Sinovac Biotech Ltd.
Fourth Quarter 2011 Earnings
March 29, 2012

Operator: Greetings and welcome to the Sinovac Biotech Limited Fourth Quarter 2011 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, Ms. Nicole Greenbaum of The Ruth Group. Thank you, Ms. Greenbaum. You may begin.

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

On the call today we have Dr. Weidong Yin, CEO; Ms. Nan Wang, Interim Chief Financial Officer; Ms. Helen Yang, Investor Relations Manager, and Ms. Chris Lee, Investor Relations.

I would now like to turn the call over to Helen Yang. go ahead, Helen.

Helen Yang: Thank you, Nicole, and hello everyone. Thank you for joining us on this conference call. On the call today are Sinovac's Chairman, Dr. Weidong Yin, and our Interim CFO, Ms. Nan Wang. I will provide an update on the business and a financial review on their behalf.

Let me start by providing you with an update on our business in general in 2011. After passing through the year of 2010 under unfavorable market conditions, vaccine demand from private individuals recovered in 2011, and we are seeing continuous demand for our hepatitis and

seasonal influenza vaccines. At the beginning of 2011, the new head of sales and marketing team of Sinovac reorganized the sales team by simplifying the management hierarchy and processes to improve the efficiency and productivity of the sales team and increase the number of sales representatives to enhance the market penetration in the private-pay market in China. Therefore, in the year of 2011 we achieved a 70% growth rate to $56.8 million U.S. from $33.4 million in the year 2010.

During 2011, we recorded 21.8 million from pandemic influenza vaccine sales relating to government stockpiling orders in the previous years. In comparison, the growth from the regular vaccine sales, i.e. non-pandemic products, were actually contribute 47% growth comparing to last year, and sales of each of our products are growing, especially for Bilive sales for private-pay market in China, and each one in last year actually grow over 200% year-over-year. The management believes the new team of sales and marketing in Sinovac is doing well, and that they're strategy is very effective for the current market situation. And also currently, we are not only selling the product to China's domestic market; we are also shipping our vaccines to Philippines, Mongolia, and Nepal. Potentially, there are other few countries that we can sell our products to, subject to completing the registration in those countries. Just recently in March 2012, we won a tender in Mongolia to supply 190,000 doses of hepatitis A vaccine and were selected to the supplier for flu vaccines for that country in the second-half of this year.

To give you an update on our registration in Mexico, that is still pending, but we are still communicating with the local distributors in order to move forward to obtain the final license. In case we can obtain a sales permit in the first half of this year, we would expect some small amount of sales to private pay market, and we may begin to participate into the local government tender for the year of 2013.

We believe the sales of our regular products are in good position now, but to create a higher growth opportunity for long term, we will need to continue to advance our pipeline products. And actually, this morning, we announced that a positive Phase I clinical study for our EV71 was accepted for publication by the peer-reviewed journal called Vaccine on March 4, 2012, and an uncorrected proof is available online as of March 14, 2012. If you are interested, you may want to write down the name of the article and take a look. The name is Safety and Immunogenicity of a Novel Human Enterovirus 71 Vaccine: A Randomized Placebo-Controlled Double-Blind Phase I Clinical Trial. This article provides an in-depth look at safety observation with preliminary immunogenicity data from the study in which all three groups, including adults, children, and infants, all showed good safety and tolerance profile.

As we announced previously, we completed a Phase II trial for EV71 vaccine candidates and selected those for use in order to

commence the Phase III study. A Phase III trial was already announced that commenced in January 2012. The Phase III was designed as a recognized double-blind placebo controlled study with a vaccination schedule of two shots at zero and 28-days.

Through the end of March 2012, approximately 10,000 healthy volunteers have been enrolled in the Phase III trial and the two-shot inoculation and blood collection on the 56th day after the first inoculation has been completed in these volunteers. We began the observation and data collection phase on March 14, 2012 to assess the hand, foot, and mouth disease epidemic situation in order to evaluate the efficacy of our novel vaccine. Currently, the Phase III trial is progressing on schedule and is on track to be completed in the first half of 2013.

