Sinovac Biotech Ltd.
Fourth Quarter 2010 Earnings
March 31, 2011

Operator: Greetings and welcome to the Sinovac Biotech Ltd. Fourth Quarter 2010 Earnings 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. 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 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. 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. Jacob Ho, Chief Financial Officer; Helen Yang, Investor Relations Manager; Vanessa Wu, Senior Financial Manager; and Chris Lee (sp?), Investor Relations.

I will now turn the call over 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 today are Sinovac's Chairman, Dr. Weidong Yin. Dr. Yin, and I will be available to answer questions.

We have experienced the most challenging year in 2010 impacted by the negative external factors in China's vaccine market. We would like to express our gratitude, (inaudible) and support of investors. We believe the most difficult period is about over and we are happy to see the Sinovac demand, the vaccine demand in China is recovering. Although we

experienced fluctuations on our performance during 2010, the management team kept executing the strategy of laying down a solid foundation for growth in the coming years. We reorganized our sales team and adjusted our sales strategy. We increased spending on R&D to speed up the process of bringing in new products to the market. We also make investments on capability buildout for upgrading the GMP standard and commercial production for our pipeline products. We expect all of these activities will contribute to the growth of the Company.

I will start off by reviewing the financial results, recent developments and our outlook for 2011.

Our sales revenue for the full year 2010 was 33.4 million, which is in line with the adjusted sales range that we provided on January 6, 2011. We adjusted our overall strategy in three (inaudible). First, we will strengthen the promotion and sales of Helive in EPI market by adjusting the organization's structure of the sales team. We have implemented a special task force composing of experienced sales professionals focusing on EPI sales. Secondly, we will position additional human resources at the point of vaccination, which we call POE, to communicate and educate the end users in order to maintain our market share in the current market. Thirdly, we will strengthen the sales of Anflu to increase Anflu's contribution to total sales. In order to implement the revised sales strategy, we have completed the updating of the sales performance assessment criteria and altered the sales organization structure by appointing a sales finance director and a medical director, both fully supporting the marketing and sales team while strengthening the management.

Here, I want to especially point out that we have promoted Mr. Ming Xia to serve as Vice President of Sales and Marketing. Mr. Xia has over 15 years of experience in vaccine sales in China and joined Sinovac since 2002. He has made significant contributions to the Company's sales revenue growth in previous years with outstanding leadership and sales performance results. He has been one of the top sales professionals at Sinovac for many years. Mr. Xia is a leader with creativities who spearheaded the reform on sales strategy to meet the changes of the market condition.

Gross profit for the full year 2010 was 16.7 million, with a gross margin of 50%, compared to 64.1 million, with a gross margin of 72.6%, for the same period of 2009. The lower gross margin in 2010 primarily comes from the lower margin of seasonal flu vaccine, and the Company recorded a 6.8 million inventory write-down in the cost of sales in the 2010 period to reflect primarily the expiration of 3.95 million doses of influenza vaccine that were not sold in 2010, and an inventory provision for a total of 1.1 million doses of hepatitis A and hepatitis A & B vaccines. However, the gross margin for hepatitis A vaccine was maintained at about 80%.

Selling, general and administrative expenses for the full year 2010 were 20.7 million, compared to 18.2 million in 2009. SG&A expenses as a percentage of full 2010 sales were 61.9%, compared to 21.6% for the same period of the prior year. The higher SG&A expenses as a percentage of revenue resulted from the lower sales revenue, the additional G&A expenses associated with the Dalian joint venture that was 30%-owned for most of 2010 and a bad debt provision of 1.92 million, primarily offsetting the lower selling costs associated with the 2010 revenues.

In 2010, the management have taken measures to control the SG&A expenses of existing operations offsetting the increased spending on additional G&A expenses associated with the Dalian joint venture that was 30%-owned for most of 2010 and the Changping facilities. And in 2010 there's no significant change related to the structure of the sales team and the Company's operating scale. The SG&A in 2010 was maintained at a relatively stable level compared with the 2009 one.

