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CPHI - Q1 2019 China Pharma Holdings Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Diana Huang** *China Pharma Holdings, Inc. - IR Manager*

**Zhilin Li** *China Pharma Holdings, Inc. - President & CEO*

**Sam Hsing** *China Pharma Holdings, Inc. - Corporate VP*

## CONFERENCE CALL PARTICIPANTS

**Peter Surris** - *Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to China Pharma Holdings, Inc. Q1 2019 earnings conference call. (Operator Instructions). I would now like to hand the conference over to your first speaker today, Ms. Diana Huang. Thank you. Please go ahead, ma'am.

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**Diana Huang** - *China Pharma Holdings, Inc. - IR Manager*

Thank you, operator. Good morning, ladies and gentlemen, and good evening to those of you joining us from China. Welcome to China Pharma Holdings' first-quarter 2019 [early] conference call. I'm Diana Huang, the Company's Investor Relations Manager. Speaking on the call today are China Pharma's President and CEO and Interim CFO, Ms. Zhilin Li; and Corporate Vice President, Mr. Sam Hsing. In addition, I will provide translation during the Q&A section of the call.

I would like to remind all listeners that on 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 referring 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 due to such risks as: market and customer acceptance and demand for our products; our ability to market our products; the impact of competitive products and pricing; the ability to develop and launch new products on a timely basis; the regulatory environment, including government regulation in the PRC; our ability to obtain prerequisite regulatory approval to commercialize our products; fluctuations in operating results, including funding for R&D and sales and marketing activity; and other risks detailed from time to time in our filings with the SEC.

In addition, any projections as to the Company's future performance represent management's estimates as of today, May 15, 2019. China Pharma assumes no obligation to update those projections in the future as market conditions change.

Now it is my pleasure to turn the call over to China Pharma's CEO and Interim CFO, Ms. Li, to make her opening remarks in Chinese, which will be translated by staff. Afterwards Sam will continue translating [Ms. Li's] discussion of the Company's first-quarter 2019 financial results.

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**Zhilin Li** - *China Pharma Holdings, Inc. - President & CEO*

(Interpreted) thank you, Diana, and good morning, everyone. I would like to thank each of you for joining us today and for your continued support of China Pharma. We experienced certain market fluctuations in the first quarter of 2019 which has negatively impacted our revenue in this period. Management will continue to vigorously promote sales through active participation in recent provincial market openings to solicit new drug tender offers and allow China Pharma to expand its presence in this market.



In addition, we continued experiencing sustained pressure from the stringent requirements of the drug registration standards, consistency evaluations and the challenging environment in our industry in this period. We will continue to actively adapt to state policies, guidance, and further evaluate market conditions for our current existing products, pipeline products, and the competition in the market in order to optimize our development strategy.

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**Sam Hsing** - *China Pharma Holdings, Inc. - Corporate VP*

I will now read the rest of Ms. Li's prepared remarks in English. Now I would like to review our first-quarter of 2019 financial results and balance sheet information. Revenue decreased by 19% to \$2.9 million for the three months ended March 31, 2019, as compared to \$3.6 million for the three months ended March 31, 2018. This decrease was mainly due to the market fluctuations.

Gross profit for the three months ended March 31, 2019, was \$0.7 million as compared to \$1.1 million during the same period in 2018. Our gross profit margins in the three months ended March 31, 2019 was 22.4% as compared to 29.1% during the same period in 2018. The decrease in our gross profit margin was mainly due to the decrease in revenue and the increased [ratio] of the fixed cost to revenue. Our saving expenses for the three months ended March 31, 2019 and 2018 were \$0.5 million and \$0.7 million, respectively.

Selling expenses accounted for 16.3% of the total revenue in the three months ended March 31, 2019, as compared to 18.8% during the same period in 2018. Because of the adjustments in our sales practices due to the healthcare reform policies, we have [repart] -- reduced number of the personnel and the [expense] to efficiently support our sales and the collection of the accounts receivable.

Our general and administration expenses for the three months ended March 31, 2019 were \$0.4 million, which represents a decrease of the \$0.1 million as compared to \$0.5 million for the same period in 2018. General and administrative expenses [are rounded] for 14.6% and 13.6% of our total revenues in the three months ended March 31, 2019 and 2018, respectively.