Meanwhile, the construction of the EV71 production plant is progressing well. The purpose of building the facility in parallel with the Phase III trial is to make sure that a vaccine can be provided to protect those at risk as soon as it's approved.

As you may know, besides EV71 vaccine, our vaccine development pipeline also includes several vaccine candidates in various stages of development. In December 2011, Sinovac obtained a production license from the SFDA of China for our mumps vaccine. In March 2012, the Company applied for GNP certification on the mumps vaccine production plant at Sinovac Dalian. The Company is waiting for notification of the inspection date from the SFDA for GNP certification.

In early 2011, we also filed a clinical application of pneumococcal conjugate vaccine, pneumococcal polysaccharide vaccine, and rubella vaccine. During this time, we keep improving the production process in order to come up with a better product. We are also continuing to develop our other pipeline products, including rotavirus vaccine, human rabies vaccine, and these programs are all proceeding well and on schedule.

Besides the sales and R&D, the management team also making an effort in order to improve the efficiency of the Company, and especially in last year, our accounts receivable collection improved significantly due to the better credit management by the Company and as well as the better financial capability of our clients under this recovered vaccine market situation.

We also announced early today that Mr. Meng Mei was appointed as an independent director to fill the vacancy created by the resignation of Ms. Mok. Mr. Mei has also been appointed as the Chairman of Sinovac's compensation committee and a member of our audit committee, and nominating committee and corporate governance committee. Mr. Mei's appointment enables us to comply with NASDAQ listing rule 5605 requirement

that audit committee consists of at least three independent directors. Mr. Mei founded Tsinghua University's Science Park, which is a national science park established by Tsinghua University in the year of 1994. The science park is to incubate high-growth companies. Mr. Mei is the Chairman of the science park, which is also engaged in the development, construction and management of Tsinghua University Science Park and is providing services to enterprises based here, and this park is also involved in venture capital investment in China. Mr. Mei also sits on the judging expert panel of China's National Science and Technology Award. He has developed courses on entrepreneurship and new venture formation as a Tsinghua University professor and an entrepreneur. Mr. Mei holds a Bachelor's Degree in Automation from Tsinghua University. We believe his wealth of experience in general business management and investment, as well as his access to a network of local resources among businesses and governments will be invaluable to the strategic growth of Sinovac, and we believe that he will make significant contributions to the Company.

Now, I would like to review our fourth quarter 2011 and full-year 2011 financial results. First is the fourth quarter results. Our sales for the fourth quarter 2011 were $21.1 million, up 131.3% from $9.1 million for the fourth quarter year of 2010. The increase of the fourth quarter 2011 sales mainly comes from the recognition of 14 million in revenue of H1N1 vaccine and also the increase of sales of Bilive in the private-pay market. Our gross profit for the fourth quarter 2011 was $13.1 million, with a gross margin of 62%, compared to negative $1.9 million and a gross margin of negative 20% for the same period in 2010. The increased gross profit margin in the fourth quarter of 2011 was attributable mainly to the reduced inventory write-offs and provisions and to more revenue being recognized from the government stockpiling orders.

We recorded a $2.74 million inventory provision in the fourth quarter of 2011 as a cost of sales to reflect the expiration due to shelf life of 581,000 doses of the seasonal influenza vaccine, due to the ending of the flu season, and about 2 million doses of Healive and Bilive that will not be likely to be sold in the year 2012. The gross margin also reflects a 10% dose return provision for 2011 sales of Anflu, and a 8.3% provision for Healive and Bilive. After deducting depreciation of land use rights, amortization of licenses and permits, the gross margin was 61.9%, and a negative 23.2% for fourth quarter 2011 and 2010 respectively.

