

Sinovac Biotech Ltd.
Fourth Quarter 2009 Earnings Conference Call
April 6, 2010

Operator: Greetings and welcome to the Sinovac Biotech Ltd. Fourth Quarter 2009 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 morning, 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 statement. Sinovac does not undertake any obligation to update any forward-looking statements except as required under applicable laws.

On the call today, we have Mr. Weidong Yin, CEO; Helen Yang, Investor Relations Manager; Vanessa Wu, Senior Financial Manager; and Chris Lee (sp?), Investor Relations.

I will now turn over the call to Helen Yang and Vanessa. Go ahead, Helen.

Helen Yang: Thank you, Stephanie, and hello, everyone. Thank you for joining us on this conference call. I would like to take this opportunity to update you on our full-year results, recent strategic development, and Sinovac’s corporate outlook. Following my comments, I will then turn the call over to Vanessa Wu who will discuss the fourth quarter financials.

These comments have been prepared in cooperation with Sinovac’s Chairman, Mr. Weidong Yin. Mr. Yin is with us today on the call and will be able to answer questions. I will translate his comments accordingly.

In 2009, it was a very productive year for Sinovac as we executed our growth strategy on all fronts. We generated record revenue from our existing vaccine products, expanded our production capacity, and advanced our development pipeline of novel (sp?) vaccines. We want to recognize and give thanks to the entire team for their tremendous efforts during the year.

Looking at the full year 2009, we generated record results, with sales up 81% to \$84.2 million. These results were in line with the updated revenue guidance we provided in January 2010. The sales figure included in the recognition of 10.08 million doses of Panflu.1, our H1N1 vaccine, purchased by Chinese Ministry of Industry and Information Technology for the national purchase plan.

As we previously disclosed, Sinovac has delivered 10.23 million doses of Panflu.1 in 2009. Out of this amount, we replaced 0.15 million doses with longer shelf life in 2010. Therefore, in 2009, we recognized the revenue of 10.08 million doses of H1N1 vaccine.

Gross profit for 2009 rose by 75% to \$64.1 million, given the high revenue level. The gross margin was 76%, down from 79% in 2008, due to the greater percentage of sales to the public market, which carries a lower margin compared to the private market. More than 50% of our total sales in 2009 were to the public market.

For the full year, our operating income rose 152% to \$40.8 million as a result of the higher revenue level and greater economies of scale. 2009 net income attributable to shareholders increased by 150% to \$19.96 million, or \$0.46 per diluted share.

Turning to the corporate development, we were pleased to close a public common share offering in February this year. A total of 11.5 million shares of common stock were issued at \$5.75 per share, including 1.5 million common shares, according to the full exercise of the underwriters' over-allotment option. We received net proceeds of approximately \$62 million after deducting underwriting discounts, commissions, and operating (sp?) expenses. We intend to use the proceeds to fund capacity expansion (unintelligible), to advance our development pipeline, and other corporate activities.

We are pleased with the progress that we made over the past two months to increase our production and manufacturing capacity, both at our headquarters and by securing (sp?) additional capacity. We increased the annual production capacity at our headquarters in Beijing by approximately 60%

in 2009 by expanding production line that is used to manufacture the seasonal influenza, H1N1, or H5N1 vaccine.

In February 2010, our subsidiary, Sinovac Beijing, completed the acquisition of five existing buildings, located about 30 minutes' drive away from our corporate headquarters, in Changping District, Beijing. We intend to set up two new production lines with a combined annual production capacity of about 40 million doses, and to manufacture our approved flu vaccines as well as the currently-under-development vaccine for enterovirus 71, which causes hand, foot and mouth disease. The Changping site will enable us to expand our production capacity as it will house two state-of-the-art production lines and other necessary supporting functions, including a filling and packaging line, a warehouse, and an animal house. We anticipate that it will take approximately two to three years for the lines to be set up and production of our commercialized flu vaccines to begin. The total investment needed to bring Changping facility to this point is estimated to be approximately \$50 million. We expect to make these investments from 2010 to 2012.

In January 2010, we established Sinovac Dalian through a joint venture. The new entity will focus on the research, development, and the manufacturing of vaccines for human use in such indications as rabies, chickenpox, mumps, and rubella. Live attenuated vaccines and vero cell cultured vaccines will be manufactured at Dalian facility. We expect our initial cash contribution of \$8.8 million, according to the JV agreement, to be completed by the end of the second quarter once the necessary government approvals are received.

