Sinovac Biotech Limited
Investor Conference Call
January 6, 2011

Operator: Greetings and welcome to the Sinovac Biotech Limited Investor Conference Call. At this time, all participants are in a listen-only mode. A 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. Please go ahead.

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 US 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 are not historical facts, including statements about 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 from management we have Dr. Weidong Yin, CEO; Mr. Jacob Ho, acting Chief Financial Officer; Ms. Helen Yang, Investor Relations Manager; Ms. Vanessa Wu, Senior Financial Manager; and Ms. Chris Lee, Investor Relations. I will now turn over the call to Jacob Ho. Go ahead, Jacob.

Jacob Ho: Thank you, Stephanie, and hello, everyone. Thank you for joining us on this conference call. On the call with us today are Sinovac's Chairman, Dr. Weidong Yin. Dr. Yin and I will be available to answer questions. Following the press release that was released earlier today, we will discuss the factors that impact our sales for the fourth quarter 2010 and full year 2010.

Let us start out by saying that our 2010 sales were certainly very disappointing due to weak conditions in the vaccine market in China. At the same time, we remain focused on advancing our business development strategy and we strive to build long-term value by advancing our far-reaching R&D initiatives and moving forward with our capital expansion trend.

As disclosed in today's release, we expect our fourth quarter 2010 preliminary and audited sales to be in the range of approximately 7.8 million to 10.8 million and our full year 2010 preliminary and audited sales to be in the range of 42 million to 45 million. In 2010, the SG&A expenses were higher, which resulted from additional G&A expenses associated with the 30% owned (sp?) joint venture and substantially higher R&D expenses, which were primarily related to the development projects of EV71, TC WE (sp?), and other (inaudible) products.

As of December 31, 2010, Sinovac's cash and cash equivalents at approximately 100 million, which we believe is sufficient to support the company's development in R&D, capacity expansion, potential international collaborations, and M&A opportunities in the near future.

Elaborating on 2010 sales, the shortfall as compared to the revised total 2010 expectation issued in October 2010 was attributable to the weaker than expected sales of flu and (inaudible) in the private market. Vaccine demand in the private market was adversely impacted by the negative external market sentiment. In addition, Sinovac was not able to adjust its sales and marketing strategy, transitioning its focus from the private market to the public market in a timely manner to address the altered (sp?) market environment.

Throughout 2010 on several occasions, we discussed with you the negative impact on the vaccine market caused by (inaudible) incident and other vaccine safety incidents. Some regional CDCs made inoculations for Type I vaccine as a first priority or delayed or inactively promote vaccination for Type II vaccines or (unintelligible).

Turning to (inaudible), our 2010 sales were weaker than previously expected, although the total release volume of seasonal flu vaccine is higher compared to 2009 based on the batch release data. But actually, sales were down across China in 2010. The decline in actual sales was attributable to the weak market demand as governments were reluctant to (inaudible) education and promotion activities in support of the seasonal flu vaccine as compared to previous years. The seasonal flu vaccines are mainly sold in private market except in Beijing, and the governmental education and promotion on flu vaccination plays a very important role in consumers' decisions on whether or not to receive the flu vaccinations. The lack of governmental education and promotion impacted a significant portion of seasonal flu vaccine sales in 2010.

Additionally, the large scale (inaudible) vaccination campaign in September delayed the flu vaccination season by one month, which translated into missing a key month during the peak season. As you may recall, the epidemic situation in 2009 associated with H1N1 flu encouraged the sales of

seasonal flu vaccines, and all seasonal flu vaccines were sold out in 2009. Given this high market demand in prior year, all the flu vaccine manufacturers increased the output volume of flu vaccines in 2010 in anticipation of another year of peak demand, which intensified flu vaccine competition this year. Sinovac elected to maintain the pricing for all its products in the face of the increased competition which it was not able to offset, given its limited product mix and inability to impact competitive pricing. At the same time, we realigned our sales team to make the team more suitable for selling flu vaccines.

