Sinovac Biotech Ltd.
Second Quarter 2012 Earnings
August 15, 2012

Operator: Greetings and welcome to the Sinovac Biotech Limited Second Quarter 2012 Earnings Conference Cal. 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 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 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 from management we have Dr. Weidong Yin, CEO; Mr. Danny Chung, Sinovac's Chief Financial Officer; Ms. Helen Yang, Investor Relations Manager; and Ms. Chris Lee, Officer of Investor Relations.

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

Helen Yang: Hello, everyone. Thank you for joining us on this conference call. On the call today, as Stephanie mentioned, our Chairman, President and CEO Mr. Yin; and our CFO, Mr. Danny Chung. And I will give you an update on the business on Mr. Yin’s behalf, and Danny will discuss about the financials afterwards. Maybe let me start by providing you with a general business update for the quarter.

We are actually very pleased to see a continuous strong sales of our hepatitis vaccines in the second quarter, especially for Bilive. And this product actually grow year-over-year for the quarter with about 26%. And also for the six-month sales number, the Bilive (ph) sales growth even stronger, which brings a growth rate with about 46% compared to the first half of last year.

And these results clearly demonstrate that our continuous success in expanding our hepatitis vaccines in the private sector of Chinese vaccine market. And as we announced earlier today, Sinovac also had successfully won a tender in Gansu (ph) province to supply over 700,000 doses of Healive, which is the Company's inactivated hepatitis A vaccine. And this vaccine will be administered within this year as part of the booster vaccination campaign in that area with a high incidence rate of hepatitis A. And the total value of this bid is about 20—close to RMB 23 million which is about US$3.6 million. And we anticipate that the vaccine delivery will commence in the fourth quarter of this year.

And we also have seen that overseas sales contributed higher percentage to the total sales, which in this quarter is about 4%. We believe that our activities, and training and investment for the sales and marketing team can improve our capabilities and expanding our presence in the vaccine market give us an opportunity that we can leverage the platform and the team's experience to successfully commercialize our EV71 vaccine which is in the Phase III clinical study at the moment.

And for now, I would like to turn to our update on these programs. We actually have committed the advancing the development of our EV71 vaccine. As all of you may know that it's currently in the Phase III study. At the Phase III study, the endpoint is to evaluate efficacy of the vaccine, and as we discussed earlier, we registered a trial early this year and we completed dosing and broad question and now at the Centers for Disease Control to work with the local laboratory on collecting the EV71 positive cases for this data that will be finally included in the statistical invoices for finally evaluating the efficacy profile of this vaccine.

And also in this quarter, we expect a visit and inspection by SFDA experts and the results are very positive and also grant us the opportunity to have a simultaneous communication between the healthcare workers related to the trial with the SFDA experts in order to allow the SFDA officials to have a interim review of the progress we made, in order to speed up the process for regulatory approval of this vaccine.

And in general that this program is still being on schedule and everyone is working actively to be inline with our projected target. And also in parallel, we are also very actively to establishing the production plan

for EV71. Currently in our Changping site, we have completed installment of the equipment and right now we are in the validation process. And the GMP inspection for this site will be in line with our progress made with Phase III trial. And our ultimate goal is to launch the vaccine, or to get a license of the vaccine without any delay, meaning that we will have the facility prepared in parallel with the research.

And also I would like to take a moment to provide with you some detail about the current hand, foot and mouth disease epidemic in China. And there has been over 1.5 million hand, foot and mouth disease cases reported in China, which is about 50% increase year-over-year growth. And this is a very serious situation and that also give us a lot more pressure that we should move closely with the trial in order to provide the vaccine to help all the population as soon as we can. And also this expectation from the government as well.

And we also see that there have been over 400 fatalities in the year compared to over 300 fatalities last year. And these also show the severity of the epidemic situation of (inaudible). As everyone may know that currently there is no EV71 specific treatment method available. That's why we see how important for these vaccine development it is in order to control the disease epidemic.

And also we learn from the reports that from the international markets we also saw that the reported cases arise from some surrounding countries, like Mongolia (ph), Thailand, and also some other countries around us. However, that they are not having—in those countries they don't have a vaccine development as advanced as we are, so we are also looking forward to develop the opportunity in order to help those countries as well.