Our selling, general and administrative expenses for the fourth quarter of 2011 decreased compared to the same period in year of 2010. The decrease in general expenses mainly resulted from our cost control efforts, as well as the foreign exchange gain from bank deposits denominated in RMB. The decrease in selling expenses is mainly due to improved productivity of the sales team, who incur large handling and transportation fees on government stockpiling orders which did not require shipment. Excluding pandemic flu

vaccine sales, SG&A as a percentage of sales was 83.2% and 176.1% for the current quarter and prior year quarter respectively.

The provision for doubtful accounts for the fourth quarter 2011 was reversed by $1.7 million compared to an increase of $1.9 million for the same period of prior year due to the significantly improved accounts receivable collection. The R&D expenses in the fourth quarter of 2011 were primarily allocated to the continued development of our pipeline vaccines, including expenses for the Phase II clinical trial of the EV71 vaccine, which was completed in November 2011, and trial production of the mumps vaccine and other R&D projects.

Depreciation of property, plant and equipment and amortization of license and permits for the fourth quarter of 2011 was $365,000, lower than the $525,000 for the same period last year, primarily because of the expiration of the amortization period for inactivated hepatitis vaccine. Our total operating expenses for the fourth quarter of 2011 were $6.3 million compared to $11.3 million for the comparative period of 2010.

Our operating income for the fourth quarter of 2011 was $6.8 million, compared to an operating loss of 13.2 million for the same period of the prior year. Net income attributable to stockholders for the fourth quarter of 2011 was $2.8 million or $0.05 per diluted share, as compared to a net loss attributable to stockholders of 8.9 million or $0.17 per diluted share in the same period of 2010.

As of December 31, 2011, our cash and cash equivalents and short-term investments totaled $104.3 million, compared to $103.1 million as of December 31, 2010. We had sufficient cash and short-term investments to support our near-term planned research and development activity and our anticipated investment in manufacturing facility construction.

And now I will talk about the full-year results. Our annual sales in 2011 were $56.8 million, up 70.2% from $33.4 million in 2010. During 2011, we recorded $21.8 million in pandemic influenza vaccine sales relating to the government stockpiling orders in the previous years. The increase in regular vaccine sales was driven significantly by the growth in the Bilive sales to the private-pay market in China. Sales of our H1N1 and H5N1 vaccines, i.e. Panflu.1 and Panflu, represented 24.6% and 13.7% respectively, of the total sales in year 2011, as compared to 21.5 and 7.2% of total sales for 2010. The H1N1 and H5N1 vaccines were all ultimately sold to the Chinese government.

Our gross profit for the full-year 2011 was $35.7 million, with a gross margin of 62.8%, compared to a gross profit of $16.7 million, and a gross margin of close to 50% for the same period of 2010. As our production planning and coordination improved last year, inventory write-offs and

provisions declined from $6.8 million in 2010 to $4 million in 2011, which yield a higher gross profit margin compared to 2010. However, the lower inventory write-off and provisions are not totally reflected in the gross margin increase, given that a positive effect was partially offset by a higher write-off of idle capacity being included in the cost of sales, which rose from $298,000 in 2010 to $1.2 million in 2011. In 2011, due to the enhanced control of production volume, the hepatitis and influenza production facility had idle capacity of 48% and 30% respectively, and in the year of 2010 the idle capacity of hepatitis plant was only 11% and there was no idle capacity for flu. After deducting depreciation of land use rights, amortization of licenses and permits, our gross margin was 62.3% and 48.3% for the full-year 2011 and 2010 respectively.

Our selling, general and administrative expenses increased in 2011, but by proportionately much less than our sales increase. Over the past 12 months, we have realigned our sales and marketing efforts to better address the changing Chinese vaccine market. Selling expense increased as a result of the increased promotional activities for Bilive in the private market and expanded sales teams to cover a wider geographic area and increased compensation to professionals to improve employee retention. General and administrative expenses remained at about the same level as 2010.

