UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

For the transition period from to

Commission file number: 001-32371

SINOVAC BIOTECH LTD.
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English)

Antigua, West Indies
(Jurisdiction of incorporation or organization)

No. 39 Shangdi Xi Road,
Haidian District, Beijing 100085
People's Republic of China
(Address of principal executive offices)

Nan Wang
Chief Financial Officer
No. 39 Shangdi Xi Road,
Haidian District, Beijing 100085
People's Republic of China
Tel: +86-10-8289-0088

Fax: +86-10-6296-6910
E-mail: ir@sinovac.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, par value $0.001 per share	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

55,570,361 common shares as of December 31, 2013

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

☐ Yes ☐ No

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INTRODUCTION

In this annual report on Form 20-F, unless otherwise indicated or unless the context otherwise requires,

- "Sinovac," "Company," "we," "us," "our company," and "our" refer to Sinovac Biotech Ltd., its predecessor entities and its consolidated subsidiaries
- "China," "Chinese" or the "PRC" refers to the People's Republic of China, excluding, for the purposes of this annual report on Form 20-F only, Taiwan and the special administrative regions of Hong Kong and Macau;
- "RMB" or "renminbi" refers to the legal currency of China; and "$" or "U.S. dollars" refers to the legal currency of the United States;
- "shares" or "common shares" refers to our common shares, par value $0.001 per share; and
- "U.S. GAAP" refers to general accepted accounting principles in the United States.

Discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

This annual report contains translations of certain renminbi amounts into U.S. dollars at specified rates solely for the convenience of the readers. All translations from renminbi to U.S. dollars were made at the noon buying rate in The City of New York for cable transfers in renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate. Unless otherwise stated, the translation of renminbi into U.S. dollars has been made at the noon buying rate in effect on December 31, 2013, which was RMB6.0537 to $1.00. We make no representation that the renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or renminbi, as the case may be, at any particular rate or at all. On April 11, 2014, the noon buying rate was RMB6.2111 to $1.00.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated statements of comprehensive income data for the fiscal years ended December 31, 2011, 2012 and 2013 and consolidated balance sheet data as of December 31, 2012 and 2013 have been derived from our audited consolidated financial statements that are included in this annual report beginning on page F-1. The following selected consolidated statements of comprehensive income data for the fiscal years ended December 31, 2009 and 2010 and consolidated balance sheet data as of December 31, 2009, 2010 and 2011 have been derived from our audited consolidated financial statements that are not included in this annual report.

Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes and Item 5 "Operating and Financial Review and Prospects" below. Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

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Consolidated statements of comprehensive income data	Year ended December 31, 2009	2010	2011	2012	2013
	(in thousands except share and per share data)				
Sales	$ 84,197	$ 33,401	$ 56,842	$ 49,216	$ 72,524
Cost of sales	20,063	16,719	21,128	19,100	21,273
Gross profit	64,134	16,682	35,714	30,116	51,251
Operating expenses:					
Selling, general and administrative expenses[(1)]	18,858	20,296	23,809	33,280	34,538
Provision (recovery) for doubtful accounts	18	1,921	(167)	(874)	(504)
Research and development expenses	4,406	8,508	9,007	17,044	8,384
Loss on disposal and impairment of property, plant and equipment	169	1,237	455	2,190	88
Government grants recognized in income	(1,296)	(1,924)	(764)	(373)	—
Total operating expenses	22,155	30,038	32,340	51,267	42,506
Operating income (loss)	41,979	(13,356)	3,374	(21,151)	8,745
Interest and financing expenses	(534)	(1,178)	(384)	(775)	(3,031)
Interest income	143	1,133	1,397	2,370	2,168
Other income (expenses)	(34)	96	280	(77)	263
Income (loss) before income taxes and non-controlling interests	41,554	(13,305)	4,667	(19,633)	8,145
Income tax benefit (expenses)	(11,141)	704	(5,066)	884	2,225
Net income (loss)	30,413	(12,601)	(399)	(18,749)	10,370
Less: (income) loss attributable to non-controlling interests	(10,455)	4,094	(445)	3,896	(2,928)
Net income (loss) attributable to the stockholders of Sinovac	$ 19,958	$ (8,507)	$ (844)	$ (14,853)	$ 7,442
Earnings (loss) per share					
- basic	$ 0.47	$ (0.16)	$ (0.02)	$ (0.27)	$ 0.13
- diluted	$ 0.46	$ (0.16)	$ (0.02)	$ (0.27)	$ 0.13
Weighted average number of common shares outstanding					
- basic	42,580,945	53,064,968	54,608,919	54,926,440	55,301,276
- diluted	42,975,007	53,064,968	54,608,919	54,926,440	55,802,338

(1) Includes stock-based compensation of $0.4 million, $0.5 million, $0.2 million, $0.3 million and $0.3 million in 2009, 2010, 2011, 2012 and 2013, respectively.

Balance sheet data	As of December 31, 2009	2010	2011	2012	2013
	(in thousands)				
Cash and cash equivalents	$ 74,953	$ 101,585	$ 104,287	$ 91,241	$ 107,242
Restricted cash	64	—	—	—	—
Total assets	145,477	214,358	215,908	208,763	240,693
Bank loans and current portion of long-term debt	17,698	10,436	4,713	3,329	16,217
Total current liabilities	51,013	45,758	39,531	30,155	49,157
Long term debt (include due to related party)	—	10,058	17,321	34,411	32,146
Net assets	70,658	126,440	129,921	117,724	128,684
Non-controlling interests	13,808	21,317	15,377	11,711	14,955
Common stock	43	54	55	55	56
Total stockholders' equity	$ 70,658	$ 126,440	$ 129,921	$ 117,724	$ 128,684

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Company

Our business growth relies on our ability to react to infectious disease threats and to continually introduce new vaccine products into clinical trials and the commercial market. Our failure to effectively develop and commercialize new products could materially and adversely affect our business, financial condition, results of operations and prospects.

The biopharmaceutical market in general and the vaccine product market in particular are developing rapidly as a result of ongoing infectious disease threats and new trends in the related research and technology developments. Consequently, our success depends on our ability to react to disease and technology development trends and to identify, develop and commercialize in a timely and cost-effective manner effective vaccine products that meet evolving market needs.

Whether we are successful in developing and commercializing new products is determined by our ability to:

- accurately assess disease and technology trends and market needs;
- maintain strong research and development capabilities;
- optimize our manufacturing and procurement processes to predict and control costs;
- manufacture and deliver products in a timely manner and in sufficient quantities;
- increase customer awareness and acceptance of our products;
- minimize the time and cost required to obtain required regulatory clearances and approvals;
- anticipate and compete effectively with other vaccine product developers, manufacturers and marketers;
- price our products competitively; and
- comply with the guidelines of Good Manufacturing Practice, or GMP, and other related regulations.

We incurred a loss from 2010 to 2012 and may incur losses again in the future.

Biopharmaceutical product development is a highly speculative undertaking and involves a substantial degree of risk. We have incurred substantial losses since our inception. Although we first became profitable for the year ended December 31, 2007 and were profitable from 2007 through 2009, we incurred losses in 2010, 2011 and 2012. Although we were profitable in 2013 again, we cannot assure you when we will continue to be profitable in the future. We incurred net losses attributable to stockholders of $14.9 million in 2012 and had net income attributable to stockholders of $7.4 million in 2013. Our profit in 2013 was mainly driven by increased revenue and reduced spending on research and development. In 2013, we recognized H5N1 vaccine governmental stockpiling revenue of $10.7 million, which will not happen every year. None of the research and development expenses incurred were capitalized in our financial statements. We intend to continue to invest in research and development to sustain our long-term growth. We expect our research and development expenses to fluctuate depending on the progress we make on each project, with relatively more spending on clinical studies than preclinical studies. We expect our spending on research and development will have a negative impact on our future net earnings. As a result, we may incur losses in the future, which will have an adverse impact on our working capital, total assets, stockholders' equity and cash flow.

