Sinovac Biotech Limited
First Quarter 2012 Earnings
May 15, 2012

Operator: Greetings and welcome to the Sinovac Biotech Limited First Quarter 2012 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Stephanie Carrington of The Ruth Group. Thank you. Ms. Carrington, you may begin.

Stephanie Carrington: Thank you, Operator. Good day everyone.

Before we begin, I would like to remind everyone that this conference call contains forward-looking statements. These statements are made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by words or phrases such as will, expect, anticipate, future, intends, plans, believes, estimates, and similar statements. These statements that are not historical facts, including statements about Sinovac's beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. Sinovac does not undertake any obligation to update any forward-looking statements except as required under applicable laws.

On the call today we have Dr. Weidong Yin, CEO; Mr. Danny Chung, Sinovac's new CFO; Ms. Helen Yang, Investor Relations Director; and Ms. Chris Lee, Investor Relations.

I will now turn over the line to Helen Yang. Go ahead, Helen.

Helen Yang: Thank you, Stephanie, and hello, everyone. Thank you for joining us on this conference call. On the call today are Sinovac's Chairman and CEO, Dr. Weidong Yin, and our new CFO, Danny. I will provide an update on the business on behalf of Mr. Yin; and Danny will provide a financial review afterwards. So, maybe let me start by providing you with a general business update.

First of all, our management team is very pleased to see the top line growth of 30% year-over-year for the first quarter, and we saw

recovery in demand by providing private individuals for vaccines in 2011, and domestic vaccine market remains favorable in the first quarter of 2012. The combination of a stronger vaccine market and the Company's reorganized sales team has led to these strong sales of our combined hepatitis A and B vaccine, Bilive. In this quarter, sales of Bilive increased 92% year-over-year.

I would like to take this opportunity to give you an update about the Chinese vaccine market. As we talked about previously that in 2011 the news about world (ph) polio infection (inaudible) vaccination in China, and the Chinese government not only imposed a polio vaccine booster program but also asked Centers for Disease Control for more stringent execution of immunization programs for other types of vaccines nationwide. We believe this will be very positive for vaccine—for giving vaccinations and for vaccine sales in China. On the other hand, we have also actively organized marketing activities during the week of April 25th, which is the week for Preventive Vaccination publicity in China, and this resulted in a very positive response among the public based on the public opinion surveillance done by Tsinghua (ph) University, one of the tier 1 universities in China.

We believe the negative public sentiment towards receiving vaccination (inaudible) right now, and according to the Ministry of Health of China, the number of hepatitis infection cases remains the highest among other infectious disease for a consecutive three years and is expected to be repeated in 2012. We think the combination of both Hep A and Hep B actually cost over 80% of the total infected cases which is reported by MOH, and we believe this will support our sales of Bilive, the combination of Hep A and Hep B vaccine. In general, we believe no matter from the government support or from the public sentiment or even from the disease epidemic we're facing a favorable vaccine market environment now than one or two years ago.

I would like to turn back to the business update. Sinovac was selected in December 2011 by the Shanghai Centers for Disease Control as a sole supplier to supply inactivated Hep A vaccine, Healive. In May 2012, Sinovac completed negotiations with Shanghai's CDC on the details of the tender supply and we plan to supply about 420,000 doses for one year consumption in the Shanghai area. In this quarter, we also saw 9% of our sales contributed by international markets and is generated partly from the sales of Healive to Mongolia and the seasonal flu vaccine, Anflu, to the Philippines. In March 2012, Sinovac was awarded with government tender to supply Healive to Mongolia. The total order quantity for Mongolia was approximately 191,000 doses, and these amount of vaccines were shipped in two different deliveries which were completed in March and April. We believe as our international sales team grows and the GNP standards in China generally improve, we will find more areas in the international market for our products. By selling our vaccines in other countries, we will open new doors to improving the Company's top line. We are pleased with our sales strategies both in China and abroad and we're

focusing on executing on those strategies now. We are committed to advancing the development of our vaccine pipeline which we believe will contribute to the Company's near term and long term growth.