Therefore, in total, we expand our facilities from two sites, which is in Beijing and in Tangshan, to, right now, with four different production sites, and total production area is expanded from 167,000 square feet to 715,000 square feet, which can house as many as 14 production lines. And these facilities will house our existing products and the future launched pipeline products.

Turning to the R&D initiatives, we restructured our program in 2009, establishing a new R&D team in Beijing, and better utilized our scientific and the personnel resources. We currently have about 50 scientists and eight major R&D projects are underway.

In December 2009, we filed the application with China's SFDA to commence a human clinical trial for our vaccines against human EV71. The application was submitted ahead of our original timetable. This is the first clinical trial application submitted in China for hand, foot and mouth disease vaccine. We believe that this vaccine, subject to positive human clinical trial results and commercialization, has the potential to represent a flagship product for our company, based on our current market projections and

demand coming out of Asia. We intend to commence these trials in 2010, upon receiving the approval of clinical trial application from SFDA.

Also in this year, we anticipate a pre-clinical study for rabies vaccine, chickenpox vaccine, meningitis vaccine will be going on. This year, we intend to complete pre-clinical trial and submit clinical trial application to SFDA for pneumococcal conjugated vaccine, HIB vaccine, mumps vaccine, and rubella vaccine.

Regarding to our international distribution strategy, we have already entered into distribution agreements to register and market our inactivated hepatitis A vaccine in the Ukraine, India, Nepal, Mongolia, Korea, and the Philippines; and we entered into distribution agreements to register and market our seasonal influenza vaccine in Mexico, Philippines, Korea, Mongolia, and India. We have also entered into distribution agreements for our H1N1 vaccine in Philippines, Korea, Mexico, and India. In October 2009, we received the certificate of approval to distribute our H1N1 vaccine in Mexico. In September 2009, we obtained the regulatory approval on our H5N1 vaccine in Hong Kong. The registration process for other vaccine products in Philippines, Mexico, India, Hong Kong, and Korea are going on. We expect to secure additional marketing partners in some of these countries in the year of 2011 at the earliest, and expect that sales will commence in that year. We want to point out that our aggregate 2009 sales to overseas markets were about \$145,000.

Turning to sales activity of our commercialized vaccines, we have received orders, adjusted (sp?) by the government, for a total of 20.97 million doses for our Panflu.1 H1N1 vaccine from China's government for a national purchase plan. Originally, we have received a total of 21.06 million doses; however, the total order was reduced by 90,000 doses based on the recent cancellation received by the company due to the decreased demand from two local CDCs.

In January 2010, Sinovac received its fifth purchase order for its H1N1 vaccine, Panflu.1, from China's Ministry of Industry and Information Technology for the national purchase plan of total 8.57 million doses. Under this purchase order, Sinovac is required to deliver an additional 2.33 million doses of Panflu.1 to the Chinese Central Government. In this order, 0.18 million doses have been delivered in 2009, required by the government under emergency. The remaining 2.15 million doses are required to deliver before March 15, 2010. However, the delivery was delayed due to the delayed completion of batch release process within the Chinese government. The delivery schedule shall be reconfirmed after the products are released by the government in second quarter. The remaining 6.24 million doses of this order will be stockpiled in the company's warehouse as per the government's requirements.

In 2009, sales to the public market of hepatitis A vaccine represent 43.3% of total Sinovac sales. The significant portion of sales to public market, particularly in our largest market segment of children of 18 months, resulted from providing value-added services to the local government. However, public market demand for the hepatitis A vaccine for the 18-month population has decreased as this segment is not covered by the public market vaccination program. It is projected that public market demand for hepatitis A vaccine will continue to gradually increase to, in 2011 (sp?). Therefore, we are well positioned to further expand our market share in the public market for the 18-month population, and, at the same time, we will make effort to expand the private market sales to a wider scope of age groups. As we indicated previously, the public market purchase of hepatitis A vaccine will be fully implemented in China as per Chinese government plan. And, as we see in the third (sp?) quarter of the year, the public market is not opened up enough as many CDCs are still in the preparation for the tender offering process, which we expect to take off from the second quarter of 2010.