Increased sales of our vaccines to PRC government agencies and our strategy to capture market share in China's growing market for publicly funded inoculations expose us to risks relating to doing business with the government.

We increased sales of our vaccines to PRC government agencies. We are also pursuing a strategy to capture market share in China's growing market for publicly funded inoculations. While our increased sales to PRC government agencies afford us the opportunity to expand our sources of revenue and to further enhance our brand and reputation in China, we are exposed to various risks relating to doing business with the government. Demand and ability to pay for our products may be affected by government budgetary cycles, shifting availability of public funds and changes in policy. Funding reductions, delays in payment or unilateral demands for changes to the terms of our contracts by our government customers could adversely impact our results of operations and financial condition, exacerbate the existing seasonality of our revenues and make it difficult for us to allocate resources or anticipate demand for our products. More importantly, we have little or no control over government procurement decisions, and government agencies that contract to purchase our products may reduce or cancel orders, or demand price adjustments or other changes to their contracts with us without our consent. Changes in the personnel of the PRC government agencies that purchase our products may result in changes or delays to or cancellations of purchase commitments due to, among others, differing policy and budgetary agendas of the personnel involved. Similar changes could occur if the Centers for Disease Control, or CDC, or other relevant government agency were to be consolidated with another ministry. Any of the above mentioned actions taken by government agencies could have a material adverse effect on our results of operations and expected earnings, or result in our failure to meet, or having to adjust downwards, our sales and gross margin guidance or estimates, which could adversely affect our stock price and result in substantial losses to you. In addition, many of the remedies that are available to us when dealing with private parties, such as making claims for breach of contract or taking other legal actions, may not be available or practicable in our dealings with government agencies.

We currently have limited revenue sources. A reduction in revenues from sales of Healive, Bilive or Anflu would cause our revenues to decline and could materially harm our business.

We generate all of our revenues from sales of our vaccine products. We derive a substantial percentage of our revenues from a small number of vaccine products. 25.0% of our sales in 2011, 40.9% in 2012 and 36.4% in 2013 were attributable to Healive. 22.4% of our sales in 2011, 40.3% in 2012 and 28.7% in 2013 were attributable to Bilive. 14.3% of our sales in 2011, 18.7% in 2012 and 16.8% in 2013 were attributable to Anflu. 13.7% of our sales in 2011, nil in 2012 and 14.8% in 2013 were attributable to Panflu (H5N1). However, revenue recognition of Panflu (H5N1) is not recurring, which may cause fluctuation of our revenue. As a result of this relative lack of product diversification, an investment in our company would be more risky than investments in companies that offer a wider variety of products or services.

We expect our key products, which will likely shift over time, to continue to account for a significant portion of our net revenues for the foreseeable future. As a result, continued market acceptance and popularity of these products are critical to our success and a reduction in demand due to, among other factors, the introduction of competing products by our competitors, the entry of new competitors, or end-users' dissatisfaction with the quality of our products, could materially and adversely affect our financial condition and results of operations.

We could be subject to costly and time-consuming product liability actions and, because our insurance coverage is limited, our exposure to such claims could cause significant financial burden.

Our business exposes us to potential product liability risks that are inherent in the testing, manufacturing and marketing of biopharmaceutical products. We manufacture vaccines that are injected into people to protect against infectious illnesses. If our products do not function as anticipated, whether as a result of flaws in our design, unanticipated health consequences or side effects, misuse or mishandling by third parties, or faulty or contaminated supplies, they could injure the vaccinees and, as a result, subject us to product liability lawsuits. Claims against us also could be based on failure to immunize as anticipated. Any product liability claim brought against us, with or without merit, could have a material adverse effect on us. Meritless and unsuccessful product liability claims can be time consuming, expensive to defend and could result in the diversion of management's attention from managing our core business or result in associated negative publicity.

The successful assertion of product liability claims against us could require us to pay significant monetary damages. Although we currently carry worldwide product liability insurance for Healive, Anflu and Panflu (excluding U.S. and Europe), we cannot assure you that such coverage will be sufficient to cover any liabilities resulting from successful product liability claims. In such a case, we may be required to make substantial payments to cover any losses, damages or liabilities arising from product liability claims. For any amounts covered by insurance, there remains the risk that foreign exchange or other regulatory restrictions may prevent the use of insurance proceeds to meet the liabilities. In addition, we do not have or have planned to procure clinical trial liability insurance for our clinical trials to mitigate any unsuccessful clinical trial expenses or product liability claims arising therefrom. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

Any pandemic threat may abate, or alternative vaccines or technologies may be adopted, before our vaccines achieve significant sales.

We have devoted significant resources to researching and developing various vaccines to address the pandemic threat of infectious diseases, including SARS, avian flu, swine flu and H7N9 influenza, and will continue to devote resources to the development of our vaccines to address any new needs.

However, the threat of a pandemic outbreak may subside before we realize any return on our investment in our research and development. For example, although we believe we were the first company to complete a phase I clinical trial of an inactivated SARS vaccine in December 2004, we did not proceed with the phase II and phase III trials as the SARS epidemic subsequently subsided. Other organizations may obtain licenses for their own pandemic vaccines, or government health organizations may acquire adequate stockpiles of pandemic vaccine or adopt other technologies or strategies to prevent or limit outbreaks before our pandemic vaccine achieves significant sales. We may not achieve a return on our investment before the threat of a pandemic outbreak subsides or a competing product is adopted.

Failure to achieve and maintain effective internal controls could have a material adverse effect on our business, results of operations and the trading price of our common shares.

We are subject to the reporting obligations under U.S. securities laws. Section 404 of the Sarbanes-Oxley Act of 2002 and related rules require public companies to include a report of management on their internal control over financial reporting in their annual reports. This report must contain an assessment by management of the effectiveness of a public company's internal control over financial reporting. In addition, an independent registered public accounting firm for a public company must attest to and report on the effectiveness of our internal control over financial reporting.

Our management has concluded that our internal control over financial reporting is effective as of December 31, 2013. See "Item 15. Controls and Procedures." Our independent registered public accounting firm has issued an attestation report on our internal control over financial report, which concludes that our internal control over financial reporting is effective in all material aspects. However, we cannot assure you that any material weakness or deficiency in our internal control over financial reporting will not be identified in the future. We may not always be able to maintain an effective internal control over financial reporting. If we fail to maintain effective internal control over financial reporting in the future, we and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our common shares, inhibiting our ability to raise sufficient capital on favorable terms. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

If we are unable to successfully compete in the highly competitive biopharmaceutical industry, our business could be harmed.

We operate in a highly competitive environment and we expect the competition to increase further in the future. Our competitors include large pharmaceutical, biotechnology companies and academic research institutions, both domestic and international. Many of these competitors have greater resources than us. New competitors may also enter into the markets in which we currently compete. Accordingly, even if we are successful in launching a product, we may not be able to outperform a competing product for any number of reasons, including the possibility that the competitor may:

- have launched its competing product first or the competing product may have, or be perceived as having, better efficacy, stronger brand recognition, or other advantages;
- have greater access to certain raw materials;
- have more efficient manufacturing processes and greater manufacturing capacity;
- have greater marketing capabilities;
- have greater pricing flexibility;
- have more extensive research and development and technical capabilities;
- have proprietary patent portfolios or other intellectual property rights that may present an obstacle to our conduct of business;
- have greater knowledge of local market conditions where we seek to increase our international sales;
- have capability to maintain a competitive management team; or
- have investment capability to acquire businesses when the opportunity is not available to us.