As you know, EV71 is Sinovac's proprietary inactivated vaccine against hand, foot and mouth disease. We commenced the Phase 3 clinical trial in January 2012, which enrolled about 10,000 healthy volunteers. Currently, we have substantially completed the key steps of the Phase 3 clinical studies for our EV71 vaccine candidates, including the two-shot inoculation and the blood collection at 56—56 days from the first shot among these healthy volunteers, and think the most important task of this trial is to evaluate the efficacy of the vaccine. In order to do that, the inoculation of the vaccine was given before the peak season of EV71 epidemic and also before the peak season of the disease. The Centers for Disease Control and Prevention (or CDC) had set up three laboratories at EV71 trial clinical sites being used for the Sinovac Phase 3 clinical studies and the labs will be used to conduct hand, foot and mouth disease epidemic surveillance and a case identification and the data will be used to evaluate efficacy of the Company's novel EV71 vaccine candidates. Our Phase 3 trial is on track and we anticipate it to be completed in the first half of 2013.

As you may know, the hand, foot and mouth disease epidemic season has begun in China and according to data published by the Ministry of Health, as of April 30th, 2012, there are over 420,000 hand, foot and mouth disease cases were reported with 112 fatal cases compared to about 170,000 reported cases with 62 fatalities in the first four months in 2011, which is an increase of almost 150% in the number of reported cases in these first four months, and is almost twice the number of fatalities as a result of the disease. Currently, there are no EV71 specific treatment methods and there is no prevention methods as well and we are continuing to advance along our pathway to develop our vaccines to address these unmet medical needs. To that end, we completed the dedicated construction and equipment installation for the EV71 production plant in Changping site of Beijing this quarter, and we are currently conducting validation of the equipment and production process. The GMP application for the proofing the EV71 plant will be planned according to the clinical development and registration progress we made from the clinical aspect. Our goal is to have the vaccine being used to protect our kids against hand, foot and mouth disease soon after the vaccine is approved in China.

I'd like to move now to our development pipeline. With respect to our mumps vaccine, the State Food and Drug Administration (i.e., SFDA) plans to conduct its official GMP inspection of Sinovac Dalian's mumps vaccine plant before the end of May this year. And as you know, our operating subsidiary, Sinovac Dalian, obtained the production license from the SFDA for its mumps vaccine in December 2011, and made an application for GMP certification in March 2012. And also in late April, Sinovac successfully passed

the annual follow-up GMP inspection on the Company's influenza vaccine production plant according to Good Manufacturing Practice for Drugs (2010 Revision), or the new GMP guidelines that was issued in 2010. The inspection was conducted by the SFDA inspectors but is also under the guidance and supervision of WHO experts. Passing this inspection by the SFDA gives us the confidence that our flu vaccine plant meets the newly upgraded centers (ph) of GMP guidelines (ph) in China.

The other R&D project are progressing well and on schedule. Earlier in this first quarter our subsidiary, Tangshan Yi'an, which focuses on developing animal vaccines, obtained approval from the Ministry of Agriculture to commence a field trial for its swine Japanese encephalitis vaccine. The regulation for animal vaccine allows manufacturing the swine JE (ph) vaccine in the same production plant we have for animal rabies that is commercialized right now and without (ph) additional capital expenditure we can maximize the utilization of our facilities in Tangshan through developing swine JE.

And finally, you may have seen that we recently announced the appointment of Mr. Danny Chung as Chief Financial Officer of Sinovac. Ms. Nan Wang, who has served as interim CFO since August 2011, will continue as the Company's Vice President. We did approximate Ms. Wang's efforts to lead the accounting team to improve our internal control or financial reporting in last year and we expect Danny will take over her job and to keep improving our financial reporting and management capabilities. And Danny is with us on the call this morning and I'm pleased to introduce him to you.

Mr. Chung has joined the Company since November 2011 as Sinovac Beijing's Financial Director who brings to Sinovac over 20 years of experience in audit, financial management, including the healthcare industry. Danny graduated in 1983 from Hong Kong Polytechnic and obtained a Professional Diploma in Accountancy. He has held professional membership in the U.S. Institute of Certified Public Accountants since 1990. His detailed background information has been updated to our website. You're invited to take a look from our English website.