A large potential market for the flu vaccine continues to exist in China. Several international companies have taken actions to localize (sp?) the flu vaccine production in China, (inaudible) establishing a joint venture of this local company, also M&A, as they aim to take a piece of China flu vaccine market. This confirms the long-term market potential of seasonal flu vaccine in China. We intend to proactively adjust our sales strategy in the near term and expand our capacity in the long term to address the increasing flu vaccine market.

Next, focusing on Healive (sp?), our 2010 sales were also weaker than previously projected. In 2008, the Hepatitis A vaccine was added to the expanded immunization program. Since then, all the provinces and cities have opened up the public market for Hepatitis A vaccine. In terms of that, most of the provinces and cities continue to purchase a live attenuated version of the Hepatitis A vaccine, given that it is much cheaper than inactivated version and also because only one shot as compared to two shots of the inactivated vaccine. Only those provinces and cities with good financial status, such as Beijing, Shanghai, Tianjin, and Jiangsu have opted to purchase the inactivated Hep A vaccine. Therefore, Sinovac has only been able to gain limited access to the public market in China.

It is important to note that from a global Hepatitis A market standpoint China remains the only country that continues to allow the use of live attenuated Hepatitis A vaccine, which has been (inaudible) around the world by the inactivated Hepatitis A vaccine, a superior vaccine product. We anticipate a governmental purchasing practice in China will change in the long run, from purchasing live attenuated vaccine to inactivated Hepatitis vaccine. We remain confident in the long-term development of Hepatitis A vaccine demand in China. In the short term, we will continue to focus on locations within the public market which will (unintelligible) a higher quality vaccine, as we will organize our resources for active promotion accordingly. We expect to garner additional market share for Healive in the public market over the next two years while leveraging our target promotion.

Currently, Sinovac has a limited product mix, which remains a key hurdle for us as we integrate our sales in the near term. We are focused on advancing our R&D projects as we look to broaden our portfolio of commercialized products. Currently, over 10 R&D projects are underway and the

R&D process is going well. Our top priority (inaudible) candidates are EV71 vaccine, which addresses a significant medical need, and Pneumococcal Conjugate Vaccine, PCV, which has great potential in both the domestic market and international market. In late December, we obtained the clinical trial approval from SFDA to commence the clinical trial of EV71 vaccine. According to the approval document, Sinovac is required to conduct each phase of human clinical trial in accordance with SFDA requirements, to conduct studies to assess safety and immunogenicity in Phase I and II clinical trials, and to conduct efficacy studies in the Phase III clinical trial. We immediately commenced the Phase I trial, as we were fully prepared in advance.

In addition, Sinovac has also submitted a clinical trial application for a combined EV71 and Hepatitis A vaccine to the SFDA.

Another key R&D project for Sinovac is to develop a Pneumococcal Conjugate Vaccine. We have completed the pre-clinical research and are preparing the documentation. We expect to file clinical trial application with SFDA shortly.

Looking out 2011, we are on track to launch (inaudible) vaccine and animal rabies vaccine this year, and we anticipate that these two vaccines will contribute to 2011 sales. We expect that the domestic vaccine market will gradually recover as the negative impact on (inaudible) incident and other vaccine safety incidents should continue to diminish and no large scale vaccination campaigns are currently planned.

As we discussed previously, China's new (inaudible) GMP standards are scheduled to be issued and implemented in 2011, and new GMP standards will be in accordance with WHO standards, which will likely lead to further consolidation of China vaccine industry and should provide Sinovac with further development opportunities. At this time, Sinovac is also actively pursuing international collaboration opportunities to leverage its core R&D and quality control capabilities. We intend to provide our 2011 top line guidance when we report the fourth quarter and full year 2010 results in late March, early April period. Thank you.