The technologies applied by our competitors and us are rapidly evolving, and new developments frequently result in price competition and product obsolescence. In addition, we may be impacted by competition from generic forms of our products, substitute products or imports of products from lower-priced markets. For a detailed description of our competitors in hepatitis A vaccines, hepatitis A and B vaccines and influenza vaccines, please see "Item 4. Information on the Company — B. Business overview — Competition."

We may not be successful in commercializing our EV71 vaccine

We completed phase III clinical trial on our proprietary EV71 vaccine against EV71-associated hand, foot and mouth diseases, or HFMD, which showed that our EV71 vaccine candidate has good safety and efficacy profile. We filed new drug application, or NDA, for our EV71 vaccine candidate in May 2013, which is under the technological review by the Center for Drug Evaluation, China Food and Drug Administration, or CFDA. We cannot assure you that we will be able to successfully obtain the new drug certificate, production permit and good manufacturing practice certificate required for us to begin production and bring our EV71 vaccine to the market. Even then, competitive pricing pressures may limit or prevent the success of the product on the market. For example, our competitors may launch similar products or the PRC government may grant compulsory licenses to allow competitors to manufacture our EV71 vaccine. State-owned competitors may not act rationally as commercial entities, and we may be forced to follow their pricing to the low end of the range. Furthermore, if the PRC government were to include our EV71 vaccine in Expanded Program on Immunization, or EPI, earlier than we expect, purchase made by the government could affect our anticipated revenue. Any of these factors, together with other risks, including changes in the regulatory environment, supply issues and product liability claims, may result in our inability to successfully commercialize our EV71 vaccine in China, which would materially and adversely affect our business, financial condition and results of operations.

We may not be able to maintain market share in China with our commercialized vaccines, which could adversely affect our ability to increase our revenues.

Our market share is estimated based on the batch release number published by the National Institutes for Food and Drug Control, or NIFDC, which represents the market share estimated based on published supply quantity, but not the actual sales number in the market. We supplied 7%, 10.9% and 15.5% of the total hepatitis A vaccine market, or 32.4%, 37.1% and 44.6% of the inactivated hepatitis A vaccine market in 2011, 2012 and 2013, respectively, as measured by batch release number. Going forward, we may not be able to compete with other hepatitis A suppliers for either private pay market or public market, which could adversely affect our ability to increase our revenues from hepatitis A vaccine.

We have been marketing and selling seasonal flu vaccines since 2006. Our market share, in terms of batch release numbers, was 5.8% in 2011, 6.7% in 2012 and 11.3% in 2013. The flu vaccine market in China is highly competitive. Multinational companies are increasing investment in localized flu vaccine manufacturing plants. Our revenue growth could be adversely impacted if we are not able to maintain our market share in this highly competitive market.

We may not be able to capture market share in the government-funded hepatitis A vaccine market, or other government-funded vaccine markets, which could adversely affect our revenues, and if we do capture market share in these markets, we may need to sell our vaccines at a lower price, which could adversely affect our gross margin.

Hepatitis A vaccines have been included in the EPI in China since 2007. The PRC government purchases hepatitis A vaccines for each 18-month-old child, which has resulted in a decline in demand of hepatitis A vaccines in the private market for the cohort group. We cannot assure you that we will be able to maintain our sales volume in the private hepatitis A vaccine market.

We expect the EPI to increase the overall size of the hepatitis A vaccine market in China, as well as other vaccine markets in China. However, we may not be able to capture market share in these government-funded vaccine markets. For example, domestic suppliers of freeze-dried, live attenuated hepatitis A vaccine may be able to supply this market at a lower cost and with higher quantities of vaccine than we can. If we are unable to capture market share in these government-funded vaccine markets, our sales volume may not grow significantly. Moreover, if we do successfully capture market share in these government-funded vaccine markets, we may need to sell our vaccines at a lower price than we do in the private market. Any reduction in the average selling price of our vaccines could adversely affect our gross margin.

Although the hepatitis A vaccines have been included in the EPI, most provincial and municipal governments are not able to afford the two shots of inactivated hepatitis A vaccines due to insufficient financial support, which constrains the purchase of inactivated hepatitis A vaccines in government-funded market. Most provincial and municipal governments prefer to purchase the lower-priced live attenuated hepatitis A vaccines; however, a few affluent provincial and municipal governments, such as Beijing, Tianjin, Shanghai and Jiangsu province, have started to purchase inactivated hepatitis A vaccines. Our revenue growth could be adversely impacted if we are not able to successfully enter into the government-funded markets of these cities.

If centers for disease control, hospitals, physicians and vaccinees, do not accept our products, we may be unable to generate significant revenue.

Even if we have obtained the regulatory approval for commercialization of our vaccines, they still may not gain market acceptance among centers for disease control, or CDCs, hospitals, physicians, vaccinees and the medical community, which would limit our ability to generate revenue and would adversely affect our results of operations. CDCs, hospitals and physicians may not recommend products developed by us or our collaborators until clinical data or other factors demonstrate superior or comparable safety and efficacy of our products as compared to other available treatments. Even if the clinical safety and efficacy of our products are established, CDCs, hospitals and physicians may elect not to recommend these products for a variety of reasons, including the reimbursement policies of government and third-party payers. There are other vaccines and treatment options for the conditions that many of our products and product candidates target, such as hepatitis A and B and influenza. In order to successfully launch a product, we must educate physicians and vaccinees about the relative benefits of our products. If our products are not perceived as easy and convenient to use, are perceived to present a greater risk of side effects or are not perceived to be as effective as other available treatments, CDCs, hospitals, physicians and vaccinees might not adopt our products. A failure of our products to gain commercial acceptance would have a material adverse effect on our business, financial condition and results of operations.

We may not achieve the expected return on our investment in the development of animal vaccine products or in Sinovac Dalian

We are new to the animal vaccine market in China. In 2011, we developed and launched our first animal vaccine product, RabEnd, an animal rabies vaccine. China's animal vaccine market differs significantly from the human vaccine market with regard to development stage, distribution channel and governing authorities. We may not achieve the expected returns on our investment in developing animal vaccine products. We established a new sales team to market our animal vaccine products to animal hospitals and CDCs. We also participated in the government tendering process. We cannot assure you, however, that we will succeed in our efforts to penetrate the animal vaccine market or that our animal vaccine products will be well received by our target customers. Failure of our animal vaccine products to gain market acceptance will negatively affect our business, financial condition and results of operations. In 2012, we recorded $1.5 million impairment charges of long-lived assets in relation to animal vaccine production. We cannot assure you that we will not incur similar charges or other expenses or operational losses due to failures or delays in the commercialization of our animal vaccines.

In addition, we have invested significant resources into Sinovac Dalian since its establishment in 2010. However, we cannot assure you that Sinovac Dalian's business, covering the research, development, manufacturing and commercialization of vaccines, such as mumps and varicella, will be successful or that we will not incur any related impairment charges in the future. Any failure to achieve the expected return on our investment in Sinovac Dalian may materially and adversely affect our business, financial condition and results of operations.

Our growth may be adversely affected if market demand for our vaccine products and product candidates does not meet our expectations. We may encounter problems of inadequate supply or oversupply, which would materially and adversely affect our financial condition and results of operations, as well as damage our reputation and brand.

