage our (inaudible) research and development effort, which has resulted in the production of new and innovative products that realize higher margins. (Inaudible) researches have been an integral part of our strategy to be the market leader in this respect as it enables us – enables new designs and production capabilities (inaudible) gives us a sustainable competitive advantage.

We also intend to strengthen our direct sales efforts to large property developers and market our products outside of China (where possible). With our available capacity position (inaudible) capabilities, strong brand recognition and (eminent) (inaudible), we believe that China Ceramics (inaudible) position to secure additional growth and market share gains in our (inaudible).

Huang Jia Dong: (Spoken in Chinese)

Edmund Hen: In conclusion, we are pleased to report our second quarter performance and look forward to sharing further reports as to China Ceramics' operation and financial progress in 2012.

Huang Jia Dong: (Spoken in Chinese)

Edmund Hen: With that I would like to turn over the call to the Company's Chief Financial Officer, Mr. Edmund Hen who will discuss the Company's second quarter 2012 financial 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 second quarter of 2012 was RMB 441 million or \$69.5 million, up 18.5 percent from RMB 372.3 million or \$57.3 million for the second quarter ended June 30, 2011. The year-over-year increase in revenue

was driven in part by a 19.9 percent increase in the average selling price of ceramic tiles to RMB 32.5 per square meter compared to RMB 27.1 per square meter in the comparable quarter of 2011 due to a change in the sales mix, with more sales coming from our higher priced rustic series of ceramic tiles which is being produced from our new Hengdali facility.

Gross profit for the second quarter of 2012 was RMB 128.6 million or \$20.3 million), up 13.4 percent from RMB 113.4 million or \$ 17.5 million for the second quarter of 2011. The year-over-year increase in gross profit was mostly driven by the higher average selling prices of our ceramic tiles in the most recent quarter.

Our gross profit margin for the quarter was 29.2 percent compared to 30.5 percent for the same period of 2011. The year-over-year decrease in the gross profit margin was the result of the increased material and labor costs and inventory provision.

Profit before taxation for the second quarter 2012 was RMB 115.6 million or \$18.2 million, up 18.1 percent from RMB 97.9 million or \$15.1 million in the second quarter of 2011. The year-over-year increase in profit before taxation was the result of higher gross profit as well as lower administrative expenses.

Net profit for the second quarter 2012 was RMB 86.1 million or \$13.6 million, up 18.9 percent from RMB 72.4 million or \$11.1 million in the same period of 2011. The year-over-year increase in the net profit was the result of higher gross profit as well as the aforementioned lower administrative expenses.

Earnings per fully diluted share were RMB 4.21 or 66 cents for the second quarter, up from RMB 3.97 or 61 cents in the comparable year-ago quarter. Non-GAAP net profit, which excludes share-based compensation expenses, was RMB 87.4 million or \$13.8 million in the second quarter of 2012, up 16.7 percent from RMB 100.3 million (sic – see press release, RMB 74.8 million) or \$15.1 million (sic – see press release, \$11.5 million) in the second quarter of 2011.

Non-GAAP earnings per fully diluted share, which excludes share-based compensation expenses, was RMB 4.28 or 67 cents in the second quarter 2012, up 4.4 percent from RMB 4.10 or 63 cents in the same period of 2011.

Turning to our balance sheet, as of June 30th 2012 we had cash and bank balances of RMB 78.3 million or \$12.3 million as compared to RMB 42.1 million or \$6.7 million as of December 31, 2011. The increase in cash and bank balances over the six months was the result of sustained revenues and no capital expenditures during the quarter end June 30, 2012. We also reduced our short-term debt in the quarter to RMB 35 million or \$5.5 million from RMB 125 million or \$19.9 million from the beginning of the year.

As of June 30, 2012, we had inventory turnover of 99 days compared with 84 days as of December 31st 2011. The increase in inventory turnover reflects a normal pattern when we introduce a new series of ceramic tiles for testing by our customers, which are temporarily slow moving while thereafter the new series is producing in accordance with actual customer orders.

Moving to our outlook, looking at the rest of the year, our backlog of orders for the (difference) in the third quarter 2012 is approximately RMB 285.9 million or \$17 million, representing a year-over-year decrease of 5.2 percent compared to the third quarter of 2011, reflective of the impact of a slowing macroeconomic environment. We estimate that our sales volume of ceramic tiles in the third quarter of 2012 will be approximately 12.2 million square meters, a decrease from the current quarter as well as that of the third quarter of last year due to weaker customer demand.

As noted in our press release, we are currently utilizing production capacity of 52 million square meters. Also, (a total buildout) (inaudible) producing annual production of 72 million square meters of ceramic tiles. This is consistent with our previously stated plan to bring on additional at the Hengdali facility as (inaudible) market by market demand.

Our capital expenditures for the first six months of the year were (new). However, the (common indication) in capital expenditure in the second half of 2012 will be subject to the business outlook at that time. Our new production

capacity enables us to more efficiently produce medium to high end ceramic tile products and (implements) (high) operations management so as to offer an optimal product mix for sale to our end users.

We continue to effectively capitalize (inaudible) our R&D efforts to differentiate ourselves from our competition and plan working closely with our customers as well as to produce new customers in new markets in order to take advantage of opportunities available to us. As an example, revenue from our (inaudible) increased 270 percent to approximately \$33 million for the first six months of 2012 relative to the comparable year-ago period.