Operator: Thank you. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two, if you would 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 key. One moment, please, while we poll for questions. Thank you.

Our first question comes from Hongbo Lu with Piper Jaffray. Please state your question.

Hongbo Lu: Thank you. (Chinese spoken) So thank you so much, everyone, for taking my question. Just a couple quick ones. Jacob, you commented sales and marketing and R&D expenses increased for the quarter. Can you comment on some preliminary plans for gross margin and maybe profitability for the quarter? The reason I ask about this is I noticed there was roughly about 25 million inventory reported in last quarter. That's (inaudible) higher than historical level, so I wonder if you have the breakdown of the inventory and then, you know, how we should anticipate whether or not there will be potential inventory write down that we should expect in future (inaudible) quarters due to expiration of your vaccine product.

Female Speaker: (Chinese spoken)

Jacob Ho: Right now, we're translating the question to Dr. Yin first, and then we will answer our question as a team.

Hongbo, in terms of inventories, most of our Hepatitis inventories last for two to three years. We have a shelf life of two to three years. In terms of the flu vaccines, because the WHO issues the strain every year and every year it's a different strain, and for those unused seasonal flu, we have to write them off.

Hongbo Lu: Okay. And when should we anticipate that and know what's roughly the rough scale if you have any estimates?

Jacob Ho: That would be (inaudible) in the Q4 of 2010, the report.

Hongbo Lu: Okay, thank you. And then just one quick question on 2011. We understand you guys need more time and we respect that. Can you comment how we should think about profitability going into 2011 and how much R&D expenses might go up with the hand, foot, and mouth disease entering the clinic (sp?)?

Female Speaker: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: First of all, that Mr. Yin answered generally speaking, we will increase the spending on research and development, and there are two aspects. The first one is that as the EV71 vaccine is into clinical trial we'll send manufacturers several batches of EV71 vaccine at (inaudible) of scale with the purpose of using in clinical trials. Right now, there are at least three batches of EV71 vaccine manufactured by us have been tested by the national authorities and we've passed these tests. And those vaccines will be used in the Phase I clinical trial. At the same time, we are still keep manufacturing these vaccines,

which will be used in the Phase II and Phase III clinical trials. Therefore, that normally when we do the manufacturing for the vaccine used in trials, the spending on R&D would be increased.

And besides EV71, we also increase spending on our Pneumococcal Conjugate Vaccine. As you know, that has been—reached the end of pre-clinical study and we are now also manufacturing some of the Pneumococcal Vaccine. And testing will be included as well, and at this stage normally the spending is relatively higher compared to the other phases.

Hongbo Lu: Thank you so much. I'll go back to the queue. Thank you.

Female Speaker: Thank you for the question.

Operator: Thank you. Our next question comes from Sean Wu with Morgan Stanley. Please state your question.

Sean Wu: Hello. Thank you very much for taking my question. I have a quick question on EV71 vaccine development because I think this the (inaudible) key focus now for your company and also I think that it's the investors' focus. So is this trial—this product will take place of development (sp?) until it can be approved but can you walk us through how long will each phase take and when do we realistically expect to see the product to be launched? And also how is your development compared to other people, the competitors?

Female Speaker: Thank you. Let me translate it first. (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: So to answer your question, firstly Mr. Yin says as the license granted by SFDA has indicated that the company is to conduce Phase I and Phase II clinical trials in order to evaluate a safety profile on this vaccine. And if this safety profile meets the requirements, then we will conduct the Phase III clinical trial, which it will study the epidemiology (sp?) of this disease. And if the vaccine has a good potency profile from scientific point of view that this vaccine is ready for fully approval of production, which means that after Phase I trial we will submit the safety data to SFDA and at the same time we will submit the trial protocol for the Phase II trial with SFDA. And we believe that in this way SFDA taking a very effective approach when they approve this vaccine for clinical trial, as the vaccine is emergently needed by the country. Therefore, that we think from an efficiency point of view that this approval is very (inaudible).