Net research and development expenses for 2010 were 8.6 million, compared to 4.4 million in 2009. The increase in R&D expenses in the full year 2010 were primarily related to the continued development of EV71 vaccine, pneumococcal conjugated vaccine, rabies vaccines for human and animals, along with the mumps vaccine, which is currently under development at Sinovac Dalian. Increased spending on R&D is one of our key strategies for maintaining our medium and long term growth. It is also one of the key uses of proceeds when we raise capital from the market in early 2010. The management team is executing a strategy to leverage the low cost advantage of conducting R&D in China to speed up the progress of bringing in new products to the market.

We have commenced the clinical trials of our proprietary EV71 vaccine soon after obtaining the approval from SFDA on December 25th, 2010. In only three short months after approval, we completed the Phase 1 clinical trial in (inaudible) with positive preliminary results. Currently, we have completed enrollment for children and infant group (sp?), and subsequently initiated inoculation in young children and infant groups. We are expecting to report the preliminary results from these two population groups in the coming months. As you may expect, our R&D expenses will increase in 2011, as we fund the EV71 clinical trial, and we expect the EV71 vaccine has a great market potential to address unmet medical needs in China. In early 2011, we have filed a clinical trial for our two pneumococcal polysaccharides vaccines candidates and 13-valent pneumococcal conjugated vaccine candidates, representing a presence in bacteria vaccine development. We also have a series of vaccine candidates in our pipeline which will support the Company's future, development and growth.

We ended 2010 with cash and cash equivalents of 101.6 million. We have sufficient financial resources in place to fund clinical trials

for EV71, to develop other vaccines in the pipeline, to complete the Changping facility construction and to elevate the existing production facilities up to the new GMP standards. We expect to spend about 25 million in 2011 on the completion of the Changping facility construction. We have the good cash position to consistently fund the R&D project, the capability (sp?) expansion in Changping and possible collaboration opportunities. The current cash position is good for the Company's development in the coming years and we believe we did not need any further fundraising from the capital market.

Since, in China, SFDA issued a new version of GMP standards, we believe the Chinese vaccine manufacturers are facing a higher level of production quality standards than before. We believe the market will shift to top quality products with the vaccine regulatory system of China SFDA passing WHO's evaluation. Such a passing also opens the door for vaccines produced in China to be supplied to developing countries through international agencies. So we will also keep elevating our GMP management level, including the production facilities, renovation and quality management improvement.

Before turning the line over to questions, I want to relay that we have decided to suspend our practice of providing annual sales guidance. We believe that the ongoing vaccine market dynamics in China and the continued uncertainty as to the pace of market rebounds make it difficult for Sinovac to provide a full year sales range at this time.

This is the end of my statement. And I'll get back to you, Stephanie.

Operator: Ladies and gentlemen, if you would 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 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 keys. Once again, if you would like to ask a question, please press star, one on your telephone keypad at this time. One moment please while we poll for questions.

Our first question is from the line of Ingrid Yin with Brean Murray. Please state your question.

Marilyn Lee: Hi. (Chinese spoken).. Good evening. This is Marilyn Lee calling on behalf of Ingrid Yin. Thank you very much for taking my questions. Our first question is that you comment in the press release that you saw recovery of domestic [audio interference] market, would you please provide more color on that, especially that have you seen recovery in both Helive and Anflu starting 2011? Thanks.

Female Speaker: (Chinese spoken).

Dr. Weidong Yin: (Chinese spoken).

Female Speaker: We think that the negative impact (inaudible) 2010 on the public sentiment and also the impact on the Centers for Disease Control (inaudible) and we can install (sp?) our day-to-day operations and we are about to report our Q1 results in the coming months. So suggest you to join with us to review our Q1 results.

Dr. Weidong Yin: (Chinese spoken).

Female Speaker: And from internally that the Company's management also reviewed our sales strategy in the past two years and we conclude that because we have a simple product portfolio, with only hep A and seasonal flu vaccine in the market, that's why we are facing the fluctuation on our performance right now. Therefore the management is adjusting our strategy and to set up a new team and we're also having a team dedicated to (inaudible) forward on the entering into EPI market of our hepatitis A vaccine. We also made a new strategy on maintaining and growing our presence in the market of combined hep A and B vaccine and seasonal influenza vaccine.