We recorded a recovery of doubtful accounts of $167,000 in 2011, compared to an expense of $1.9 million in 2010, which results from our more effective credit management than last year. Over the last few years, we have placed a much greater emphasis on product development and we have built a strong pipeline for the future. As a result, our R&D expenses for 2011 were $9 million compared to $8.5 million in 2010. R&D expenses in 2011 were primarily related to completing the Phase II clinical trial and Phase III trial production for our EV71 vaccine product candidate, and trial production for our mumps vaccine, and completing the development of animal rabies vaccine.

Depreciation of property, plant and equipment and amortization of licenses and permits for 2011 was $1.4 million, unchanged from the prior year. Additional depreciation on property, plant and equipment were recorded in year of 2011 due to the expansion of facilities, and amortization of licenses and permits in last year was lower due to the inactivated hep A vaccine being fully amortized during the year. Our operating expenses in last year were $31.9 million compared to $28.8 (ph) million in 2010.

Our operating income in 2011 was $3.8 million compared to an operating loss of $12.1 million in 2010. The net loss attributable to stockholders for 2011 was $845,000, or $0.02 per diluted share, as compared to a net loss attributable to stockholders of $8.5 million, or $0.16 per diluted share, in 2010.

In the year of 2012, we will continue to strengthen our domestic sales and marketing activities and increasing our penetration in China's market. Advancing the pipeline programs are more important right now for our long-term growth, and in parallel management is also taking steps in order to improve our operating efficiency, and we believe we are well capitalized to fund our growth initiatives.

That concludes management's remarks. Operator, we are now ready to take questions. Thank you.

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

Our first question is from the line of Hao Zhou with Piper Jaffray. Please go ahead.

Hao Zhou: Hi, thanks for taking my questions, and congrats for a good quarter. My first question, actually, is, can you remind us what's the Bilive sales last year again? I just wanted to get the Bilive growth year-over-year rate for this year—for last year, for 2011, sorry.

Helen Yang: Sure. Actually in the year of 2010, our Bilive sales only $3.6 million, but in 2011 the sales is $12.7 million, so the growth is 249%.

Hao Zhou: Okay. And following the Bilive's growth, can you also give us an update of what's the growth—what's the channel strategies into aligning distributors and sales, in terms of getting the Bilive growth for last year; and going forward for 2012, what's the Company's continuing plan to expand in the Bilive penetration?

Helen Yang: Yes, I will invite Mr. Yin to answer this question. (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: Actually, after hepatitis A vaccine was included in the national immunization plan, the price and volume of hep A was decreased comparing to the previous years. That's why we believe it's very important for us to stabilize—at least to stabilize the sales of Bilive, and we need to create new strategies in order to generating growth from these products. As right now, Sinovac is currently is the only supplier of Bilive, we believe we have a

competitive advantage. What we do is that we increase the investment into the—develop the area in China and increase the price, the selling price of Bilive in some different places, and also we strengthen our collaboration with different parties and channels. And through all these activities, we are strengthening our promotions among the people who need a booster of both hepatitis B—hepatitis A and hepatitis B vaccines.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: And also, if you remember that Sinovac only relying on the direct sales of our own team, and in last year we started to try to collaborating with some distributors who have good access and a better team or local resources in order to help us to create better penetration in that area. So, we think that the collaboration with these selected distributors also gives a very good result, which is showing from our sales growth in these products.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: To summarize what Mr. Yin just said, is that we are right now trying to promote and stabilize our sales from private-pay market through Bilive and influenza vaccines, and also trying to create a new strategy in order to generate growth. And we believe that the collaboration last year with distributors is very successful, and we believe right now our strategy is well-executed and they are suitable for these markets; therefore we believe are also being prepared in order to be largely entered into the public-pay market. So now what we want is to stabilize and also grow our revenues from our launched commercialized vaccines, but all what we are doing is actually preparing for us to be ready when our EV71 vaccine is launched into the market.