Now I would like to turn over the call to him to review the financial results for the first quarter of 2012. Danny, please go ahead.

Danny Chung: Thank you, Helen. Good morning, everyone. I'm pleased to be speaking with you today as part of the Sinovac team.

Our sales for the first quarter 2012 were 6 million, up 30.3% from 4.7 million for the first quarter year of 2011. Hepatitis vaccine sales increased by 28.9% year-over-year to 5.6 million. The increase in the first quarter 2011 sales mainly comes from the increased sales of Bilive (ph), up 92.4%

year-over-year to 4 million. Influenza sales grew by 45% year-over-year first quarter to 314,000.

Our gross profit for the first quarter of 2012 was 3.7 million, with a gross margin of 62.2%, compared to a gross profit of 3 million and a gross margin of 65.4% for the same period of 2011. The lower gross profit margin in the first quarter of 2012 was attributable mainly to the planned low production level of the animal vaccine facilities in the first quarter. If the impact is factored out of the calculation, the gross margin for the first quarter 2012 would have been 65.1%, flat year-over-year. After deducting depreciation of land use rights, amortization of license and permits, the gross margin was 61.8% and 62.7% for the first quarter of 2012 and 2011, respectively.

Our selling, general and administrative expenses for the first quarter of 2012 increased slightly compared to the same period in 2011. So it represented only 72.3% of total sales, compared to 89.6% for the same quarter last year. The reduction of the expenses as a percentage of sales was due to higher export sales with low direct selling costs in the first quarter of 2012. The expenses as a percentage of sales was also impacted by the seasonality of the Company's sales, which, based on historical trends, are typically lower in the first half of the year and expected to increase significantly in the second half of the year

Research and development expenses in the first quarter 2012 was 7.3 million, a 5.2 million increase over the same first quarter in 2011. The high research and development expenses in the current period included 5.6 million for the ongoing EV71 clinical trial and 0.5 million for the pilot production activities underway for the mumps vaccine. Research and development expenses for the quarter reflected the continued progress of the various research and development initiatives intended to drive the Company's pipeline products to commercialization.

Depreciation of property, plant and equipment and amortization of licenses and permits for the first quarter 2012 was approximately 307,000, lower than the 384,000 for the same period of last year. Although the Company has additional depreciation due to additions carried forward from last year, it benefited from much lower amortization expenses arising from fully amortized license and permits for the inactivated hepatitis A vaccine, which resulted in lower depreciation and amortization expenses in the first quarter of 2012, compared to the same quarter last year.

Our total operating expenses for the first quarter of 2012 was 11.9 million, compared to 6.5 million for the same quarter last year. As explained above, the increase in expenses was primarily due to higher research and development expenses as the Company advances its pipeline of vaccine candidates.

Our operating loss for the first quarter of 2012 was 8.2 million, compared to an operating loss of 3.5 million for the same period of last year.

Loss before income taxes and non-controlling interests was 7.7 million, compared to 3.4 million loss in the same quarter last year.

Net loss attributable to stockholders for the first quarter 2012 was 5.6 million, or $0.10 per basic and diluted share, as compared to a net loss attributable to stockholders of 2.8 million, or $0.05 per basic and diluted share, in the same period of last year.

As of March end, our cash and cash equivalents totaled 94.5 million, compared to 104.3 million as of December 31st last year. During the first quarter of 2012, the Company utilized 3.1 million of its cash resources to fund its clinical trial underway for its EV71 vaccine with around 7 million to be paid during the remaining quarters of the year. Under the credit line arrangements already in place that covers the ongoing capital expenditure needs of the Changping site development, 2.2 million was utilized in the first quarter 2012. Capital expenditure payments to complete the Changping site, which are covered by the same credit line arrangements already in place, are estimated to be around 20 million in the remaining quarters of 2012 and 1.7 million in 2013.