Net loss for the three months ended March 31, 2019 was \$0.4 million as compared to \$0.3 million for the same period a year ago. The increase in net loss was mainly the result of the decreased revenues, whereas the expenditures did not decrease in proportion to revenue, which was due to the fixed cost. For the three months ended March 31, 2019 and 2018, loss per basic and diluted common share was both \$0.01.

Turning to the balance sheet, as of March 31, 2019, the Company's had cash and cash equivalents of \$1 million compared to \$1.2 million as of the December [21], 2018. As of March 31, 2019, our net accounts receivable was \$0.8 million compared to \$0.9 million as of December 31, 2018. For the three months ended March 31, 2019, cash flow from operating activities was \$0.1 million as compared to \$0.5 million for the same period in 2018.

Overall we will continue focusing on our business development and promote our sales and believe that this will support the fair valuation of our shareholders' interest in the future. With that we will now open the call up to questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). [Peter Surrís] from --.

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### Peter Surrís - - Analyst

My question is simple. You have wonderful production facilities, you have hospitals in China owing you a gigantic amount of money which you now have as doubtful accounts. You have the government working -- put in new stringent policies. You are very honorable, very honest people.



And I guess my question is, is there a better strategy for this Company? Is there a strategy where you could use your assets to align with other people? Are there other things that you could be doing that could recognize some of the hard work that you've put in over the years?

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**Zhilin Li** - *China Phama Holdings, Inc. - President & CEO*

(Spoken in Chinese).

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**Diana Huang** - *China Phama Holdings, Inc. - IR Manager*

Ms. Li says she totally agrees with you -- mentioned just now. And the management have working -- have worked actively to search the potential opportunity of partners, projects and products with synergy effects of China Pharma. And on top of that, she believe the most important (inaudible) is to generate huge positive cash flow. So that's her opinion.

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**Peter Surris** - *Analyst*

Well, and the money that the hospitals owe you that you have written off as doubtful accounts, these are government hospitals. They still owe you the money, right? It's just that you don't have the guanxi to collect.

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**Zhilin Li** - *China Phama Holdings, Inc. - President & CEO*

(Spoken in Chinese).

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**Diana Huang** - *China Phama Holdings, Inc. - IR Manager*

Yes, your understanding was correct. You should continue because we have adjusted our sales strategy to constrain as sales activity of selling and credit. In that condition the collection performance from those owed clients become even more difficult.

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**Peter Surris** - *Analyst*

But if you -- and let me just ask one more thing. Hainan is now being made a free trade area, which has benefits for other companies wanting to locate there, is that correct?

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**Zhilin Li** - *China Phama Holdings, Inc. - President & CEO*

(Spoken in Chinese).

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**Diana Huang** - *China Phama Holdings, Inc. - IR Manager*

She said yes. There have been several beneficial points being released in recent months. And she continued that actually the general healthcare industry has been chosen as one of the main focuses of the local provincial government, which means that probably in the future there will be more positive government policies to come out in our industry.

And Ms. Li personally estimates that all those government policies and [nice environment] will boost Hainan to grow as -- to grow to the condition like Hong Kong or/and Singapore in the future. She has quite positive views on this topic. Thank you.



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**Peter Surris** - - Analyst

So with all those things, why aren't companies standing in line to make partnerships with you?

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**Zhilin Li** - China Phama Holdings, Inc. - President & CEO

(Spoken in Chinese).

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**Diana Huang** - China Phama Holdings, Inc. - IR Manager

She says there have been several potential partners who have come to talk to us in terms of both forming partnership and doing things together. And for those opportunities we are still communicating with those companies and develop our mutual understanding and try to try to figure out any practical solution for the partnership. And we have not yet performed any [return] material or reached any significant milestone to disclose those kind of news to the public.

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**Peter Surris** - - Analyst

Great. (Spoken in Chinese).

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**Operator**

(Operator Instructions). As there are no further questions, I would like to hand the conference back to our presenters for today.

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**Sam Hsing** - China Phama Holdings, Inc. - Corporate VP

On behalf of the entire China Pharma team, we would like to thank you for your interest in the Company and the participation on this call. For any of you traveling through China, we always welcome and encourage any visitors from our shareholders, potential investors and analysts. This concludes China Pharma's first-quarter 2019 earnings call. Thanks.

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**Operator**

Ladies and gentlemen, that does conclude your conference for today. Thank you for participating. You may all disconnect. Thank you.

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