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: And regarding to the structure of the trial, in Phase I trial we will conduct the—we'll inoculate adults, child, and very young child. And also we will inoculate different levels of dosage into different groups. And generally speaking, every subject group is about 30 volunteers. And for Phase I trial it takes about three months. For Phase II trial, we will reduce the type of—reduce the number of different dosage levels, but we'll increase the (inaudible) for this trial and we will mainly focus on the zero (sp?) conversion rate for evaluating the safety and also the immunogenicity. This Phase II trial will take about three to six months. And for Phase III trial it's very likely that the size of subjects between 5,000 to 10,000 volunteers. And this trial, because we need to evaluate the protection effect to study the epidemiology of this vaccine, therefore we need to conduct a trial in an outbreak season. And if after we completed Phase I and Phase II and then we have the outbreak season followed, then we'll conduct the Phase III clinical trial immediately. Otherwise, we need to wait for the outbreak.

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: So regarding, too, the differences of our vaccine with the other players is that in general there are three companies received the clinical trial approval from SFDA. And these three companies are using different types of virus strains when developing the vaccine. But all of us are selecting to develop an inactivated EV71 vaccine with (inaudible) hydroxide (sp?) as an (inaudible). We think that before we complete a clinical trial it's very difficult to evaluate which company's product is the best. But when SFDA (inaudible) the license, they also require these three companies making a comparison among each other. But we think we need to do this job after the trial is completed.

But for Sinovac, we have been selecting a virus strain among over 10 strains before we started development, and this strain has a very good profile of neutralizing protection standard (sp?). And also in animal models, the vaccine shows a very good profile. We believe that this is a good—a very good (inaudible) for us to develop a good production process for making a vaccine. And also, the vaccine is designed to be a purified vaccine and we've been testing that. The vaccine contains very limited level of protein, and this will be close to the quality of our Hepatitis A vaccine, or even better than Hep A. And these results are actually—have been tested in many different batches of our product manufactured in the (inaudible) production scale. And therefore, that our scientists are very confident with the quality of this EV71 vaccine.

Sean Wu: Okay, thank you. This is very, very helpful. And I have a follow-up question to this one. You said that this thing is going to be completed in two years. I'm a little bit concerned. It took SFDA more than one year to approve your clinical protocol to start a Phase I. So when you have your Phase I done you submitted the results and then you also submitted the Phase II

protocols. You have to wait for the SFDA to give you the go-ahead again, right? So how long do you think you have to wait that time period?

Female Speaker: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: Based on the approval we received from SFDA, we don't have to wait for the approval from SFDA in order to conduct the Phase II trial. What we have to do is we submit the data for Phase I and the protocol of Phase II trial to SFDA, but it's only a filing. We do not need their approval for commencing the Phase II trial.

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: So it's also the same process as for commencing the Phase III trial. We (inaudible) the data from Phase II trial and plus the protocol from Phase III trial and we actually can—if the Phase II trial is reaching the end point we can commence the Phase III trial after we file the protocol to SFDA. Because these three trials are approved all together, we are design the trial as a continuous schedule from Phase I to Phase III and it's a complete protocol for the whole trial. And our trial will be conducted according to the good (sp?) clinical trial practice, which is generally used by—internationally.

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: So people may ask why it takes about a year for us to receive the (inaudible) trial approval from SFDA. Actually, during this one-year time both Sinovac and SFDA have been conducting a great amount of jobs in order to further evaluate the safety of this vaccine. And also, SFDA not only evaluating the vaccine from Sinovac, it actually at the same time reviewing and checking the data from all these three manufacturers and also conduct a comparison test among these three in order to make sure that the—in pre-clinical stage that the vaccine is safe and is ready for clinical trial. Therefore, this one year is not just only waiting but we have conducted a lot of further studies. Does that answer your question, Sean?

Sean Wu: Yes, thanks a lot.