Our growth may be adversely affected if market demands for our vaccine products and product candidates do not meet our expectations. The production of vaccine products is a lengthy and complex process. As a result, our ability to match our production to market demand is imprecise and may result in a failure to meet market demand, which could materially and adversely affect our financial conditions and results of operations as well as damage our reputation and corporate brand. For example, many vaccinees receive their seasonal flu vaccinations in the three-month period from September to November in anticipation of an upcoming flu season and we expect this period to be one of the most significant sales periods for this product each year. In anticipation of the flu season, we intend to build up inventory of our Anflu product in line with what we believe will be the anticipated demand for the product. If actual demand does not meet our expectations, we may be required to write off significant inventory and may otherwise experience adverse consequences in our financial condition. If we overestimate demand, we may purchase more raw materials than required. If we underestimate demand, our third-party suppliers may have inadequate raw material inventories, which could interrupt our manufacturing, delay shipments and result in lost sales.

If we are unable to enroll sufficient vaccinees and identify clinical investigators for our clinical trials, our development programs could be delayed or terminated.

The rate of completion of our clinical trials, and those of our collaborators, is significantly dependent upon the rate of enrollment of vaccines and clinical investigators. Vaccinees enrollment is a function of many factors, including:

- efforts of the sponsor and clinical sites involved to facilitate timely enrollment;
- vaccinee referral practices of physicians;
- design of the protocol;
- eligibility criteria for the study in question;
- perceived risks and benefits of the drug under study;
- the size of the vaccinee population;
- availability of competing therapies;
- availability of clinical trial sites; and
- proximity of and access by vaccinees to clinical sites.

We may have difficulty obtaining sufficient volunteer subjects enrollment or clinician participation to conduct our clinical trials as planned and we may need to expend substantial funds to obtain access to resources or delay or modify our plans significantly. These considerations may lead us to consider the termination of development of a product for a particular indication.

A setback in any of our clinical trials or field trials could adversely affect our share price.

In 2013, we completed the phase III clinical trial for EV71 vaccine, which showed that that our EV71 vaccine candidate had an efficacy rate of 94.8% against HFMD among infants and young children. In addition, we filed applications to conduct clinical trials for pneumococcal conjugate vaccine, pneumococcal polysaccharide vaccine and rubella vaccine in early 2011. We filed an application for the clinical trial of varicella vaccine in January 2013. Setbacks in any phase of the clinical trials or field trials of our product candidates could have a material adverse effect on our business and our future prospects and financial results and would likely cause a decline in the price of our common shares. We may not achieve our projected development goals in the time frames we announce and expect. If we fail to achieve one or more milestones as contemplated, the market price of our common shares could decline.

We set goals for and make public statements regarding our anticipated timing of the accomplishment of objectives material to our success, such as the commencement and completion of clinical trials and other milestones. The actual timing of these events can vary dramatically due to factors such as delays or failures in our clinical trials, the uncertainties inherent in the regulatory approval process and delays in achieving manufacturing or marketing arrangements sufficient to commercialize our products. We may not complete our clinical trials or make regulatory submissions or receive regulatory approvals as planned. Also, we may not be able to adhere to our currently anticipated schedule for the launch of any of our products. If we fail to achieve one or more milestones as contemplated, the market price of our shares could decline.

We rely on third parties to conduct clinical trials, who may not perform their duties satisfactorily.

After we obtain approval to conduct clinical trials for our product candidates, we rely on qualified research organizations, medical institutions and clinical investigators to enroll qualified vaccinees and conduct clinical trials. Our reliance on these third parties for clinical development activities reduces our control over the clinical trial process. Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. If these third parties do not fulfill their contractual obligations, including failing to meet expected deadlines, we may not succeed or experience delays in our efforts to obtain regulatory approvals and commercialize our vaccine candidates.

If any of our third-party suppliers or manufacturers cannot adequately meet our needs, our business could be harmed.

While we use raw materials and other key materials supplies that are generally available from multiple commercial sources, certain raw materials that we use to cultivate our influenza vaccines, such as embryonated eggs, are in short supply or difficult for suppliers to produce in accordance with our specifications. If the third-party suppliers were to cease production or otherwise fail to supply us with quality raw materials, and we were unable to contract on acceptable terms for these materials with alternative suppliers, our ability to deliver our products to the market would be adversely affected.

In addition, if we fail to secure long-term supply sources for some of the raw materials we use, our business could be harmed. For example, we do not have a long-term agreement for the supply of hepatitis B antigens used for Bilive production. We source hepatitis B antigens entirely from Beijing Temple of Heaven Biological Products Co., Ltd., or Beijing Temple of Heaven. We and Beijing Temple of Heaven agreed to enter into annual hepatitis B antigens supply agreements after our previous ten-year exclusive supply framework agreement expired in October 2012. We entered into the current hepatitis B antigens supply agreement in July 2013, which will expire in June 2014. Although we believe we have a good relationship with Beijing Temple of Heaven and successfully managed the supply in the past, we cannot assure you that Beijing Temple of Heaven will not, for any reason, cease to supply us with hepatitis B antigens in the future, in which case our business, financial condition and results of operations may be materially and adversely affected.

From time to time, concerns are raised with respect to potential contamination of biological materials that are supplied to us. These concerns can further tighten market conditions for materials that may be in short supply or available from limited sources. Moreover, regulatory approvals to market our products may be conditioned upon obtaining certain materials from specified sources. Any efforts to substitute material from an alternate source may be delayed by pending regulatory approval of such alternate source. Although we work to mitigate the risks associated with relying on sole suppliers, there is a possibility that material shortages could impact product development and production.

Our business is highly seasonal. This seasonality will contribute to our operating results fluctuating considerably throughout the year.

Our business is highly seasonal. For example, the influenza season generally runs from November through March of the next year and the largest percentage of influenza vaccinations is administered between September and November of each year. As a result, we expect to realize most of our annual revenues from Anflu during this period. You should expect this seasonality in our business to contribute to significant quarterly fluctuations in our operating results.

We rely on a limited number of facilities for the manufacturing of our products in accordance with relevant regulatory requirements. Any disruption to our existing manufacturing facilities or in the development of new facilities could reduce or restrict our sales and harm our reputation.

According to the China GMP standards, each human vaccine product can only be produced in one dedicated production facility. In Beijing, we conduct human vaccine mass production at our Shangdi site and filing and packaging at our Changping site. In Dalian, we manufacture mumps vaccine at one facility. Although we are allowed to produce multiple animal vaccine products with similar production processes at one facility, we currently only produce one animal vaccine product at our Tangshan facility. We also conduct some of our primary research and development activities out of our manufacturing facilities. We do not maintain back-up facilities for our currently available products, so we are dependent on our existing facilities for the continued operation of our business. A natural disaster or other unanticipated catastrophic events, including power interruptions, water shortage, storms, fires, earthquakes, terrorist attacks and wars, could significantly impair our ability to manufacture our products and operate our business, as well as delay our research and development activities. Our facility and certain equipment located in this facility would be difficult to replace and could require substantial replacement lead-time. Catastrophic events may also destroy any inventory located in our facility. We do not maintain any business interruption insurance to cover lost income as a result of any such events. The occurrence of such an event could materially and adversely affect our business. We may build additional manufacturing facilities in the future. There can be no assurance, however, that we will be able to expand our manufacturing capabilities to or realize the anticipated benefits of our new facilities. Any of these factors could reduce or restrict our sales and harm our reputation and have a material adverse effect on our business, financial condition, results of operations and prospects.

We will need additional capital to upgrade the production plant for our existing products or expand the facility, to continue development of our product pipeline and to market existing and future products on a large scale. We cannot guarantee that we will find adequate sources of capital in the future.

We closed a public offering of our common shares on February 2, 2010, and received net proceeds of approximately $61.8 million, after deducting underwriting discounts and commissions and offering expenses payable by us. We have invested approximately $16.4 million in incorporation of Sinovac Dalian and invested $10 million in research and development and operating activities of operation entities in PRC. We intend to use the remaining net proceeds we received from this offering for the research and development of our product candidates, the expansion of production facilities for our pipeline products and other general corporate purposes.