We are pleased by our continued penetration of international markets and by the increased strength in the private vaccine market in China. We are focusing our ongoing Phase 3 clinical trials for EV71 vaccine to address unmet needs of the hand, foot and mouth diseases. Our EV71 production plant in Changping is moving along as scheduled and we are confident we will be able to produce vaccine when it is approved. Our pipeline is strong and we are looking forward to advancing our candidates, including our mumps vaccine through the regulatory process.

That concludes the management prepared remarks. So, Operator, we will now take questions. Thank you.

Operator: Thank you. We will now be conducting a question and answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Thank you. Our first question is from the line of Hao Zhou with Piper Jaffray. Please state your question.

Hao Zhou: Thanks for taking my questions. First of all, congratulations to Danny Chung for the new position. And my question first—first question is directed to the EV71 clinical trial. Can you give us an update as to—can you remind us actually first, with the endpoint for this Phase 3, is the prevention of HFMD (inaudible) of the—in the primary endpoint?

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: So Mr. Yin's answer is that in these Phase 3 clinical studies for EV71 the principle endpoint will be evaluating efficacy of the vaccine. Basically we will compare the number of cases identified in a group who received the vaccine and the group who received placebo. And Mr. Yin also explaining that we also set up a condition in the protocol for these Phase 3 trial that if the number of cases is—if there are more cases identified also (inaudible) opportunity to do an interim analysis of the trial results. Right now we have seen that the clinical trial is being carried out successfully and as we introduced earlier that the epidemic situation for EV71 in this first few months is—does not—didn't decrease but instead it's going up and we also saw the cases reported in the clinical site which (inaudible) in the Jian Xu (ph) province. We're expecting the regular timeline for conducting the trial will be about one year but the interim result Mr. Yin—interim analysis, Mr. Yin mentioned, would come earlier but that will depend on the epidemic situation.

Hao Zhou: And just following that answer, so if assuming continued high incident rates for the HFMD would more this occurrence rate actually trigger interim results soon, and if so, is that unblinding (ph) to study the placebo versus the treatment arm to compare the efficacy?

Helen Yang: So your question is that if the epidemic situation is getting more serious whether that will speed up the time when we're due—unblind the results?

Hao Zhou: Yes, say, you know, just put it—'cause right now is the high peak season, I just wonder if you guys saw more the occurrence rate within next month or so will these trigger possibly interim look (ph). And what's the—are you guys—what's the—actually is—the current occurrency (ph) within the whole group is close to the ligamated (ph) interim look number that you guys have already planned out before the clinical trial.

Helen Yang: Okay, let me translate for Mr. Yin first.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: Right. I think what Mr. Yin explained is that with the information we currently have it's not easy to make a judgment whether the interim analysis is going to happen or not, but as you said and also we observed in the past, that normally the peak season of incident rate will be happening in May and June, so we need to wait and see.

Hao Zhou: Okay. And also just based on the first two months, almost two months of follow-up, how do you guys safety check so far in terms of patient (cross talking)

Helen Yang: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: Mr. Yin's answer is that we observed the regular level of safety that is similar to the results from our Phase 2 study and there is no—any unregular (ph) safety issues happening soon after we—we give these vaccination to these 10,000 volunteers. So 50 is okay.

Hao Zhou: Okay, thanks. And also just also related to the expenses related to R&D, to the EV71 clinical trial, 'cause you mentioned in the first quarter it's 5.7 million, how much is that 5.7 million comes from the supply—inventory related to the two shots inoculation and how much is related to the maintenance or the maintenance cost related to the patient (ph) follow-up? And how do should we look at full year R&D expenses for the EV71 clinical trial going forward?

Danny Chung: Okay.

Helen Yang: So let me translate your question first.

(Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: So what Mr. Yin explained is that actually there is a package of R&D expenses which is included in the contract that we signed with the PI (principle investigator) from Jian Xu province, and actually PI and his team will manage the spending of R&D, like, how much spend on inoculation, how much is on maintenance and other items. So we're not able to give you very clear differences on how much spending on each item but we did provide a estimate about total spending that we forecasted for EV71 this year and right now we still see these expense still under our control.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: Also, Mr. Yin added to his answer is that, one of the key part of the spending will be on the—will be spent on conducting the antigen (ph) type by three laboratories set up and managed by Centers for Disease Control in the clinical site. And in Jian Xu province we have three sites and these laboratories are having daily testing on the EV71 antigen and they will report, have a daily report to the doctors and within that if we can have this information will be very much helpful for us to evaluate the vaccine and also help us to make a judgment about how this vaccine and how is the clinical study is being carried out and we think that this is very worthwhile.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: And also recently, Mr. Yin visited the clinical site in Jian Xu and normally when we want to find out the incidents we're looking at this information from the Internet published by the government but in order to carry out this clinical study in Jian Xu province, in the clinical site, the laboratories are also being set up that we have the platform to identify the cases and collecting these data. And what Mr. Yin observed is that the data collected in that laboratory is much more sensitive comparing to the regular report published on the website.

That's his answer. Would that be helpful?

Danny Chung: Thank you.

Operator: Our next question is coming from the line of Bin Li with Morgan Stanley. Please state your question.

Bin Li: Thanks for taking my questions. I have a few questions on the top line and cost and pipeline as well. So, first, let me start with top line. And you said you have completed negotiations with Shanghai CDC and you want to deliver approximately 420,000 doses, what is the revenue opportunity for that order and is it part of your forecast (cross talking) this year, yes?

Helen Yang: Actually the unit price is about 30 RMB per dose, so I think it will be around 10 million RMB but certainly more than 10 million RMB in revenue. But since we didn't make any guidance for top line this year so I'm not sure what do you mean what are we including in forecast.

Bin Li: Well, you know, budget, if you will.

Helen Yang: Oh, budget. Yes, I that we did, internal budget we did include that.

Bin Li: Okay, great. And obviously your top line is still pretty healthy but in the past your top line's been pretty lumpy based on the season—the flu season and also some of the reserves that you have to book, for example, in second quarter of last year you booked some of the Panflu revenue, how should we think about the rest of quarter—the rest of the year, the quarterly revenue pattern, if you can remind us maybe something that we can forecast?

Helen Yang: Mm-hmm. If you'll let me transfer—translate your question first.

(Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: So to answer your question, Mr. Yin explains from different aspect, that first of all is that our capabilities still being, example if I (inaudible) creating the growth in Bilive, so we believe that with the high growth of Bilive in private pay market in this fourth quarter we believe that this product will contribute significantly to stabilize sales revenue for the Company. And in terms of the seasonal flu vaccine, in the second half of the year, we think that even though it may not be like what happened in the year of 2009, to have that significant growth, but we think as the new sales strategy and the new sales team (inaudible) when they're executing their sales strategies, we're also expecting the growth opportunities for flu. And regarding to the revenue recognition from stockpiling program, because in last year we recognized H5N1 and in this year there is no additional recognition with H5N1, but for H1N1 vaccine we did recognize there is 70% of the remaining unpaid bill from the government last year after we received the payment and there are another 30% left so, but we recognize revenue depending on when we can receive the payment from the government.

Bin Li: And can you remind us when the Company will enter the tender, participate in the tender for this flu vaccine, for the flu vaccine this year? And when will we have better visibility of the orders and (inaudible) tender?

Helen Yang: Well actually in principle flu vaccine is still a type 2 vaccine in China. It was sold in private pay market so normally we don't receive advanced order; that's one part of the risk of selling flu vaccines in China. Only Beijing government, normally we will participate into the Beijing tender in August or September and Beijing government will purchase seasonal flu vaccines and give free vaccinations to the senior citizens and schoolchildren and normally their vaccination programs may be ended around late October or November but for the rest of the country that there is no advanced order so we need to see how the disease epidemic in this flu season and we also need to see how our sales team's executing their strategy in the flu season.

Bin Li: Okay. Thanks. Let me switch gears and talk about the cost, operating cost. I mean there's no question your sales are growing fine, but I think I would like to get a little bit of comfort on the cost picture for this year and perhaps for the next few years given your—the cost will continue to remain high, you know, obviously you spent about close to 6 million for the EV71 clinical trials, can you tell us in terms of the pattern of R&D spending for this project, first of all, how long it will extend, when should we expect on the—for that specific trial to come down? And also, within this year, is the 5 million sort of the run rate we should think about for the quarter or because of lumpiness of this project on the spending, then 5 million might not be representative for the rest of the year on a quarterly basis.