Hao Zhou: Great. And in terms of, you know, you guys have obviously reduced your sales and marketing expense in the last quarter very effectively. Can you guys give us some color in terms of where is the reduced expense coming from? Is that most of the promotion expenses or marketing expenses related from the direct sales, and alignment of more activities—more resources to your distributors in the latest quarters to reflect that reduced SG&A expenses? And also—or let me just pose this question first and then I will follow up with the next one, sorry.

Helen Yang: Sure. (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: So actually we—in the fourth quarter last year, we think some of the (inaudible) is coming from our collaboration with distributors. Normally, the expense level will be like comparing to using your own teams to do the sales and marketing activities.

Hao Zhou: Okay. And also going forward for your distributor models, will using more distributor resources potentially affect your gross margin pricing, you know, the ASP to the final ASP, for most of your, you know, the regular vaccines?

Helen Yang: Actually what we are doing right now is start trying to collaborating with distributors and we want to maintain some of these resources in order to be utilized when we are launching our EV71 vaccine. So once we get approval, then the EV71 vaccine can be launched, not only through our own channel, but also go through the distributors. And the other part of the reason for the less expenses on selling and marketing is that actually our sales team also restructured, so some of the processes have been eliminated to simplify the management hierarchy. So, we believe that improved the productivity, also having a result on the less expenses, and plus that--.

Hao Zhou: Hello?

Helen Yang: Yes, did you get that part?

Hao Zhou: Yes, somehow it was cut off.

Helen Yang: Oh, sorry. And also we think as some of the vaccine revenue that we recognize is the government stockpiling programs, and those products will just be staying in our warehouse, so there is no requirement for the transportation expenses, as well.

Hao Zhou: Okay, okay. And also my question is related to the pricing, because obviously, the Healive—Healive growth is for private—for both private and public growth. What's the Healive growth, this—I am not look at the growth. So it is potentially you guys thinking about putting price cuts and then (inaudible) volume growth in order to solicit a better government tender going forward, or that's not going to be in the near-term strategies to gain volume?

Helen Yang: (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: Actually Sinovac has two different packages for Healive, including prefilled syringe and vials. Actually, the vial is a lower-cost product, so this version is prepared for lowering price and in order to submit to a tender market. But right now, we think selling the inactivated hep A vaccine is not entered into a price competition at the moment, because up to now, the tender that we won is still at a relatively higher price compared to the other government-purchased vaccines. And we also right now is trying to control our costs in order to create more room for to stay competitive, so we think we are

right now ready to move forward in order to supply the large volume of hepatitis A vaccine to the public market in China.

Hao Zhou: Okay, great. And my last question actually comes from the Anflu growth. Obviously, the Anflu growth for last year, achieving a 7% growth mainly due—can you give us some updates in terms of any additional city tractions, in terms of getting more Anflu sales through your distributor model—the expanded distributor resources as opposed to the government tenders in other big cities, such as Shanghai or other major metropolitan cities, or maybe other—yes.

Helen Yang: Sure. Actually the seasonal flu vaccines in China still be classified as a private-pay market product, so we are only selling to Beijing government through a local government procurement program. But in the rest of China, it will be sold directly into the private-pay market, and our sales of Anflu only have a limited amount of sales coming from distributors, so the majority of the sales are still being done by our own sales team.

Hao Zhou: Okay. And can you remind us how much is the—of the little over 8 million sales last year, how much is on the Beijing tender—Beijing order?

Helen Yang: Beijing order is 20%.

Hao Zhou: Twenty percent? Okay, thanks. I'll get back into the queue. Thanks.

Helen Yang: Thank you.

Operator: Thank you. Our next question is from the line of Bin Li with Morgan Stanley. Please go ahead.

Bin Li: Thanks for taking my questions. I have a couple of questions on your margins, first, and a few questions on your products, including pipeline. Now, first of all, you had an inventory write-off of 2.74 million, and you also said you have 10%--you could record 10% return of—and 8% return of other product. Can you tell us, of the 2.74 million, is that it, or are you expecting more inventory write-off? And also for the 8% and 10%, what is the dollar number attached to that?