(Both) sales volume and (inaudible) significantly rose and our gross margin went up for this quarter and is staying consistent in the mid-30s. The (inaudible) are produced also by our Hengdali facility which offers high automation equipment and lower maintenance cost which also helps (in transfer) margins. (Inaudible) in our (inaudible) ceramic (inaudible) which is realizing gross margin of about 29 percent and continues to be an important component of our product mix.

We will continue to monitor the macroeconomic environment in China in terms of general business activity and domestic new infrastructure spending such as that occurring in the real estate and construction sectors. And it is our continued focus on Tier II and Tier III cities as (secures) market opportunities for the Company.

With that, we would like to open up the call to any question pertaining to the second quarter. I would like to mention that we also have Board Member, Mr. Bill Stulginsky in today's call.

Operator: Sure. 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're on speakerphone, please pick up the handset before you register star one. One moment while we compile the Q&A roster.

Again, if you would like to ask an audio question, please press star one. Your first question comes from the line of Kun Tao with Roth Capital Partners.

- Kun Tao: Hey, thank you. First question, do you have a sales mix between your high-end product and relatively lower priced products?
- Edmund Hen: We will disclose our product mix in our half-year reports. And that will be ready later this month, or hopefully, the latest on early next month. And you will see all this product mix on our reports, the half-year reports.
- Kun Tao: OK. And during the second quarter, do you have any – did you lose any of your wholesale distributors or add any new territory or new wholesale distributors?
- Edmund Hen: We maintained the same number of the wholesale distributors, but we are adding some new direct sales to the large developers like (Jindi) and China Resources (inaudible), et cetera, in this year.
- Kun Tao: So what's the split between your wholesale and direct sale?
- Edmund Hen: Wholesale is still approximately 80 percent of our revenue. And direct sales is approximately 13 percent.
- Kun Tao: OK. Third question, when do you expect your new capacity to be added? Do you have a specific time?
- Edmund Hen: We do not have a specific time yet. As you can notice from our press release, the whole economic environment in China is softening. And we are waiting for a better timing to operate our new capacity. We will announce to the public once we find the timing is good.
- Kun Tao: OK. Last question, what's the run-rate of your (Jinjiang) facility and what's the run-rate of your Hengdali facility?
- Edmund Hen: Our average rate is about 96 percent. And what – as far as I am concerned, the (Hengda) is running approximately 97 percent and the Hengdali is lower. It's around 93 percent to 94 percent.
- Kun Tao: All right. Thank you.
- Edmund Hen: Thank you.

Operator: As a reminder, if you would like to ask an audio question, please press star one. Your next question comes from the line of Steven Martin with Slater.

Steven Martin: Hi. I'm on a speakerphone, so I apologize. Edmund, can you tell us what the cost of the unused capacity was in the income statement in the second quarter?

Edmund Hen: That is (majorly) depreciation which is less than – less than 2 percent of the (cost of sales).

Steven Martin: Can you give me that in dollar amount?

Edmund Hen: I do not have the exact figure at this moment. But I can give you based on (inaudible).

Steven Martin: OK. And where would that be in the income statement?

Edmund Hen: Sorry?

Steven Martin: Where would that be – what line in the income statement?

Edmund Hen: That's just within the (cost of sales).

Steven Martin: OK. Thank you.

Edmund Hen: Thank you.

Operator: Your next question comes from the line of Liang Hsu with Keane Capital.

Liang Hsu: Hi. Just wondering what is your implied average selling price for Q3 given the backlog, given your backlog and production volume guidance?

Edmund Hen: You mean the ASP for the third quarter?

Liang Hsu: Right. You mentioned a value, a backlog of, you know, (inaudible) (delivery) in the Q3 is like it's south 12 percent sequentially. And for the production volume of 12.2 million square meters, that is about like a 10 percent, you know, decline sequentially. So that means that your – you also assumed your average selling price is going to be down slightly sequentially.

Edmund Hen: Yes. If you look at our press release, our third quarter average price is approximately RMB 31.6.

Liang Hsu: RMB 31.6 for Q3?

Edmund Hen: For Q3, RMB. And our third quarter (spend) in terms of RMB is approximately decreased by 5.0 percent. But if you notice, when we translate it into US dollars, you have still – there's a little bit growth compared to the – for the same period of last year because of the exchange rate of US dollar has gone down.

Liang Hsu: OK. Got it. And do you expect the utilization to be, you know, maintained at such high level on your, you know, existing capacity?

Edmund Hen: For this third quarter we are still expecting we have approximately about more than – approximately 90 percent of our utilization for our capacity.

Liang Hsu: OK. Good. Thank you.

Edmund Hen: Thank you.

Liang Hsu: I think our last question is that do you consider any price cut should the economy continues to, you know, worsen in the second half?

Edmund Hen: We do not (exclude a) price cut. (Back to) 2008, we also had a price cut to support our customers (inaudible). But last year the economy is coming back. We just increased our price (inaudible) April in the right time.

Liang Hsu: OK. So in other words, you are considering, you know ...

Edmund Hen: Yes. We are now considering such a (topic); all depends on the economy for the next few months.

Liang Hsu: OK. Thank you so much.

Edmund Hen: Thank you.

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

David Rudnick: This is David Rudnick with CCG. And on behalf of the entire China Ceramics management team, we would like to thank all of you for your interest and participation in this call.

This concludes China Ceramics' second quarter 2012 earnings conference call. Thank you all very much.

Operator: Thank you. That does conclude today's conference call. You may now disconnect.

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