In 2009, benefiting from our successful R&D on H1N1 vaccine, the company's overall market recognition was greatly intense (sp?). Specifically, Sinovac's market share for its flu vaccine in China grew from 5.8% in 2008, which is equated to the number nine market position, to 11.3% in 2009, which brought us to the number three market position. In 2010, we intend to continue to focus on marketing our seasonal flu vaccine to maintain and expand our market share in both private and public markets.

In China, the public perception of vaccines has been impacted by the recent media reports. Earlier this year, the media reported on improper storage of vaccines by a distributor in one province in China, which have, might link to a few cases of serious adverse events. Although Sinovac was not involved with both events, we believe that these problems may adversely impact the public perception of vaccine safety, and that may reduce vaccine administration by the Chinese government. Therefore, we expect our organic business may be impacted in the short term. But, we still expect our business to grow gradually, and, at the same time, the company will increase investment on vaccine research and development, capacity buildup for existing product, and pipeline product in order to maintain the sustainable growth in the long term. Furthermore, we believe that our core competencies, inclusive of proven R&D capability, manufacturing, and distribution capabilities, position us to capitalize on potential partners for acquisition opportunities during this period.

Now, let me elaborate on our full year 2010 guidance that we provided in today's press release. For the full year 2010, we expect sales of our non-H1N1 vaccines to increase by approximately 10 to 20%, compared to \$54.5 million of non-H1N1 sales revenue in 2009. This translates into 2010 sales from our non-H1N1 vaccines in the range of about \$59.9 million to \$65.4 million. We expect the remaining of 2.15 million doses of H1N1 vaccine

will be delivered in 2010, and revenue of this amount will be recognized in this year. And, the stockpile amount of 8.74 million doses will be produced and stored in the company's warehouse, and the revenue of this amount will be recognized in the year of 2011, unless the government requires us to deliver the product prior to that time. And, the revenue of H1N1 vaccine, which could be recognized in the year, are about \$7.1 million. Therefore, we expect total revenue for 2010 to be in the range of \$67.1 million to \$72.5 million.

Our 2010 guidance does not include additional orders for H1N1 vaccine, and, based on our current projection, we expect to invest (sp?) a total capital expenditure of approximately \$80 million over the next three years to fund the expansion initiative that I outlined earlier. The breakdown of the 80 million cap ex is expected as the following: \$50 million for Changping facility, as described above; 22 million doses (sp?) for the, to capital contribution in Sinovac Dalian joint venture; \$3 million for Tangshan facility, which is to industrialize animal vaccines; and \$5 million for Beijing headquarters.

With that, I will now turn the line over to Vanessa, who will review the fourth quarter 2009 results.

Vanessa Wu: Thank you, Helen, and hello, everyone. During the fourth quarter of 2009, sales were US\$36.4 million, up 194% from US\$12.4 million in the fourth quarter of 2008. Fourth quarter 2009 sales included the full recognition of purchase of 10.08 million doses in December 2009 of Sinovac's Panflu.1 vaccine by China's Ministry of Industry and Information Technology, MIIT, as part of China's national purchase plan.

Gross profit for the fourth quarter of 2009 was US\$25.2 million, with a gross margin of 59%, compared to US\$7.7 million and a gross margin of 36% for the same period of 2008. The gross margin for the fourth quarter of 2009 increased from that of the prior year due to increased production efficiency, as flu and the Panflu.1 utilized the same production line, and also less product returns in the fourth quarter of 2009.

Total operating expenses for the fourth quarter of 2009 were US\$8.2 million compared to US\$4.6 million in the comparative period in 2008.

Selling, general and administrative expenses for the fourth quarter of 2009 were US\$6.3 million compared to US\$4.1 million in the same period of 2008. SG&A expenses as a percentage of fourth quarter 2009 sales decreased to 17%, down from 33% during the prior year. The lower selling and administrative expenses as a percentage of revenue resulted from increased economies of scale and H1N1 vaccine sales made to Chinese government, which incurred much less selling expenses.

Net research and development expenses for the fourth quarter 2009 were US\$1.6 million compared to 359,000 in the same period of 2008. The higher R&D expenses were mainly related to continued development of EV71 vaccine, pneumococcal conjugated vaccine, and universal pandemic influenza vaccine.

Fourth quarter 2009 operating income was US\$17.1 million compared to operating income of US\$3.1 million in the prior year. The higher operating income in the current year quarter was attributable to the significant sales growth and the greater economies of scale.