Helen Yang: Sure. Actually when are doing the year-end audit, actually looking back at our inventory levels and comparing to not only the inventory—we are looking at inventory we have and comparing to the future selling budget, and we also looking at the expiration date of some of our products. So, we find there are some products not likely being sold, so we did a provision on inventory. I think the amount is—what we said here is the $2.74 million.

Bin Li: Right. Yes, yes.

Helen Yang: And regarding to—your next question is about 10% return?

Bin Li: Ten percent sales return provision for 2011 for Anflu, and 8% for Healive and Bilive. Is that it, or do you expect some more for the next quarter, for 1Q of 2012?

Helen Yang: Actually, for flu, it's a seasonal product. Normally, the sales season will end very early of every year, so right now it's pretty end of flu season. We are actually setting a schedule internally with our team that the maximum return rate will be 10%, otherwise they will have some rules imposing on that. So we are looking at the product inventory currently held at our customers, i.e. centers of disease control. We are including these amounts. We calculated—we're just doing a conservative approach that we expect all of them will be returned, so we think 10% can cover these amounts.

And regarding—

Bin Li: Yes, and what was the dollar amount for the 10%?

Helen Yang: Ten percent dollar amount, it's about 5.7 million RMB. It's close to $900,000 U.S.

Bin Li: And the 8%?

Helen Yang: Eight percent, we're actually taking a similar approach, but the dollar value for 8% is 10.9 million RMB, which is about $1.7 million.

Bin Li: Okay, so if you can help us on the math, if we were to exclude those two items and also the 2.74 million, what would be your margin—growth margin? I don't know whether you have that offhand.

Helen Yang: Hold on a second. Probably, we don't have it with us right now. We probably can—later on we can send some information to you if you think that is helpful.

Bin Li: Sure, sure. I would appreciate that. Also, another question is on your income tax rate. Can you explain why it is running at 71%--no, 41%?

Helen Yang: Forty-one percent? Well, actually right now under—

Bin Li: (Cross talking), yes, yes.

Helen Yang: There are three operating entities, but only Sinovac Beijing, which is over 70% owned by SVA, are generating profit and paying tax. So we actually is being treated with a favorable tax rate of 15% (ph) as we are qualified as a high tech company status. So it's 15%, but the other operating entities only have costs and losses. So I think if you are calculating using this consolidated number, you will find a higher percentage of tax rate.

Bin Li: Okay. So, your pre-tax is 7 million and your income tax is about 3 million, which comes to about 71—sorry, 41%. I mean, what would be the normalized tax rate?

Helen Yang: Maybe there are another issues that we write off about 2.5 million deferred income tax assets, the current portion of DIT (audio interference). We think there are 2.5 million write-off from DIT was charged to the income tax deferred, so that having some impact on the income tax, if that makes sense.

Bin Li: Okay, sure. Yes, I'll get back to you maybe later. If I can also ask some questions on your pipeline. You talk about the EV74 is ongoing, you know, Phase III trial is ongoing; and you also talk about that you're expecting some data, I think, in the second half of 2013. Now, a few questions – number one, are you expecting any interim look for the Phase III trial? If yes, what's the timeline?

Helen Yang: Let me check with Mr. Yin. (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: We actually did a—we did set up a target in order to having an interim report, but that will be having a condition. If we are collecting to a certain number of patient cases, we can un-blind the results, and we can preliminarily see how the trial is going. But when we can get sufficient cases, that will depending on the epidemic situation.

Bin Li: Okay, so the timeline is not certain. Okay. And another question is: when I look at your Phase I data, in your trial design you have adult patients and you also have children. Is that the same design in your Phase III studies? Are you designing this for both populations?

Helen Yang: No, not really. Actually, the high risk group for hand, foot and mouth disease is children under 5 years old, and most of the severe cases are reported among the children under 2 years old. But for the Phase I trial the primary endpoint is for safety study, so, in order to do it conservatively we do it on adults first, and once it proved to be safe, we moved into younger populations. Finally, it goes to the infants. But our Phase III trial studied efficacy

of the study. All these 10,000 volunteers are children from 6 to 35 months old child.