In the long run, we will need to raise additional funds from the capital markets to finance equipment expenditures, to acquire intellectual property, to expand the production facility for our pipeline products, including pneumococcal polysaccharide vaccine, varicella vaccine, H7N9 vaccine, to continue the development and commercialization of our product candidates and for other corporate purposes. As of December 31, 2013, we had approximately $107.2 million in cash and cash equivalents. Although we believe that we have adequate near-term cash resources, we will need to undertake significant future financings in order to:

- establish and expand manufacturing capabilities;
- proceed with the research and development of other vaccine products, including clinical trials of new products;
- commercialize our products, including the marketing and distribution of new and existing products;
- seek and obtain regulatory approvals;
- develop or directly acquire or indirectly through acquisition of companies, other product candidates or technologies or companies;
- protect our intellectual property; and
- finance general and administrative and research activities that are not related to specific products under development.

In the past, we funded most of our research and development and other expenditures through government grants, working capital, bank loans and proceeds from private placements and public offering of our common shares. We may raise additional funds in the future because our current operating and capital resources may be insufficient to meet future requirements.

If we continue to raise additional funds by issuing equity securities, it will result in further dilution to our existing shareholders because the shares may be sold at a time when the market price is low and shares issued in equity financing transactions will normally be sold at a discount to the current market price. Any additional equity securities issued also may provide for rights, preferences or privileges senior or otherwise preferential to those of holders of our existing common shares. Unforeseen problems including materially negative developments relating to, among other things, disease developments, product sales, new product rollouts, clinical trials, research and development programs, our strategic relationships, our intellectual property, litigation, regulatory changes in our industry, the Chinese market generally or general economic conditions, could interfere with our ability to raise additional funds or materially and adversely affect the terms upon which such funding is available.

If we raise additional funds by issuing debt securities, these debt securities would have rights, preferences and privileges senior to those of holders of our common shares, and the terms of the debt securities issued could impose significant restrictions on our operations. If we raise additional funds through collaborations and licensing arrangements, we might be required to relinquish significant rights to certain of our technologies, marketing territories, product candidates or products that we would otherwise seek to develop or commercialize ourselves, or be required to grant licenses on terms that are not favorable to us. In the past, we have also received different types of grants from the PRC government to finance the research and development and facility investment of our vaccine products. We may not receive additional grants in the future.

We do not know whether additional financing will be available to us on commercially acceptable terms when needed. If adequate funds are not available or are not available on commercially acceptable terms, we may be unable to continue developing our products. In any such event, our ability to bring a product to market and obtain revenues could be delayed and competitors could develop products sooner than we do. As a result, our business, financial condition and results of operations could be materially and adversely affected.

The interests of the respective minority shareholders of Sinovac Beijing and Sinovac Dalian may diverge from our own, which may adversely affect our ability to manage these subsidiaries.

Sinovac Beijing, our principal operating subsidiary, is a Sino-foreign equity joint venture in which we own a 73.09% interest and SinoBioway Group Co., Ltd, or SinoBioway, an affiliate of Peking University, owns a 26.91% interest. SinoBioway's interests may not be aligned with our interests at all times. On April 8, 2013, the board of directors of Sinovac Beijing approved a transfer of SinoBioway's 26.91% equity interests in Sinovac Beijing to Xiamen Bioway Biotech Co., Ltd., or Xiamen Bioway, a company partially owned by SinoBioway. We cannot assure you that Xiamen Bioway will be cooperative with us in handling matters related to the operations of Sinovac Beijing. As the minority shareholder of Sinovac Beijing, according to Sinovac Beijing's Articles, Xiamen Bioway has the right to assign a director to the five-director board of Sinovac Beijing, Accordingly, they have the ability to take actions that bind Sinovac Beijing or to block any action that requires unanimous board approval. In addition, if we wish to transfer our equity interest in Sinovac Beijing, in whole or in part, to a third-party, SinoBioway has and Xiamen Bioway will have a right of first refusal to purchase our interest in accordance with the relevant PRC regulations.

In addition, the minority shareholder of Xiamen Bioway has additional rights under the joint venture contract and articles of association of Sinovac Beijing. The joint venture contract and articles of association require the consent of each of Sinovac Beijing's shareholders and/or unanimous board approval on matters such as a major change in the business line of the company, expansion or amendment of the business scope of the company, transfer of the registered capital by a shareholder, creation of a mortgage or pledge upon the company's assets, a change in the organizational form of the company and designation or removal of the general manager.

In November 2009, we entered into an agreement with Dalian Jin Gang Group to establish Sinovac Dalian. In January 2010, Sinovac Dalian was established to focus on the research, development, manufacturing and commercialization of vaccines, such as mumps, varicella for human use. Pursuant to the joint venture agreement, we made the initial cash contribution of RMB60 million ($9.6 million) in exchange for a 30% equity interest in Sinovac Dalian, and Dalian Jin Gang Group made an asset contribution of RMB140 million ($22.5 million), including the manufacturing facilities, production lines and land use rights, in exchange for the remaining 70% interest in Sinovac Dalian. In December 2010, we purchased an additional 25% equity interest in Sinovac Dalian from Dalian Jin Gang Group with a consideration of RMB50 million ($8.0 million). We and Dalian Jin Gang Group currently own 55% and 45% equity interests in Sinovac Dalian, respectively.

To date, Dalian Jin Gang Group has been cooperative with us in handling matters with respect to the business of Sinovac Dalian. We cannot assure you, however, that Dalian Jin Gang Group will continue to act in a cooperative manner in the future.

Under China's joint venture regulations, the unanimous approval of members of a joint venture's board of directors who are present at a board meeting is required for any amendment to the joint venture's articles of association, the termination or dissolution of the joint venture company, an increase or decrease in the registered capital of the joint venture company or a merger or de-merger of the joint venture. If our interests diverge from those of our minority shareholders, they may exercise their right under PRC laws to protect their own interests, which may be adverse to ours. As a result, our ability to manage these subsidiaries may be adversely affected, which in turn may materially and adversely affect our business, financial condition and results of operations.

Some of the predecessor shareholders of Sinovac Beijing and Tangshan Yian were enterprises owning state-owned assets, or EOSAs. Their failures to comply with PRC legal requirements in asset or share transfers could, under certain circumstances, result in such transfers being invalidated by government authorities. If this occurs, we could lose our ownership of intellectual property rights that are vital to our business as well as our equity ownership in Sinovac Beijing and Tangshan Yian.

Sinovac Beijing is currently owned 73.09% by us and 26.91% by Xiamen Bioway. Tangshan Yian is wholly owned by us. Some of the predecessor shareholders of Sinovac Beijing and Tangshan Yian, including Shenzhen Kexing Biological Engineering Ltd., or Shenzhen Kexing, SinoBioway, Tangshan Medicine Biotech Co., Ltd., Tangshan Yikang Biotech Co., Ltd. and Tangshan Yian itself (as Sinovac Beijing's former shareholder), were EOSAs. Under applicable PRC laws, when EOSAs sell, transfer or assign assets or equity investments in their possession or under their control to third parties, they are required to obtain an independent appraisal of the transferred assets or shares and file such appraisal with or obtain approval of such appraisal from PRC government authorities. Since 2004, EOSAs have also been required to make such assets or equity transfers at government-designated marketplaces. Our acquisitions of intellectual property rights and some equity interests were subject to these requirements. The technologies related to hepatitis A vaccine, hepatitis A and B vaccine and influenza vaccine that are vital to our business were directly or indirectly transferred to us by Tangshan Yian.