Net income for the fourth quarter of 2009 included US\$1.06 million in interest and other income; 57,000 in interest and financing expenses; and 4.6 million in income tax expenses. Net income for the same period of 2008 included 327,000 of interest and other income; 46,000 of interest and financing expenses; and 248,000 of income tax credits. Net income attributable to shareholders for the fourth quarter of 2009 was US\$8.9 million, or \$0.21 per diluted share, up 275% compared to net income attributable to shareholders of US\$2.4 million, or \$0.06 per diluted share, in the same period of 2008.

As of December 31st, 2009, Sinovac's cash and cash equivalents totaled US\$75 million compared to US\$32.9 [million] as of December 31st, 2008. The increase in cash and equivalents primarily reflect the company's operating activity cash inflow of US\$48.4 million.

With that, we will now open the line for questions.

Operator: Thank you. We will now be conducting a question and answer session. 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 key. One moment while we poll for questions.

Our first question is from Hongbo Lu with Piper Jaffray. Please proceed with your question.

Hongbo Lu: Weidong, Helen and Vanessa, how are you? I think I have quite a few questions, probably (sp?) mainly 2010 guidance. By reading the press release, I understand that probably the major moving part for 2010 revenue expectation would be the seasonal flu market uncertainty in China. So, Weidong, can you actually walk us through what are the major contributing factors for this market uncertainty? And then, what assumption did you make in

order to give us the 10 to 20% of guidance for 2010, namely, on the seasonal flu part? And then I will ask for the hepatitis vaccine market after this. Thank you.

Helen Yang: Thank you. Let me translate your questions first. (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: So, actually, the management make these projections based on the stable, rapid (sp?) growth, assumptions. And, as you said, we believe in 2010 flu vaccine is one of the contributors to keep the sustainable growth of the company. As you may know, that in 2009, China actually experiencing the great (sp?) event of H1N1 vaccination program which, in that year, 30 million people vaccinated with seasonal flu vaccine, and over 70 million people were vaccinated with H1N1 vaccine. Actually, in China, in Chinese history, this is the first time that over 100 million people were vaccinated with flu vaccines; and actually, this is the first time for the government and the public to pay attention and understand the importance of getting flu vaccinations. And, the total vaccination coverage is greater than 5% of Chinese population, and we believe this is a positive factor for flu vaccines. And, these positive impacts will be also transferred in the year of 2010. Therefore, we expect the vaccine demand for seasonal influenza vaccine in this year will also increase, and we believe that Sinovac is, right now, well positioned as we are benefiting from our previous research development in H1N1 vaccine. And we will get, we'll still strengthen our good comparative advantages in this industry, and we will try our best to make the flu vaccine sales revenue as one of the big contribution for this year's revenue.

Hongbo Lu: Okay, thank you. And then, (inaudible) if I may follow-up on your answer. 2009 is a special year; there are, you know, more than 30 million seasonal flu vaccine immunizations in China, probably partially driven by people's fear toward H1N1. You know, when they can get H1N1 vaccine in time, they rush to the clinic to get seasonal flu immunization. And then when that happens, would we continue to see that strong demand for the seasonal flu now H1N1 turned out to be a much milder pandemic?

The second question is also on the 70 million H1N1 vaccine, you know, those are mainly purchased by Chinese government. So, in 2010, would that demand in H1N1 vaccine translate into the seasonal flu? I guess what I try to understand is, for your overall non-H1N1 revenue growth, 10 to 20%, what kind of underlying assumption on the overall seasonal flu vaccine market growth in China did you build (sp?) in?

Helen Yang: (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: We actually believe that in 2010, definitely the H1N1 outbreak will (sp?) not as serious as in last year. However, this case, last year and also this year, was actually intense (sp?) the understanding and awareness in government and public to know about the flu vaccine importance, and this is why we believe the demand of seasonal flu vaccine will continually increase. And as we are making our projections for this year, our underlying assumption is that, is also (inaudible) that the flu vaccine market demand will keep increase. But, as we said earlier, that in this year, there are also some uncertainties, like, H1N1 impact on this year will not be as big as last year.

Weidong Yin: (Chinese spoken).

Helen Yang: As you asked, what are the assumptions under this 10 to 20% growth of non-H1N1 revenue, firstly, actually, for our seasonal influenza vaccine, the production capacity is one of the limitations for us to further growing the market opportunity. As the current production line, it's previously designed to have two million doses capacity, and after we improve the production process and do the restructuring of the production line, we expanded to five million doses. And, recently, with the internal adjusting of our facility, we expanded further to eight million doses. But this is the maximum amount and there is no other room to make any breakthrough over this capacity. Therefore, this is one of the limitations for us.