Bin Li: Okay, okay, that makes sense. Now, you mentioned that you will be constructing the EV71 vaccine facility—production facility. What is the progress on that, and what would be the cap ex associated with that?

Helen Yang: Sure. (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: I think what Mr. Yin answered is that currently our EV71 plant was constructed in our Changping site. But the total cap ex, both including the set-up of new plant and purchase that campus, and also we set up a new fitting and packaging line and sort of other offices and quality control lab. So EV71 is only a part—it's one floor of—the primary production of EV71 is just a floor of that building, so it's very difficult to differentiate what is the total investment for EV71 at the moment. But the first one which we'll be commercializing—using commercialized is the fitting and packaging line. For the timeline, we expect to complete all the construction by the end of—construction and validation by the end of this year.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: The total cap ex of this Changping site is about 300 million RMB, which is about close to $50 million. But as Mr. Yin said earlier that we include the fitting and packaging line and the purchase of land—land use rights and the buildings, and also the investment on setting up labs and offices. And now these amount of capital expenditures are supported by a credit line we obtained from a commercial bank, so right now the construction is moving on schedule and we have good financial resources to back on that.

Bin Li: And one more question, if I could. You mentioned about the Dalian facility is almost back online and you're waiting for the Chinese FDA inspection. What would be the timeline for that, and can you give us some kind of outlook for that business opportunity for the mumps vaccine? And also, I think you're also working on the animal rabies vaccine. Can you also give us an update on that?

Helen Yang: As we said, we are right now expecting the GNP inspection, so we expect that in second half of this year, we can finally get this mumps vaccine launched to the market. But with only a few months left and the new product on the market, we don't expect a significant revenue contribution to the Company. But with having these products and also our rubella, which is right now expecting the clinical—green light for conducting the clinical studies, we finally want to do the MMR which right now having—we do think in China there is

a big gap of—between supply and demand for the measles, mumps and rubella combination vaccine.

And regarding to—

Bin Li: Sorry, so it sounds to me that you want to launch the MMR, rather than the mumps alone, or am I wrong on this?

Helen Yang: Yes, ultimately we want to do MMR, but now we start making every one of them according to the Chinese regulations. So right now we have a mumps very close to registration, so if we have the vaccine could be launched to the market, it can start generating some revenue even though it's not very big.

Bin Li: Okay. And rabies?

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: So regarding to the animal rabies vaccine, we launched a vaccine very late last year, so right now we have established a sales team and what they are doing right now is promoting the vaccine and introducing it to our—to the pet doctors. And also, we are—and also they are introducing this vaccine to some government officials, in order to help us to participate into the government tender. And we are also selecting some of the key areas that we want to focus in order to sell this animal rabies vaccine, and our sales persons are also introducing our vaccine in those areas to the animal CDC and to the pet hospitals.

Bin Li: Okay, thank you very much.

Helen Yang: Sure, you're welcome.

Operator: Thank you. Our next question is from John Gregory with SJ Investments. Please go ahead.

John Gregory: Thank you. Could you give us an idea again just how big is animal rabies vaccine market in China in dollar figures, and the mumps market in dollar figures, and the MMR market in dollar figures?