Marilyn Lee: Thank you very much. So my second question is, could you please provide some updates on the launch schedule of the animal rabies? Are you still expecting it to launch in the second half of this year? And could please comment on the current market situation for this product and what's your estimate for the pricing? Thanks.

Female Speaker: (Chinese spoken).

Dr. Weidong Yin: (Chinese spoken).

Female Speaker: We actually already (unintelligible) GMP inspection in our Changping site and we are manufacturing three vaccines of animal...

Dr. Weidong Yin: (Chinese spoken).

Female Speaker: Sorry, in our (inaudible) site and we are manufacturing three vaccines of product in our GMP product line and we are expecting the GMP inspection again by the government for the completion of the production with these three vaccines. And after the second GMP inspection we're expecting to receive the production's license from the government. However, that at the first stage we are not finalizing the pricing of these products. We currently have a team dedicated to doing market research on animal flu vaccine and we're expecting to communicate to the market in the second half of this year.

Marilyn Lee: Okay, great. So my last question is, could you please provide some updates in terms of the potential partnership with Gates Foundation or the (inaudible)? Thanks.

Female Speaker: (Chinese spoken).

Dr. Weidong Yin: (Chinese spoken).

Female Speaker: Actually about a week ago, the Gates Foundation, (unintelligible) and UNICEF organized a forum in Beijing and we attended that event (inaudible) and we understood from that event that actually the Gates Foundation and UNICEF originally (sp?) wants to have a pneumo (sp?) vaccine from a company like Sinovac to participate in their procurement program and for Sinovac our development of pneumo conjugate vaccine is still undergoing based on our schedule. We understood that the Gates Foundation have a fund (sp?) of procurement with US$1.5 billion on pneumococcal conjugated vaccine and in order to participate Sinovac has to finish the clinical studies and set up a production front (sp?) with the official (sp?) GMP standards. Therefore that we are moving towards these objectives and based on our current schedule. And during that time we'll also have different time of—we also have a lot of discussions with experts from the past (sp?) which is the organization working with the Gates Foundation and they gave us a lot of good advices on scientific (inaudible) and on the buildup (sp?) of the capacity as well. However at the current stage we are not having a clear plan for when that we can enter into any legal document with the Gates Foundation. If we have we'll communicate with the market.

Dr. Weidong Yin: (Chinese spoken).

Female Speaker: And regarding to the potential collaboration with M&T (sp?), we currently are communicating with more than two companies at the same time and one of the key areas (unintelligible) of potential collaboration would be from the R&D because the firm (sp?) companies estimate that it takes them more than five years time for them to licensing their product in China after it's licensed in the US; therefore that both parties evaluating the opportunity that if we're both collaborating on [audio interference] tell them to speed up the process to launch the vaccine in China. However at the current stage we have an agreement of confidentiality (sp?) that we're not able to disclose any [audio interference] once we reach a milestone to communicate to the market immediately.

Marilyn Lee: Okay. Thank you so much. Thank you for taking my questions.

Dr. Weidong Yin: (Chinese spoken).

Female Speaker: Thank you.

Operator: As a reminder, ladies and gentlemen, if you would like to ask a question, please press star, one on your telephone keypad.

Our next question is coming from Hongbo Lu with Piper Jaffray. Please state your question.

Hongbo Lu: Yes, thank you. I have to apologize, I just dialed in and missed all the prepared remarks as well as questions - so I might ask questions that have already been answered. I guess, you know, my question would be on the bottom line, why we're seeing negative gross margin as well as substantial increase in sales and marketing expenses? Second question is, you know, we're looking at a non-H1N1 revenue in the run rate of about 7 to 8 million per quarter and then is this sustainable, at least sustainable level going forward into 2011 or we should expect some improvement or potential continued decline? Thank you.