And, on the other hand, for hepatitis A vaccine, right now we are experiencing the transformation from private market to public market. Although we have received the, although we have won the bid of entering into public market in Beijing, (inaudible) and Shanghai; however, in total, these markets represent less than 10% of the total public market of hepatitis A vaccine in China. Even though for hep A we are well prepared for our capacity, but our challenge is to, largely, enter into private market in other provinces, and this control is at the provincial level CDC. That's why, under these two considerations, we are making the projection with a gradually growth projection for 2010.

Hongbo Lu: Great. Thank you. And then, two more questions, if I may, one is, you know, Weidong, last question on the flu franchise. Do you think the fact that H1N1 strain is now being included into the seasonal vaccine, is that good thing or bad thing for your seasonal flu vaccine sales? And then tell us why.

Helen Yang: (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: Mr. Yin believes that this is a positive to our flu vaccine sales, as we can tell the public that with vaccinating the seasonal

influenza vaccine, they can not only get protected from H1N1 vaccine, but also to other prevented (sp?) strain. And recently, Mr. Yin attend a meeting organized by the Ministry of Public Health. The officials and experts are sitting together to discuss similar issues that you asked and, finally, the MOH (sp?) decide that the promoting vaccinating seasonal flu vaccine with H1N1 strain is the right thing to do. Therefore, we believe this is a positive news for us.

Hongbo Lu: Okay, great. I promise, two more questions and I'm done. The next question, probably, just on the hepatitis A vaccine. You know, I actually, maybe I missed it, I don't have the breakdown of hepatitis A vaccine sales in private versus public market in the fourth quarter; if you can provide me that.

And also, question two, Weidong is, if we look at the private hepatitis A vaccine market in 2008 and 2009, that market had probably declined quite substantially. And then, so what is your view in 2010? You know, are we going to see stabilization of the private market for hep A vaccine during this private-to-public transition? And then, you know, what's the earliest time that we can see the public, the demand from public purchases (sp?) start to pick up?

Helen Yang: Okay, so—. (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: So, actually, in the fourth quarter, we did not sell any hepatitis A vaccine to public market. This is also due to the public market purchase nature is not very seasonal. And, to answer your last question, is that we expect after the public market is opened up enough, the private market demand for hep A will be decreased.

Therefore, our strategy are including three different parts. The first one is that in some areas which previously did not have a substantial vaccination program for young children, maybe from two to three years old, or even under the elementary school children or younger, we can focus that part and to provide vaccination to, for that part of population. And secondly, we also trying to lobbying the government to increase the financial budget to purchase higher quality products of hepatitis A vaccine, which is inactivated vaccine we provided, to have Healive included in more provinces for its EPI (sp?) program. And the third one is that we are also promoting Bilive heavily in private market as in some developed areas, people are, welcome this idea that with one vaccination, with only one vaccination but they can get protected from two different diseases. As you may see, you may saw (sp?) that in 2009, the sales growth in Bilive increased a lot and we expect to (unintelligible) marketing activity to keep the strength in the next following years.

Hongbo Lu: Okay. And is it realistic for us to expect a flat year-over-year for your hepatitis franchise with Bilive growth offsetting Healive decline for 2010 compared to 2009?

Helen Yang: (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: Yes, that probably will be the assumption Mr. Yin would like to make. But as we expect, if the government start to purchase the hepatitis A vaccine in greater amount, that will be, have a significant growth in public market of hepatitis A vaccine, and therefore, our revenue will be increased as well. However, this probability was not included in our current projection for this year.

Hongbo Lu: Okay, great. One last question for Vanessa and I'll jump back to the queue. You said minority interest and tax rate going forward for 2010, how should we think about it?

Vanessa Wu: Actually, we purchased, we set up a joint venture with Dalian; now we have another joint venture, Sinovac Dalian. For 2010, Sinovac has interest of 30%. I think in 2010, we will consolidate Sinovac Dalian, even though we have only 30% ownership, because we have full control of that subsidiary. Therefore, the minority interest will increase, not only including the current (unintelligible), and they also have another 70% from Jin Gang Group. So you will see an increase in minority share.

Hongbo Lu: How about tax rate?