Helen Yang: Sure. Let me let Mr. Yin to answer this question. (Chinese spoken)

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: To answer the first question that recently Chinese government trying to impose the immunization policy to the registered dogs in

China, and they require at least 80% of the dogs registered in China had to be immunized. And now, there are total 80 million dogs registered in China, and if it's about 80%, it's over 60 million dogs, means that 60 million doses is the potential market for animal rabies. If we times the price level, the actual manufacturing price is around 10 RMB per dose, we could come up with about 600 million RMB market. If it's in dollars, I think it's close to $100 million for animal rabies.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: But in the past, only the imported vaccines are supplying—are actually the higher quality vaccines, and they are supplying about 5 to 6 million doses every year. So in the past actually—and also without the Chinese government policy, I think that is the market at the time, so we expect that this animal rabies market will have a high growth opportunity.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: So for the mumps vaccine, actually, this one is mainly focusing on the booster market, which is to immunize the people who are not being able to be immunized in the past, or they're in some areas that there is some outbreak. So in the past, the annual consumption volume for mumps is about 4 to 5 million doses.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: And the actual manufacturing price is about—it's about 1 to $1.5 per dose, so market size it's—maximum would be $7.5 million.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: So, regarding to the MMR, because right now the (inaudible) supply of this (inaudible) vaccine, but if anywhere they have it they would like to include it in the PPM market. And in the future, we expect that if we have sufficient supply in China, this MMR could be used among the 16 million newborns every year, and every child should have two inoculations, so total potential market will be 32 million doses, and a similar price level as the mumps if it's purchased by the PPI—the public-pay market. So the market opportunity—the dollar value of this market is close to $50 million. But right now, because there are only a very limited supply, there are only about 45 million doses being consumed in the public-pay market for MMR.

Dr. Weidong Yin: (Chinese spoken)

Helen Yang: And in addition to the public market for MMR, because China—the government has a measles eradication plan, so besides the

purchase of vaccines to immunize the newborns, Chinese government also has a booster campaign for the older children. And actually, that is happening within the private-pay market, so right now there are about 3 to 4 million doses being consumed in the private-pay market and the selling price is a lot higher compared to the public market, which is at about $6 per dose, so the total market size from the private pay is about $24 million. And 24 million, if this is combined with the public-pay market, I think it's close to 80 million—roughly $80 million.

John Gregory: Okay. And regards to the EV71, initially, after you've finished your building, what are you expecting to launch with? What's the initial capacity, the number of doses; and again, the same question – do you have any estimates yet on what you expect the dollar amount of the Chinese market to be? And then also, are you all currently in the lead, as far as being the first to market on China, on the EV71 product?

Helen Yang: In order to clarify that, you want to understand what would be the total market size for Chinese vaccine market in the future, and what would be the market opportunity for EV71? Is that your question?

John Gregory: Yes, my question is what do you expect the total market size—do you have any estimates yet on the total dollar market size for EV71 in China, and then, what is going to be your capacity, how many doses are you going to be able to launch with? Are you going to have a facility that makes 2 million doses a year, or what's the initial build of your facility? And then also, are you currently in the lead, as far as being the first to market in China on EV71?

Helen Yang: Well, as I explained earlier that EV71 is targeting the children under 5 years old. The total market opportunity would be close to 80 million population–8-0, and the high-risk group is under 2 years old and there are about 32 million children in that range. So with our current—and everyone should get two shots, so actually, it's very simple math, you can calculate it. And with our current construction, we want to start from 10 to 20 million doses. That will actually, depending on the optimizing—keep optimizing of the production process, because right now we're just starting from the lab capability. But if we can improve further, I think the capacity could be even improved.

John Gregory: Are you currently in the lead to be the first one to have EV71?

Helen Yang: Oh, sorry. Can you say that again?

John Gregory: Is Sinovac Biotech in the lead as far as being the first one to develop EV71 to sell in China?

Helen Yang: Not really, because right now we have two peers. Both of them are state-owned enterprises, so right now three companies in China are developing EV71 vaccine, and we are right now at a similar stage.

John Gregory: Okay. All right, thank you.

Helen Yang: Sure.

Operator: Thank you. Ladies and gentlemen, we've run out of time for questions. I'd like to turn the floor back over to management for any closing remarks.

Helen Yang: Well, thank you for joining us tonight, and we are happy to see the results and we are looking forward to having further communication. And if anyone has any questions, you can contact Sinovac IR or you can contact The Ruth Group. Thank you very much and have a good day. Bye bye.

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