Female Speaker: Sure. Thank you.

Operator: Thank you. If you would like to ask a question, please press star, one on your telephone keypad. To remove yourself from the queue, please press star, two. Once again, if you would like to ask a question, please press star, one on your telephone keypad.

Our next question comes from Ingrid Yin with Brean Murray. Please state your question.

Melody (sp?): Hello, everyone. This is Melody calling on behalf of Ingrid Yin. Thanks for taking my question. So my first question is, is there any possibility that the government will further accelerate the process of the approval of (inaudible) vaccine if the disease situation in 2011 is as serious as last year? Thanks.

Female Speaker: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: Actually, we believe that in this—the license granted by FSDA already in a speed-up approach. And after we conduct the whole trial, the only approval we need is to approve the result from the trials. And if the outbreak is serious in this new year, we believe from the government they will be (inaudible) want to approve the vaccine as soon as they can. However, that we want to emphasize that no matter which vaccine, if it's a new product we need to conduct a huge amount of scientific research in order to prove that vaccine is effective and safe. But we think if the disease is surrounding us pretty serious, they actually can make us conduct a Phase III clinical trial pretty soon during the outbreak situation. And this will actually speed up the whole process.

Melody: Thank you very much. That's very helpful. So my second question is could you please provide any timeline of any potential partnership with the international corporation? Thanks.

Female Speaker: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: As we discussed previously that we've been set up the dialogue with two big pharmaceutical companies, and also we are—as we communicate with Gates (sp?) Foundation, they inform us they're about to approach the end of the process where they're making their China strategy. And only they have their China strategy ready, they can start to approach to the company for discussing about the collaboration opportunities. But during that time, we are still keep dialogue with Gates Foundation from scientific aspect, as they sent some experts to (inaudible) to support us develop the RotaVirus vaccine, therefore that we do appreciate these good contributions from Gates Foundation to Sinovac's R&D work. And you know in the past few weeks is a big holiday season. Therefore, those big companies are all in a holiday mode. Therefore, recently we restarted dialogue with those partners. But due to the confidentiality we agreed between each other, we are not able to provide any

detailed information. But as soon as we reach any material milestone we will keep the investment community updated timely.

Melody: Thank you very much. That's all my questions.

Female Speaker: Sure, thank you.

Operator: Our next question comes from Hongbo Lu with Piper Jaffray. Please state your question.

Hongbo Lu: Thank you for taking my follow-up question. Just a quick one on the Phase III (inaudible) one. For the 5,000 to 10,000 volunteers that might be enrolled in the Phase III study, would it all be in children five years and younger? And also because, you know, three companies will be competing in volunteer recruiting, how long do you think it will take you to recruit all the patients?

Female Speaker: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Female Speaker: So actually, as we see the—during the outbreak that the child between one to three years old are happening with the most cases and one years old child are normally having severe cases or even with the death cases. Therefore, the target population within (inaudible) with SFDA's confirmation is that the child under one years old.

Even though three companies are all entering into the trial, there is no competition among these three because we are conducting the trial in different counties. And in China, one county may have over 10,000 people—10,000 children. Therefore, we think it's not a big problem for us to conduct the trial with this level of (inaudible). And also for the approval aspect that with these three companies doing the trial all together, if we're all—we are all able to complete the trial successfully, they will be good for the SFDA to approve—to make approval for the vaccine to be commercialized. But definitely depending on the results from each other, and we don't expect to do the comparison test among the three companies, as there are different processes. There are also—it's very likely to have differences among these three products. Hope that answers your question.

Hongbo Lu: Yes, you did. Thank you so much. Thank you (inaudible).

Operator: Thank you. There are no further questions at this time. I will turn the conference call back over to management. Thank you.

Jacob Ho: I would like to take this opportunity to thank everyone for participating in the conference call. I would like to say thank you and have a good day. Have a good 2011. Thank you.

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