Jacob Ho: Hongbo, this is Jacob. In my remarks I stated that the gross margin (sp?) for the year was lower than 2009. The gross margin was 50% compared to gross margin of 76.2% in 2009. We also stated the primary reason - the Company recorded a 6.8 million inventory write-down in the cost of goods sold in 2010 to primarily reflect there were 3.95 million doses of influenza vaccine that were not sold in 2010. In addition to that we also have 1.1 million doses of hep A and hep A and hep B vaccine that we put into inventory valuation provision, and because of that our gross margin came down, and plus, we have a negative 2010. In addition to that I also mentioned that the R&D expenses in 2010 was 8.6 million compared to 4.4 million in 2009. And you can see that our R&D expense alone is almost 9 million and is double of 2009, and because of this our net profit was a negative one and our earnings per share was also a negative one (inaudible).

Hongbo Lu: Okay. Thank you. And then sales and marketing 9 million is the highest level we have seen probably historically, are we restructuring sales and marketing force or what's happening there?

Jacob Ho: As I mentioned in my remarks, our VP for sales, Mr. Fu left the Company for personal reasons and we also have stated that Mr. Ming Xia, who has been with the Company for eight years, of which also a distinguished sales person, he was also the sales controller for the Company for the past few years and starting in March he was elevated into the position of VP of sales. Under the leadership of Mr. Ming Xia, we have reorganized our sales team. We put in more people in our EPI market, which we believe that we will have future growth. We're also putting in resources to strengthen the (inaudible) market to maintain our current sales, our hepatitis A vaccine, in the current

market. In addition to that, we are also putting in resources to develop the EPI market.

Hongbo Lu: Okay. Thank you, Jacob. And also maybe last question is, you know, on the revenue trend for—well, I guess on the revenue trend per quarter going forward for non-H1N1 revenue, how should we look at it? And also, you know, since you are—is this sales force restructuring one-time expenses or because of the expanded sales force in EPI's program we are going to look at this level of sales and marketing expenses on an ongoing basis?

Jacob Ho: Hongbo, in order to answer your question, I would like to mention our budget projected sales in 2011. Basically speaking in 2011 we do expect our sales team will perform better than last year. In terms of margin, in terms of product, we do expect that we will have a (inaudible) double-digit growth in 2011. In terms of the EPI market, we do expect we will have—we will continue to put in resources and we do expect a break-through (sp?) in the EPI market.

Hongbo Lu: Jacob, when you say sales to perform better, do you have specific guidance or?

Jacob Ho: Hongbo, we also mentioned that in the closing remarks that we have decided to suspend our practice of providing annual sales guidance. We believe that, you know, the ongoing vaccine market dynamic in China and the continued uncertainty make it difficult for us to provide a full year sales range at this time.

Hongbo Lu: Are you going to provide quarter by quarter, maybe even now you're pretty much, you know, downwards the first quarter. You know, just in general do you think that the restructured sales force you put in place in the fourth quarter will start to kick in, you know, to help with stabilization of your non-H1N1 revenue sales or we should give you a couple of more quarters?

Jacob Ho: I think we will continue to provide quarterly conference calls with the analysts and with the general public and we, so far, when we look at our sales performance in Q1, is an encouraging one.

Hongbo Lu: Great. Thank you so much.

Jacob Ho: Thank you, Hongbo.

Operator: Our next question comes from the line of Sean Wu with Morgan Stanley. Please state your question.

Sean Wu: Hello, Weidong, Jacob and everybody. Thank you for taking my call. And as you see I'm losing my voice so I'm not going to (inaudible) too much. Just for a quick question - I see you have (unintelligible) sales 1.4

million, do you see the (unintelligible) somewhat (inaudible) loss carry-forwards for future years and so things burn (sp?) much better?

Jacob Ho: Sean, I hope your voice will get better when, the next time we talk to you. In terms of tax loss in China we can carry forward for five years. We do expect that when our pipeline product comes out to the market in 2013 we will make good use of our tax credit.

Sean Wu: You mentioned about this (unintelligible) 6.8 million, is there any way you may be able to (unintelligible) and you're saying the recovery in the business and also I think Beijing government they were saying they opened their vaccination in January or (inaudible) there?