And also I would like to—updating on one of our near-term programs which is our Sinovac Dalian mumps vaccine. And these vaccines were manufactured by Dalian site and last year we have been granted with the production license. And in this year we are working on the facilities and making an application with GMP certification for mumps plant (ph) in Dalian.

And recently we have completed the site inspection by SFDA officials, and also we complete—and also they completed the documentation review. We believe that the Company is currently on track to receive the GMP certificate for the mumps vaccine plant in the coming months. And also this mumps vaccine is actually—is the first vaccine in China to be manufactured in the plant which is in compliance with the new China GSE standard which is very close to the WHO standard.

And to further explain on that is in last year actually China issued a new version of GMP requirements. And the deadline for all the Chinese manufacturers is that we should complete the inspection by the end of

next year. So the mumps vaccine as we just mentioned is the first one (inaudible) could be launched into the market under this new GMP standard, which we believe will grant us the competitive advantage after launching into the market.

And also, in order to meet these deadlines for GMP requirements, we are also establishing and renting (ph) our Changping site for a new filling and packaging line and also to upgrading our current (inaudible) production plants for hepatitis vaccine and the influenza vaccine. We believe that our current schedule will ensure the Company to complete all these tasks before the deadline required by the government.

And right now I will like to turn the call over to Danny, our CFO, that he can review the financial results for the second quarter.

Danny Chung: Thank you, Helen. Good morning everyone. I am going to review the second quarter financials by telling you the sales status and our gross margin and expenses situation.

First of all, our core vaccine sales in the second quarter of 2012 increased 17.6% to 9.4 million, compared to 8 million in the same period of 2011. Bilive (ph) vaccine sales were up 25.8% this quarter. Total sales decreased 40.2% compared to 15.7 million in the same period of last year. That's included $.7 million of non-core government stockpiled, pandemic flu, H5N1 vaccine sales.

Gross profit margin of the core sales was 85.3%, compared to 84.2% in the same period of last year. The overall gross margin for the same period in 2011 was 68.8% since the prior year quarter included a substantial proportion of non-core H5N1 vaccine sales that carry a lower gross margin. After deducting depreciation of land use rights, amortization of licenses and permits, the respective overall gross margins were 84.8% and 67.9% for the second quarters of 2012 and 2011.

Selling, general and administrative expenses for the second quarter of 2012 was 6.7 million, compared to 5.5 million in the same period of 2011. The same (ph) expenses as a percentage of second quarter of 2012 sales were 71.6%, compared to 31.8% during the second quarter of the prior year. When we exclude the pandemic flu H5N1 vaccine sales in prior year quarter, the expenses as a percentage of sales were 71.6% and 62.5% for the current quarter and prior year quarter, respectively. The increased selling, general and administrative expenses was mainly due to the increased spending on sales and marketing programs to penetrate the private pay market and preparation costs for our GMP upgrade, and also validation efforts for the equipment of Changping site that we began in 2012.

Research and development expenses for the second quarter reached 4.7 million, this is about 2.4 million increase over the same period in 2011, mainly due to the ongoing EV71 Phase III clinical trial. The increase in research and development expenses in the second quarter over last year quarter was in line with the continued progress of the various research and development initiatives intended to drive the Company's pipeline products to commercialization.

Depreciation of property, plant and equipment and amortization of license and permits for the second quarter of 2012 was 0.3 million, compared to 0.5 million for the same period of last year. The lower depreciation and amortization expenses in the second quarter of 2012 benefit from the lower amortization expenses arising from fully amortized license and permits for the hepatitis A vaccine.

Total operating expenses for the second quarter were 10.3 million, compared to 7.6 million for the same quarter last year. The major drivers of the higher operating expenses were the increased research and development expenses as the Company advances the pipeline vaccine candidates, and the increased selling, general and administrative expenses due to more spending for core vaccine sales, after offsetting from additional government grants recognized in income in this quarter.

The Company's operating loss was 2.3 million for the second quarter compared to 3.1 million operating income for the same quarter last year. The swing from operating income in the last year's quarter to operating loss in this year's quarter was mainly due to the loss of prior year contribution from government stockpile H5N1 vaccine sales of 7.7 million and the 2.7 million change in operating expenses discussed above.