Tangshan Yian failed to file with the government authorities the appraisal of the hepatitis A vaccine technology that it transferred to Sinovac Beijing in 2001 as its capital contribution to Sinovac Beijing. Under PRC laws, Tangshan Yian also failed to:

- obtain the appraisal of the hepatitis A and B vaccine technology that it transferred for no consideration to Beijing Keding Investment Co., Ltd., or Beijing Keding, in 2002 (Beijing Keding subsequently transferred the technology to Sinovac Beijing as Beijing Keding's capital contribution to Sinovac Beijing) and to file such appraisal with government authorities; and

- obtain the appraisal of the influenza vaccine technology that it transferred to Sinovac Beijing in 2004 and to file such appraisal with government authorities.

These failures subject us to the risk of losing ownership or control of these vaccine technologies.

In addition, before we acquired our 73.09% equity interest in Sinovac Beijing and 100% equity interest in Tangshan Yian, both companies had undergone multiple changes in their shareholders and these shareholders' shareholdings. Some of the EOSA shareholders of Sinovac Beijing and Tangshan Yian, including SinoBioway and Tangshan Medicine Biotech Co., Ltd., have sold, transferred or assigned their respective equity interests in Sinovac Beijing and Tangshan Yian without fully complying with laws to appraise the equity interests, to file such appraisals with or obtain regulatory approval of such appraisals from PRC government authorities or to make equity interest transfers at the government-designated marketplaces as required for transactions completed after 2004. Similar to the asset transfers, such failures subject us to the risk of losing the ownership or control of our equity interests in Sinovac Beijing and Tangshan Yian.

PRC government authorities may take court actions to invalidate the transfers of the assets or equity investments discussed above for non-compliance with applicable appraisal, filing, approval and designated marketplace requirements. We cannot guarantee that government authorities will not take such legal actions or that such legal actions, if commenced, will not be successful. If these transfers are invalidated, we would lose title to these assets and investments. Because we depend on these technologies and because Sinovac Beijing and Tangshan Yian constitute all of our operations, our loss of these technologies or equity interests in Sinovac Beijing and/or Tangshan Yian would materially and adversely affect our business operations and financial condition.

We became a public company through our acquisition of a public shell company, where we were the accounting acquirer and assumed all known and unknown potential liabilities of our predecessor entity.

In September 2003, we engaged in a share exchange with Net-Force Systems Inc. This transaction was accounted for as a reverse merger in which Sinovac Biotech Co., Ltd. was deemed the accounting acquirer and Net-Force, which was originally incorporated in 1999, was the legal acquirer. Although we disposed of all the assets and liabilities of Net-Force to a company controlled by its then president and CEO, we cannot guarantee that we will not be liable for any liabilities related to the conduct by Net-Force of its business prior to its acquisition by us.

We depend on our key personnel, the loss of whom would adversely affect our operations. If we fail to attract and retain the talent required for our business, our business will be materially harmed.

We are a small company with 715 full-time employees as of December 31, 2013 and we depend to a great extent on principal members of our management and scientific teams. If we lose the services of any key personnel, in particular Dr. Weidong Yin, our President and Chief Executive Officer, the loss could significantly impede the achievement of our research and development objectives and delay our product development programs and the approval and commercialization of our product candidates. We do not currently have any key man life insurance policies. We have entered into employment agreements with our executive officers, under which they have agreed to restrictive covenants relating to non-competition and non-solicitation. These employment agreements do not, however, guarantee that we will be able to retain the services of our executive officers in the future. In addition, recruiting and retaining additional qualified scientific, technical and managerial personnel and research partners will be critical to our success. Competition among biopharmaceutical and biotechnology companies for qualified employees in China is intense and turnover rates are high. There is currently a shortage of employees in China with expertise in our areas of research and clinical and regulatory affairs, and this shortage is likely to continue. We may not be able to retain existing personnel or attract and retain qualified staff in the future. If we fail to hire and retain personnel in key positions, we may be unable to develop or commercialize our product candidates in a timely manner.

We may encounter difficulties in managing our growth, which could adversely affect our results of operations.

We have experienced a period of rapid and substantial growth that has placed and, if such growth continues, will continue to place a strain on our administrative and operational infrastructure. We also plan to introduce new products to market that, if successful, could place a strain on our administrative and operational infrastructure. If we are unable to manage this growth effectively, our business, results of operations or financial condition may be materially and adversely affected. Our ability to manage our operations and growth effectively requires us to continue to improve our operational, financial and management controls, reporting systems and procedures and hiring programs. We may not be able to successfully implement these required improvements.

International expansion may be costly, time consuming and difficult. If we do not successfully expand internationally, our growth strategy and prospects would be materially and adversely affected.

We have entered into selected international markets and intend to continue to expand the sales of our products into new international markets. In expanding our business internationally, we have entered, and intend to continue to enter, markets in which we have limited or no experience and in which our brand may be less recognized. To further promote our brand and generate demand for our products so as to attract distributors in international markets, we expect to spend significantly more on marketing and promotion than we do in our existing domestic markets. We may be unable to attract a sufficient number of distributors, and our selected distributors may not be suitable for selling our products. Furthermore, in new markets, we may fail to anticipate competitive conditions that are different from those in our existing markets. These competitive conditions may make it difficult or impossible for us to effectively operate in these markets. If our expansion efforts in existing and new internal markets are unsuccessful, our growth strategy and prospects would be materially and adversely affected.

We are exposed to other risks associated with international operations, including:

- political instability;
- economic instability and recessions;
- changes in tariffs;
- difficulties of administering foreign operations generally;
- limited protection for intellectual property rights;
- obligations to comply with a wide variety of foreign laws and other regulatory approval requirements;
- increased risk of exposure to terrorist activities;
- financial condition, expertise and performance of our international distributors;
- export license requirements;
- unauthorized re-export of our products;
- potentially adverse tax consequences;
- inability to effectively enforce contractual or legal rights; and
- exchange rate fluctuation, devaluation of foreign currencies.

We may undertake acquisitions which may have a material adverse effect on our ability to manage our business and may end up being unsuccessful.

Our growth strategy may involve the acquisition of new production lines, technologies, businesses, products or services or the creation of strategic alliances in areas in which we do not currently operate. These acquisitions could require that our management develop expertise in new areas, new geographies, manage new business relationships and attract new types of customers. Furthermore, acquisitions may require significant attention from our management, and the diversion of our management's attention and resources could have a material adverse effect on our ability to manage our business. We may also experience difficulties integrating acquisitions into our existing business and operations. Future acquisitions may also expose us to potential risks, including risks associated with:

- the integration of new operations, services and personnel;
- unforeseen or hidden liabilities;
- the diversion of resources from our existing businesses and technologies;
- our inability to generate sufficient revenue to offset the costs of acquisitions;
- potential loss of, or harm to, relationships with employees or customers, any of which could significantly disrupt our ability to manage our business and materially and adversely affect our business, financial condition and results of operations; and
- impairment of intangible assets acquired.

We may be unable to ensure compliance with United States economic sanctions laws, especially when we sell our products to distributors over which we have limited control.

The U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, administers certain laws and regulations that impose penalties upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, for conducting activities or transacting business with certain countries, governments, entities or individuals subject to U.S. economic sanctions, or U.S. Economic Sanctions Laws. We will not use any proceeds, directly or indirectly, from sales of our common shares, to fund any

activities or business with any country, government, entity or individual with respect to which U.S. persons or, as appropriate, foreign entities owned or controlled by U.S. persons, are prohibited by U.S. Economic Sanctions Laws from conducting such activities or transacting such business. However, we sell our products in international markets through independent non-U.S. distributors which are responsible for interacting with the end-users of our products. We may not be able to ensure that such non-U.S. distributors comply with all applicable U.S. Economic Sanctions Laws. Moreover, if a U.S. distributor conducts activities or transacts business with a country, government, entity or individual subject to U.S. economic sanctions, such actions may violate U.S. Economic Sanctions Laws. As a result of the foregoing, actions could be taken against us that could materially and adversely affect our reputation and have a material and adverse effect on our business, financial condition, results of operations and prospects.