Vanessa Wu: Hi, Sean. This is Vanessa. I think your question is about the inventory provision we provide this year whether it can get recovered in 2011. Answer to the question is, for the Anflu, the seasonal flu write-off, it's about 3.9 million doses, that would be the permanent write-off, it won't get any recovery in 2011. As you know the seasonal flu is only valid for one year. Also, we have another 1.1 million doses of hepatitis A and hepatitis A and B, that's (inaudible). If we do sell in 2011, (inaudible) will reverse, we will—because the revenue in 2011 and the cost already booked in 2010. So that's the case I would—I think—do I answer your question?

Sean Wu: Yes, I think so. I have a quick question on the stock performance. (Unintelligible) but not compared to the Chinese company, (unintelligible). As I understand you have showed us some quite similar profiles and they have some (unintelligible) - so I've got to say this must be quite frustrating for you guys to see the (inaudible) differential. Do you have any comments about the (unintelligible) between you and (inaudible).

Jacob Ho: Sean, we do not comment on our competitive, you know. We respect our competitors and for the time being we focus on our R&D. We will continue to work on our pipeline. We are different. We are a US listed Company, we are having higher level of transparency. We are more open and we are focusing on our R&D, Sean.

Sean Wu: Okay, that's great. Thank you. I wish you a much better 2011 and I certainly think you will. Okay.

Jacob Ho: Thank you, Sean.

Operator: Our last question comes from the line of David Maris with CLSA. Please state your question.

David Maris: Good morning. A couple of questions. First, I wanted to say congratulations on the pipeline progress this last year - but on the balance

sheet, do you think that from a capacity standpoint and a capital spending standpoint that you have enough cash or what are your plans for cash for this coming year? And capital spending, if we look at it this past year versus 2011, 2012, what do you think the, how the spending will progress?

Jacob Ho: Thank you for the question. You know, in terms of capital spending, we will in 2011, we will spend, we plan to spend approximately 22 to US$24 million in the Changping facility. We are upgrading this facility. The first one is a filling and packaging line and subsequently we will also work on our EV71 production line. So, to answer your question quickly, we will have sufficient cash to handle our capital expenditures.

David Maris: And then, though, if we look toward 2012, I know it's a year out, but how do you think capital spending will progress year-over-year?

Jacob Ho: Capital spending in 2012 would be—we would continue to spend money in 2012, but in terms of scale, when the Changping facility is completed, you know, it will be a smaller one compared to 2011.

Female Speaker: And we think [audio interference], we think at the current cash position we do not have any plans to raise additional capital. As, based on the current plan, (inaudible) research and development and also the investment on building our capacity.

David Maris: Okay. And then as a follow-up - as you—I know you have a confidentiality agreement that you'd mentioned earlier that you can't really disclose anything, but when you think about partnerships, what are the goals from Sinovac's standpoint to form a partnership, is it to gain a greater distribution to what—access to additional technology? What are the things that if you were looking at your priorities to get out of the partnership, what are you looking for?

Female Speaker: (Chinese spoken).

Dr. Weidong Yin: (Chinese spoken).

Female Speaker: And we think the most important objective that we are looking for is to be able to supply a [audio interference], competitive product to the Chinese market if we're collaborating with these big pharma. Part of that we think this collaboration will take about three years before they can contributing on our sales revenue and profit. During that time we believe it's very reasonable (sp?) for a company when we grow if we can collaborate with them we can learn (sp?) their (inaudible), management or corporate governance that we think will be a benefit for our growth (inaudible).

David Maris: Okay. Well thank you very much.

Female Speaker: Sure, thank you.

Operator: As this brings us to the end of our Q&A session, I would like to turn the floor back over to management for any closing remarks.

Jacob Ho: Thank you. We would like to thank everyone for their participation on today's conference call. Your understanding and continued support of Sinovac is greatly appreciated. Thank you and have a good day. Good-bye.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may now disconnect at this time and we thank you for your participation.