Danny Chung: Well, from the—our information given we said that we already spent around 5 and 6 million in the first quarter and (inaudible) heavy in the first quarter because our program started in January and a lot of work going on, so you can expect that that is the heavy season of the spending. And then after first quarter there will be checking of the blood and also those kind of maintenance work afterwards, so the spending will be not as heavy in the first quarter. So total the year you can see heavy spending in the first half and then much less spending in the second half, but on the condition that we also have to see the rate of disease. If we cannot get sufficient samples during the year, obviously, we have to drag on the observation period and that will increase expenses and again in the second half of the year. So overall that is pattern of the trial that we are doing and these are all dependent on the disease rate and also our samples collected and also the interim outlook assessment. So I would say that there will be a lot of factors, but if things go ahead as smoothly as we plan, we will see more heavy spending in the first half than in the second half.

Bin Li: Thank you.

Operator: Our next question is from Dan Jaffe, a Private Investor. Please state your question.

Dan Jaffe: Yes, I have a couple of I hope short ones. One is, what is the timetable for mumps clinical trials? I'm not even sure what phase we're in and when you expect that to progress.

Helen Yang: Thank you, Dan. To answer your question, our mumps vaccine is right now under GNP inspection, so which is the very end of the licensed (ph) vaccine in China, so after we complete the GNP inspection, if we pass it, we'll be able to apply for the vendor (ph) permit for licensing the product. So we are expecting, according to the current plan, we expect to have the vaccine being approved for commercialization in China around the end of this year. So we're expecting that in next year mumps vaccine can start contributing revenue to the Company.

Dan Jaffe: Great. And the animal rabies vaccine was as pretty much expected, I think, a pretty minor part of the sales picture in the first quarter but I'm wondering if you have any sense of, you know, will this be a significant contributor to revenue in the second quarter or how do you expect that to proceed?

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: I will invite Mr. Yin to answer this question first.

Dan Jaffe: Okay.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: Mr. Yin's answer is that in these first quarter after we commercializing these animal rabies vaccine in China, we have completed the pricing for different type of vaccines, i.e., different type of packages, and what we saw in the first quarter is that we did attract the interest from private pay market to give the vaccination to pets, so the pet market China with the use of the vaccine in pre-sales (inaudible) would be a potential market for us. And that actually is the private pay market but it's also a high end market, but as we're saying it's a private pay market and it will take time to have the team to develop the market and create the opportunity and demand. And at the same time we also saw that there are opportunities for the tender (ph) market, and as we saw that in this year the tender market in different areas in China have been initiated and we also have the opportunity to participate even though this is a—still be very early to say how much will be the revenue contribution to the Company, but we also the saw the opportunities. But maybe within the most—the most meaningful contribution to—for—from these animal rabies may come from next year or the year of 2013 or 2014. So normally this year is like to creating the demand in branding and trying to setting up a good sales team and to create the market awareness.

Dan Jaffe: Great, great. Thanks a lot. One other question, if I may, and that is, maybe I don't understand, but although the Bilive sales for the quarter were very encouraging the Healive sales were not, and at one point Healive was really the leading product in terms of generating revenue and it fell of, it seems to me, in part, in large part because of the, all of the scares about vaccines, but now that that seems to be going away I thought that Healive sales would pick up, and I wonder if you could comment on that and talk about also the focus currently on public versus private marketing of Healive.