Failure to comply with the U.S. Foreign Corrupt Practices Act and other applicable anti-corruption laws could subject us to penalties and other adverse consequences and corrupt practices by our competitors may place us at a competitive disadvantage.

Our executive officers, employees and other agents may violate applicable law in connection with the marketing or sale of our products, including the U.S. Foreign Corrupt Practices Act, or the FCPA, and applicable anti-corruption law in China and other jurisdictions in which our products are sold or registered for sale. The FCPA generally prohibits United States issuers from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business and requires issuers to maintain reasonable internal controls. The PRC also strictly prohibits bribery of government officials. We have adopted a policy regarding compliance with the FCPA and other applicable anti-corruption laws to prevent, detect and correct such corrupt practice. However, corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the PRC and the countries in which we seek to do business. While we have implemented measures to ensure compliance with the FCPA and other applicable anti-corruption laws by all individuals involved with our company, it is possible that our compliance policies and procedures may be insufficient or may fail to prevent our employees or other agents from engaging in inappropriate conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations. In addition, our brand and reputation, our sales activities or the price of our common shares could be adversely affected if we become the target of any negative publicity as a result of actions taken by our employees or other agents.

In addition, there may be corrupt practices in the healthcare industry in China and other countries in which we conduct business. For example, in order to secure agreements with CDCs or hospitals in China, our competitors may engage in corrupt practices in order to influence decision-makers in violation of the anti-corruption laws of China and the FCPA. As competition persists and intensifies in our industry, we may lose potential clients, client referrals and other opportunities to the extent that our competitors engage in such practices or other illegal activities.

We may become a passive foreign investment company, which could result in adverse United States federal income tax consequences to U.S. Holders of our common shares.

Based on the market price of our common shares, the value of our assets and the composition of our income and assets, we do not believe we were a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2013. A non-U.S. corporation will be a PFIC for any taxable year if either (1) at least 75% of its gross income for such year is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income. We must make a separate determination after the close of each year as to whether we were a PFIC for that year. The composition of our income and assets will be affected by how, and how quickly, we use any cash we generate from our operations or raise in any offering. Because the value of our assets for purposes of the PFIC test will generally be determined by reference to the market price of our common shares, fluctuations in the market price of our common shares may cause us to become a PFIC for any year. If we are a PFIC for any year during which a U.S. Holder (as defined in "Item 10. Additional Information — E. Taxation — United States Federal Income Taxation") holds our common shares, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. See "Item 10. Additional Information — E. Taxation — United States Federal Income Taxation — Passive Foreign Investment Company."

Recent negative publicity regarding vaccinations in China may lead to lower demand for vaccination, which could negatively affect our business, financial condition and results of operations.

In December 2013, it was reported that several infants were dead shortly after receiving inoculations of hepatitis B vaccine produced by a domestic company in China. Although the CFDA and National Health and Family Planning Commission have determined that the inoculated hepatitis B vaccines comply with the applicable regulatory standards, such negative publicity may lead to lower demand for vaccination in China, which could in turn negatively impact the vaccine industry and our business, financial condition and results of operations.

Risks Related to Government Regulation

We may not be able to comply with applicable GMP guidelines and other regulatory requirements, which could have a material adverse effect on our business, financial condition and results of operations.

We are required to comply with applicable GMP regulations, which include, among other things, requirements relating to personnel, premise and equipment, raw material and products, qualification and validation, documents management, production management, quality control and assurance and products distribution and recall. Manufacturing facilities must be approved by governmental authorities before they can be used to commercially manufacture our products and are subject to inspection by regulatory agencies. We have been required to comply with the new GMP standards implemented by CFDA since March 1, 2011. The new GMP standards are similar to the GMP standards implemented by the World Health Organization, or the WHO. All vaccine manufacturers were required to meet the new GMP standards and obtain certifications for their manufacturing facilities by December 31, 2013. Any manufacturer that failed to meet the deadline will be forced to suspend production. As of the date of this annual report, we have obtained the new GMP certificates for all of our commercial production facilities. However, we cannot assure you that we will be able to continue to meet the applicable GMP standards and other regulatory requirements in the future.

If we fail to comply with applicable regulatory requirements at any stage during the regulatory process, including following any product approval, we may be subject to sanctions, including:

- fines;
- product recalls or seizure;
- injunctions;
- refusal of regulatory agencies to review pending market approval applications or supplements to approval applications;
- total or partial suspension of production;
- civil penalties;
- withdrawals of previously approved marketing applications; and
- criminal prosecution.

We can only sell products that have received regulatory approval. Many factors affect our ability to obtain such approvals.

Pre-clinical and clinical trials of our products, and the manufacturing and marketing of our technologies, are subject to extensive, costly and rigorous regulation by governmental authorities in the PRC and in other countries. Even if we complete pre-clinical and clinical trials successfully, we may not be able to obtain applicable regulatory approvals. We cannot market any product candidate until we have both completed our clinical trials and obtained the necessary regulatory approvals for that product candidate.

Conducting clinical trials and obtaining regulatory approvals are uncertain, time consuming and expensive processes. The process of obtaining required regulatory approvals from the CFDA and other regulatory authorities often takes many years and can vary significantly based on the type, complexity and novelty of the product candidates. For example, it took us approximately ten years to develop and obtain regulatory approval to commercialize Healive, and it took us five and a half years and four and a half years, respectively, to develop and obtain regulatory approval to commercialize Bilive and Anflu.

There can be no assurance that all of the clinical trials pertaining to our vaccines in development will be completed within the timeframes currently anticipated by us. We could encounter difficulties in enrolling vaccinees for clinical trials or encounter setbacks during the conduct of clinical trials that result in delays or cancellation. Data obtained from pre-clinical and clinical studies are subject to varying interpretations that could delay, limit or prevent regulatory approval, and failure to observe regulatory requirements or inadequate manufacturing processes are examples of other problems that could prevent approval. In addition, we may encounter delays or rejections in the event of additional regulation from future legislation, administrative action or changes in the CFDA policy or if unforeseen health risks become an issue with the participants of clinical trials. Clinical trials may also fail at any stage. Results of early trials frequently do not predict results of later trials, and acceptable results in early trials may not be repeated. For these reasons, we do not know whether regulatory authorities will grant approval for any of our product candidates in the future. In addition, production permits for our products are valid for only five years and we need to apply for renewal six months prior to their expirations. The approving process for our renewal applications could be lengthy and there is no assurance that we will be granted renewal in a timely manner or at all.

Delays in obtaining the CFDA or foreign approvals of our products or products that we distribute for others could result in substantial additional costs and adversely affect our ability to compete with other companies. Even if regulatory approval is ultimately granted, there can be no assurance that we can maintain the approval or that the approval will not be withdrawn. Any approval received may also restrict the intended use and marketing of the product we want to commercialize.

Outside the PRC, our ability to market any of our potential products is contingent upon receiving marketing authorizations from the appropriate foreign regulatory authorities. These foreign regulatory approval processes include all of the risks associated with the CFDA approval process described above and may include additional risks.

Because the medical conditions our vaccines are intended to prevent represent significant public health threats, we are at risk of governmental actions detrimental to our business, such as product seizure, compulsory licensing, resumed price controls and additional regulations.