Loss before income taxes and NCI was 2 million, compared to the net income of 3.4 million in the same quarter last year. At the end, net loss attributable to stockholders in the second quarter was 0.9 million, or $0.02 per basic and diluted share, compared to a net income of 1.3 million, or $0.02 per basic and diluted share for the same quarter last year.

As of June 30 of this year, our total cash is 89.4 million, compared to 94.5 million as of a quarter ago, as of March 31st, 2012, and about 104.3 million as of December last year year-end (ph). During the time, the Company had utilized around 2.3 million and 5.4 million of its cash resources in the second quarter and first six months period, respectively, for the ongoing clinical trial for the EV71 vaccine. The Company plans to allocate additional 3.7 million during the second half of the year and about 0.9 million in next year to fund the ongoing Phase III trial to completion.

Under the credit line arrangement already in place that cover the ongoing capital needs of the Changping site's development, 2.8 million was utilized in the second quarter, with 5 million utilized during the first half of the year. Capital expenditure payments to complete the Changping site, which are covered by the same credit line arrangement, are estimated at 17.2 million in the remaining quarters of this year and 1.7 million in next year.

That concludes the management's prepared remarks for the financials. So operator, we can now take question. Thank you.

Operator: Ladies and gentlemen, 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'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. Once again, if you'd like to ask a question, please press star, one on your telephone keypad.

Our first question is coming from the line of Chris Lui with Morgan Stanley. Please state your question.

Christopher Lui: Hi. Thanks for taking my questions. I have two questions. The first one is, can you tell us, I mean, how we should look into the gross margin trends in the next few quarters? And my second question is on, when should we expect the (inaudible) sales to be booked? You know, the reserve, would it be in 2012 or still be, you know, maybe in 2013? Thanks.

Weidong Yin: (Chinese spoken).

Helen Yang: So actually to answer your question, Mr. Yin has said actually Bilive, the hepatitis A&B (ph) vaccine contributed majority of the growth for the Company. Also this is the key product that we are spending our sales activity. So we actually increased the unit—average selling price of Bilive. And also at the same time increased the selling expenses in order to investing into the sales activity. So in general, the gross margin increased, improved year-over-year for this product. But also for your information the cost structure of Bilive which changed a little bit as well, for example the cost of hepatitis B was increased, but in general given the higher price we—given the higher price also in general the general gross margin was increased for hepatitis A&B.

Weidong Yin: (Chinese spoken).

Helen Yang: And Mr. Yin also added that for our hepatitis A vaccine, the monovalent product, as we are expanding the production volume, we believe the average cost, especially for the sales (ph) part of the cost will be lowered on given the economy of scale, but flu vaccine business (ph) actually

contribute a lower level of gross margin for the general business And also for flu, a very—the special part of flu is that every year it will have a kind of return issue which is affecting the gross margin. So to elaborate on that you could see the trend and when we are in the first two quarters, the gross margin is higher than the second half of the year because in the first half a majority of the sales were contributed by hepatitis vaccine. But in the second half the flu coming in.

Christopher Lui: I see. And can you comment on the negative flu sales in this quarter. And when we expect the H5N1 reserve sales to be booked? Thanks.

Danny Chung: Well, I mean, yes, the negative in the flu sales actually is the returns of the flu vaccine. That is about the reserve that we made by the end of last year. So we expect by the end of June, that we will clean up all the inventory out in the market and we should be expecting sales for this season vaccine.

Christopher Lui: Okay. All right, thank you.

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

It appears there are no further questions. I would like to turn the floor back over to management for closing remarks.

Helen Yang: Thank you for joining us today and we also looking forward to speaking with you next quarter. And as you may know that the Company is currently planning to host the Annual General Meeting on August 22nd and we are currently inviting our shareholders to make their vote. And in this year we propose to the shareholder to approve a new option plan we believe that will—this will be included in our talent (ph) retention plan and also this is the key to make the Company to be competitive. And also we expecting that the shareholder can approve to change the—a clause (ph) of article which can make the business more effective. And also for information our team, senior management team will be presenting in September at the Morgan Stanley Global Unplugged Conference in New York, and will be participating in the Morgan Stanley China Healthcare Day in Boston. And we look forward to seeing some of you next month. Thank you very much.

Danny Chung: Bye-bye.

Weidong Yin: Thank you. Bye-bye.

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