Helen Yang: Sure. Thanks for the question. Actually, as you said, Bilive contributed a significant amount of growth in this quarter and also in the last quarter. I think at the beginning when we developed the hepatitis franchise we did design well about having a monovalent vaccine and a combo vaccine with

Hep A and Hep B, so we saw at the time a few years ago that Healive at the time were only sold in private pay markets and we identified the opportunities and created a significant amount of market share within the inactivated Hep A vaccine, but at the time we did foresee that Hep A one day will be included in the public pay market and we can - and we will be able to take the Bilive, a combo vaccine, also deemed as a high end product, to still be strong and to stay (ph) being sold in private pay market to generating high gross margin. Because once a vaccine being included in the public market industry did expect a lower gross margin so this is what I just—what we expected a few years ago that after Healive was included in the public pay market starting from the year of 2007 we've seen that the private pay market opportunity for Healive drop but we are also actively participating into the government tender for the public pay market which is procuring hepatitis A vaccine but at the same time our sales and marketing team who have a strong expertise in private pay market in China (inaudible) Bilive to create the market share for Bilive. And also right now due to the new pharmacopoeia being issued in 2010 our strong competitor, Glaxo (ph), is no longer able to supply Hep A and B vacs (ph) in China and we are also being leveraged this opportunity to strongly expand the market share for our Bilive in the private pay market. And also normally when a company evaluate an investment on (inaudible) plant we will normally group these two vaccines together because Healive and Bilive are all manufactured in the same plant so if you're taking both Healive and Bilive sales together we could see we'd still maintain a stable amount of revenue from hepatitis vaccines. If that makes sense to you.

Dan Jaffe: Thank you.

Operator: As a reminder, ladies and gentlemen, to ask a question, you may press star, one.

Our next question is a follow-up from the line of Hao Zhou with Piper Jaffray. Please state your question.

Hao Zhou: Yes, thanks for taking my follow-up question. I have two more questions; one is related to the Bilive growth. By the end of last year you guys have initiated a sales reorganization and a realignment of more distributors for pushing off the sales, can you give us some more color, additional color on what's driving the Bilive? How much is Bilive gross sales right now coming from the distributors versus direct sales to the CDC? And what else is driving the Bilive growth in terms of these sales reorganization initiatives last year?

Helen Yang: Sure. Thanks, Hao. Actually there are a few factors affecting the high growth in Bilive. First of all is actually this was managed by the new team with a new strategy which was being implemented in second half last year and as well as the first quarter this year and we definitely believe that this is showing our strong expertise of developing market in the private pay sector in

China. In end of last year we also did, as you mentioned, we did try to collaborate with some distributors and we believe that this distributor collaboration may create a better network that we're not able to cover with our team, so we also expect to expand the collaboration scope with distributors as right now our team is evaluating. But on the other hand also the most important factor contributing to the growth of Bilive is that we also increased the selling price X (ph) manufacturing price of Bilive that we are supplying to the Centers for Disease Control. Because I think it's from last year the CDC changed its model of how to provide the add-up (ph), the markup in the vaccines they purchase and they distributed (inaudible) to the lower level of the channel and they used to have a fixed amount of markup but now they are—the markup will be depending on the level of the price they receive so by increasing the X manufacturing price can give them a better incentive to distributing vaccines. And also as we mentioned a few times in the past few quarters that after the Chinese National Immunization Program expanded the number of products there are less and less (inaudible) vaccines remaining in the private pay market and being—having a well awareness among the public and also being accepted by the market so the Centers for Disease Control is having a very strong incentive to distribute these type of vaccines and particularly for Bilive. One is that the X manufacturing price is pretty high and also right now we don't have competition, so we think Centers for Disease Control is really—like to sell these type of vaccines and also our teams see a lot of marketing activities towards our customers.

Hao Zhou: Okay, thanks. And my last—second question is related to the production facilities you guys currently (audio interference) built up for the potential launch of EV71. How much will the total investment you guys need to—in order to have the EV71 facilities fully operational assuming that they will be—the Phase 3 will be (audio interference)?

Helen Yang: (Audio interference). (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: So, actually, the total amount of capital expenditure on our Changping site is certainly more than 300 million RMB in total. But actually in this site we not only have a plant for producing EV71 vaccine, this amount of money also includes the purchase price of facilities, land use rights and also we built warehouse and a new filling and packaging line (inaudible) and offices in that site. So this is the total spending because although it's difficult to separate on each individual program, because for example filling and packaging line may be actually shared among different type of products and also the land use rights will be shared as well. So that just gives you a sense about our total spending.