Vanessa Wu: Tax rate? Yes, for Sinovac Beijing, we still remain at 15% income tax rate. For other two, other subsidiaries, because those subsidiaries is in the lower position, in loss position, so they won't pay any income tax. But I think overall, because the income, the blended income tax rate could be increased because the loss from other subsidiary cannot offset the proceeds from Sinovac Beijing.

Hongbo Lu: Okay, thank you. I should get back into the queue. Thank you.

Helen Yang: Thank you.

Weidong Yin: (Chinese spoken).

Operator: Thank you. Our next question is from Ingrid Yin with Brean Murray. Please proceed with your question.

Ingrid Yin: Good evening, Weidong, Helen, and Vanessa. Thank you for taking my questions. So, my first question is regarding Healive. Can you tell us about the price difference you could get from public market and private market?

Helen Yang: (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: So, in public market in the year 2009, for public market, the unit price of Healive is 21 to 39 RMB per dose. In private market, it's 42 to 55 RMB per dose.

Ingrid Yin: Okay. So, you talked about, basically, Healive plus Bilive adding together will be flat year-over-year. So, as I understand, Bilive is a booster vaccine for hepatitis A and hepatitis B. So, what are you thinking about the growth rate for that product?

Helen Yang: (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: So, actually, the Chinese government issued an initiative (sp?) program, which is to vaccinating all child under 12 years old with hepatitis B vaccine within three years' time. And in some developed areas, most of the people will (unintelligible) to be vaccinated with Bilive, which can prevent from both hepatitis A and hepatitis B. And therefore, our effort is to develop the private market in those areas in order to achieve the higher growth for this product.

Ingrid Yin: Right. So, I'm trying to get a feel whether it's going to be, you know, 50% growth rate or 100% growth rate for this line.

Helen Yang: (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: We expect that growth will be higher than 20%, but it will be difficult for us to give whether it's 40% or it's 50%. We'll make all of our effort to achieve maximum profitability.

Operator: Thank you. Our next question is from Michael Kass with Baron Capital. Please proceed with your question.

Michael Kass: Yes, thanks. I just wanted to ask regarding the stockpiled doses, whether those, if they're not used and you are compensated in

2011, is that the same pricing mechanism? And what is the current pricing mechanism? And how does pricing, I guess, across all the vaccines in the public market, is there, kind of, an annual decline curve in pricing or does it stay relatively fixed?

Helen Yang: Let me try to clarify. Are you talking about—?

Michael Kass: Two or three different questions (inaudible).

Helen Yang: Are you talking about H1N1 vaccines only or including—?

Michael Kass: I guess I'm asking, first, on the H1N1, the 8.74 million doses that are going to be stockpiled that won't be reflected as revenue under the current expected rate of, ordering rate. To the stockpiled doses, do those come in at full pricing next year if they are not used? Is it the same price as if it gets ordered and gets distributed to the CDCs?

And how does pricing for H1N1 or any other vaccine that's sold to public, what is, you know, on a like-for-like basis, is there an assumed decline curve that I should be using on pricing for those vaccines over time as the volumes grow?

Helen Yang: (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: Actually, for vaccine orders of H1N1 vaccine, we all enter into a specific agreement with government, including the specific terms of price and quantity. And, right now, we have completed production for these about eight million doses stockpiled. However, when we are making the projection, revenue projection for this year, this amount is not included in this year as they will be expired next year, and we expect to recognize the revenue based on the agreement we entered (sp?) with the government in next year. Of course, there are also possibilities that government may require us to deliver these amounts, or some of these amounts, in this year. And when this product is delivered, we can, we are capable to recognize revenue.

Operator: Thank you. Our next question is from Steve Brozak with WBB Securities. Please proceed with your question.

Steve Brozak: Great. Thanks for taking the call and, in courtesy of others, I'll be brief. I'll break it down into two parts. The first part, one of the important things in assessing for the American markets are, when would you say that you would expect GAAP accounting or some kind of audited accounting? And what are we looking at, you're satisfied that it's GAAP but it's not audited.

What are our expectations in terms of when we might be able to see audited accounting so that we can look at it on a more formalized basis?

That's the first question. And then I've got a follow up on the science and the sales.

Helen Yang: (Chinese spoken). Actually, the audit has been substantially complete. The reason we did not put our audited financial statement is because we haven't formally received the signed copy from our external auditor. Actually, the numbers have been, will be just, not going to have any change, I think. We will release, we will file our 20-F with SEC very soon, within end of the week, probably.