Hao Zhou: Thank you.

Operator: Our next question is a follow-up from Bin Li with Morgan Stanley. Please state your question.

Bin Li: Thanks for having me asking follow-up questions. I want to go back to the timeline for EV71. You'd said that you're expecting first half of 2013, I'd like to understand what are the factors or possibilities to have the timeline before that or after that, you know, what's the upside or downside of the timeline? First of all, can you remind us, in your trial design, what are the difference in terms of incidence rates between the vaccine arm and control arm that you can make a claim that the drug is—the vaccine is effective?

Helen Yang: Okay, maybe I can help answer the first part of your question. Mr. Yin may follow-up for the second one.

So as I said earlier, the first half 2013 will be the regular timeline. In the interim if the epidemic (inaudible) is getting much more serious and we very quickly collect the sufficient amount of EV71 cases we can claim to SFDA and ask them for permission to unblind the results and can have a interim result and if they are—if SFDA thinks that supports the—supports to end the (inaudible) regulatory process earlier we can actually shorten the entire timeline for commercializing these vaccines. But no matter what, actually we have to complete the entire Phase 3 clinical studies as we planned until then, so I think there is not a trigger point for making these first half 2013 to happen earlier than this time so we can actually speed up the regulatory application earlier if we have a good interim result. And I think the downside would be that the epidemic situation is really flat or even less than the regular years even though we didn't observe that right now but that is the most challenging part and out of our control that we don't able to collect the sufficient data and cases so we have to extend the Phase 3 trial until we collect the number of cases and reach the requirement in the protocol.

Bin Li: And then given what you're observing at your clinical site and in Jian Xu and also given that the overall incidence rate in China is much higher than last year, what is the likelihood of you not capturing enough incidents at your site?

Helen Yang: The likelihood of the downside?

Bin Li: Yes.

Helen Yang: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: Mm-hmm. Because as Mr. Yin said, we have observed more and more reported cases so we think the likelihood of the downside is less and less.

Bin Li: Of reported case on your site.

Helen Yang: Yes, it's getting more and more—reported cases on—from the site is getting more and more, so we think the likelihood of not being able to complete the trial by first half 2013 is reduced.

Bin Li: Okay. And I still want to go back to my question. In terms of what kind of the delta or difference that you need to hit in order to claim that you have statistical difference between the vaccine arm and the control arm?

Helen Yang: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: So to summarize Mr. Yin's answer that he thinks that if the protection rate can reach about 70 to 80%, will be a good situation to demonstrate the efficacy of the vaccine. But also he wants to let everyone know that right now as the demand from the MOH and also the epidemic situation in country we do have a urgency to move forward with this program not only from a clinical but also from construction to have the facility ready and, or the government will—being very supportive but indeed whether we can able—we are able to commercialize this vaccine will definitely depend on the scientific evaluation with the results from these clinical studies. So, and also whether we can—if we can have the interim results whether we can utilize that to speed up the regulatory process also depending on SFDA's expert evaluation as well. But this is the most important program right now within the Company.

Bin Li: Thank you very much for taking the follow-up question.

Operator: Thank you. There are no further questions at this time. I would like to turn the floor back to management for closing comments.

Helen Yang: Well, thank you. We did appreciate that everyone participated in the call this time and also we want—appreciating everyone's effort to supporting the Company even though as we talk a lot that in this year EV71 program is in a very key space that also require a lot of spending, but we definitely believe that these programs will create the short term opportunities for the Company as we move into another level. So that's why within the Company or the management team trying to gather the good resources and to move the programs being carried out as good as we can. And also we have seen that after the change of the sales leader and the change of—adjusted those strategies, we have seen a good result with good sales particularly from the private pay market

in China. We think right now the Company's in a good position and especially for the sales we're not only cutting the spend on the team for the short term sales of our commercialized vaccine but we are also being prepared for the commercialization of our pipeline products, especially EV71. So we did—expecting every one of you would be with the Company and also to share the opportunities that we can create for the Company and for our shareholders. Thank you very much.

Operator: This concludes today's teleconference. You may now disconnect at this time. Thank you for your participation.