Steve Brozak: Oh, so you'll get, the numbers will come out as early as the end of the week in terms of the actual audited numbers?

Helen Yang: Right, yes. The number we put out today, actually, is come out from the 20-F we are going to file with SEC.

Steve Brozak: I see. So these are the, we can use these numbers as numbers that you are going to file on official documents saying that these are the same numbers and that, there's just going to be a difference in terms of timing as far as the release goes?

Helen Yang: Yes, I think you can say that, yes.

Vanessa Wu: We're just waiting for the auditor to sign off the report.

Steve Brozak: Okay. Okay. Then that's good to know. Okay. Let's talk about sales going forward. Now, you have an advantage in terms of, given the fact that, globally, flu is identified pretty much around your region. So, for the 2010, 2011, whatever the years are, they have a synthesis of identifying the different flu strains that take place. I would assume, given your proximity to and your working in conjunction with CDC, that you would be kept informed of what the new flu strains are for the new season. How does that work? Can you give us any granularity on that front?

Helen Yang: (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: So, actually, for manufacturing seasonal influenza vaccine, we are strictly using the virus strain distributed by WHO. But it's good to know that in early this year, one of the Chinese CDC laboratory was qualified as the first laboratory under WHO for distributing flu virus strains. So, in the future,

we probably can get strains directly from these Chinese labs, but in this year, we are still getting, using the strain from WHO.

Operator: Thank you. Our next question is from, a follow up question from Ingrid Yin with Brean Murray. Please proceed with your question.

Ingrid Yin: Hi. This question is for Vanessa regarding to the margins. So, you had very high margins for 2009 because of the, you know, government order. So, how should we estimate the margins for 2010, considering, you know, sales and marketing cost and depreciation cost from recent acquired facilities, et cetera?

Vanessa Wu: To answer your question, I think you have to understand that the (unintelligible), we recently acquired the facility from Dalian because they were not going to have any sales. So, the cost won't be affected by their amortization and all those things. So, the margin still will be the hepatitis A and Bilive and Anflu, so those traditional products from Sinovac Beijing. Normally, we have a higher, our margin is around 75% to 80%, even a little bit higher than 80%, so I think next year will be in the same range; depends on what product we sell most. If we sell more flu-related products, and the margin will be more close to flat (sp?) flu product margin, which will be a little bit lower than the hepatitis A product margin.

Ingrid Yin: Okay, great. So, also, can you provide an estimate of the hand, foot, mouth disease vaccine clinical trial timeframe?

Helen Yang: (Chinese spoken).

Weidong Yin: (Chinese spoken).

Helen Yang: As we disclosed previously, that in December 2009, we have submitted clinical trial application of EV71 vaccine. And, last month, we actually participate into an official technical communication meeting with Chinese government to exchange the technology of this vaccine to prepare for the future development. And also, Mr. Yin actually joined the meeting, organized by the Vice Minister of MOH in China, to talk about the, to understand about the outbreak situation of hand, foot, mouth disease in China. And as far as we understand internally from the government, the number of incidences and the severe cases, numbers, are far more compared to the numbers in 2009. And, therefore, right now we are expecting to receive the approval for commencing clinical trials. But it's difficult to tell when we can get it. But we have already making a lot of effort to have the government approval, under a fast track approval, and we have well prepared for commencing clinical trials once we receive the approval from the government.

So, the protocol of clinical trials are actually having two aspects, which will, depending on which one is approved by the SFDA. One proposal is to conduct a six-month trial, with phase one and phase two trials conducting together. Or, we can spend longer time to conduct the phase one and then phase two trial subsequently. So, which one will be approved will definitely depending on the government decision.

Operator: Thank you. Ladies and gentlemen, we have come to the end of our allotted time for questions. I would like to turn the floor back over to management for any closing comments.

Helen Yang: Thank you for all the participants, and we appreciate our shareholders ongoing support. We continue to believe that Sinovac is well positioned to grow our business and expand our market share in the rapidly expanding Chinese vaccine market. And we expect to benefit from the healthcare reform plan and increasing expenditure in healthcare industry by the Chinese government. We will also continuously execute our strategy to exploit (sp?) the international market to further contribute to our sales revenue in the future, and we are looking forward to sharing our results with you next quarter. Thank you.

Weidong Yin: Thank you.

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