In response to a pandemic or the perceived risk of a pandemic, governments in the PRC and other countries may take actions to protect their citizens that could affect our ability to control the production and export of pandemic vaccines or otherwise impose burdensome regulations on our business. For example, an outbreak of influenza could subject our manufacturing locations to seizure by the PRC government. The PRC government may also grant compulsory licenses to allow competitors to manufacture products that are protected by our patents, use our technology developed using funds received from government agencies or resume its price control over vaccines although such control has recently been lifted in China.

We deal with hazardous materials that may cause injury to others. These materials are regulated by environmental laws that may impose significant costs and restrictions on our business.

Our research and development programs and manufacturing operations involve the controlled use of potentially harmful biological materials and other hazardous materials. We cannot completely eliminate the risk of accidental contamination or injury to our employees or others from the use, manufacture, storage, handling or disposal of hazardous materials and certain waste products. In the event of contamination or injury, we could be held liable for any resulting damages, and any liability could exceed our resources or any applicable insurance coverage we may have. We are also subject to PRC laws and regulations governing the construction and operation of production facilities that may have an impact on the environment and the use, manufacture, storage, handling or disposal of hazardous materials and waste products, such as the PRC Environmental Impact Assessment Law, the PRC Prevention and Control of Water Pollution Law and the PRC Environmental Protection Law, as well as waste-disposal standards set by the relevant governmental agencies. It is likely that China will adopt stricter pollution controls as the country is experiencing increasingly serious environmental pollution. Although we passed an environmental examination of our facilities conducted in 2004 by the Beijing Municipal Environment Protection Bureau on our hepatitis A vaccine production line and passed the same examination on our seasonal flu vaccine production line and filling and packaging line in 2005 and 2008, respectively, we cannot assure you that we will continue to pass similar environmental examinations on any future production facilities that we may construct. In addition, according to the PRC Environmental Impact Assessment Law, after the approval of previous environmental impact assessment report, if there is any material change in the nature, scale, location, production technology used and measures adopted to prevent damages to ecology, new environmental impact assessment reports need to be filed for approval. We currently produce Bilive vaccine at our production facility for hepatitis A vaccine and produce Panflu and Panflu.1 vaccines at our production facility for seasonal flu or Anflu vaccine. We have also upgraded the capacity for our production facility for influenza vaccines. We have not filed new environmental impact assessment reports as we believe that the technologies and environmental impacts of the production, filling and packaging of additional vaccines are similar to those involved in the production of the vaccines that the lines were originally set up for. As a result, no material changes have occurred that would require the filing of new environmental impact assessment reports. However, there is no assurance that the relevant environment protection authorities will share the same view with us. If we fail to comply with applicable environmental laws and regulations or with the environmental conditions attached to our operating licenses, our operating licenses could be revoked and we could be subject to civil, criminal and administrative penalties. We may also have to incur significant costs to comply with future environmental laws and regulations. Moreover, we do not currently have a pollution and remediation insurance policy to mitigate against any risk related to environmental pollution or violation of environmental law.

We have already obtained the approval of the environmental impact assessment report from the Beijing Municipal Environment Protection Bureau for the construction plan of our facilities in Changping District, Beijing. If we change the construction plan by adding any new facilities, we will need to obtain another approval of the environmental impact assessment report for the new facilities. If we fail to obtain such approval, we cannot commence our construction of the new facilities.

Failure to commence development of land which we have been granted right to use within the required timeframe may cause us to lose our land use right.

Sinovac Dalian was granted land use rights to two parcels of land, with an aggregate area of 95,686 square meters (approximately 1,030,000 square feet) located in the Economic and Technical Development Zone of Dalian, Liaoning province by the local government. According to the relevant PRC regulations, a parcel of land may be treated as idle land if development of the land has not been commenced within one year after the commencement date stipulated in the land use rights grant contract or the issuance date of the construction land approval certificate. Land users can extend the deadline for commencing the construction work for one year. All of our facilities of Sinovac Dalian are located at one of the two parcels of the land with an aggregated area of 55,606 square meters (598,582 square feet). However, as of the date of this annual report, we have not commenced development of the other parcel of the land with 40,080 square meters (431,418 square feet), which Sinovac Dalian was granted the right to use. The PRC government may treat the land as idle land, in which case we may be required to pay idle land fees or penalties, change the intended use of the land, find another parcel of land, or even be required to forfeit the land to the PRC government, any of which would adversely affect our financial condition.

Negative publicity regarding China-based companies listed in the United States may affect the trading price of our common shares and result in increased regulatory scrutiny of our business.

In the past, litigation and negative publicity surrounding companies with operations in China that are listed in the United States have resulted in declining stock prices for such companies. Various equity research organizations have published reports on China-based companies after examining their corporate governance practices, related party transactions, sales practices and financial statements that have led to special investigations and stock suspensions on national exchanges. Any similar scrutiny of us, regardless of merit, could result in a diversion of our management's attention from managing our core business, negative publicity, potential costs to defend ourselves against rumors, volatility and loss in the trading price of our common shares and increased directors' and officers' insurance premiums, any of which could materially and adversely affect our business, financial condition and results of

operations.

Risks Related to Our Intellectual Property

Our hepatitis and influenza vaccine technology is not patented. If we are unable to protect our technologies from competitors with patents or other forms of intellectual property protection, our business may be harmed.

Our success depends, in part, on our ability to protect our proprietary technologies. We try to protect the technology that we consider important to our business by filing PRC patent applications and relying on trade secret and pharmaceutical regulatory protection.

We have no patent protection for our hepatitis or influenza vaccines. We have 19 issued patents and a number of pending patent applications relating to our vaccines in China. The process of seeking patent protection in China can be lengthy and expensive and we cannot assure you that our pending patent applications, or any patent applications we may make in the future with respect to other products, will result in issued patents, or that any patents issued in the future will be able to provide us with meaningful protection or commercial advantage. Our patent applications may be challenged, invalidated or circumvented in the future.

In addition to patents, we rely on trade secrets and proprietary know-how to protect our intellectual property. We have entered into confidentiality agreements (which include, in the case of employees, non-competition provisions) with many of our employees, consultants, outside scientific collaborators, sponsored researchers and other advisors. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of our employees, the agreements provide that all of the technology which is conceived by the individual during the course of employment is our exclusive property. These agreements may not provide meaningful protection or adequate remedies in the event of unauthorized use or disclosure of our proprietary information. In addition, it is possible that third parties could independently develop information and techniques substantially similar to ours or otherwise gain access to our trade secrets.

We cannot assure you that our current or potential competitors, many of whom have substantial resources and have made substantial investments in competing technologies, do not have and will not develop products that compete directly with our products despite our intellectual property rights.

Intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Policing unauthorized use of proprietary technology is difficult and expensive, and we might need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. The experience and capabilities of PRC courts in handling intellectual property litigation varies, and outcomes are unpredictable. Further, such litigation may require significant expenditures of cash and management efforts and could harm our business, financial condition and results of operations. An adverse determination in any such litigation could materially impair our intellectual property rights and may harm our business, prospects and reputation.

We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could cause substantial liabilities to us, or we may be unable to sell some of our products.

Third parties may bring intellectual property infringement claims against us in the future.

Our commercial success also depends significantly on our ability to operate without infringing the patents and other proprietary rights of third parties. Even after reasonable investigation, we may not know with certainty whether we have infringed upon a third party's patent due to the complexity of patent claims, the inadequacy of patent clearance search procedures in the PRC and the fact that a third party may have filed a patent application without our knowledge while that product was under development by us. Patent applications are maintained in secrecy until their publication 18 months after the filing date. The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made and patent applications were filed. China, similar to many other countries, adopts the first-to-file system under which the first party to file a patent application (instead of the first to invent the subject invention) may be awarded a patent. There may also be technologies licensed to us or acquired by us that are subject to infringement, misappropriation or other claims by others which could damage our ability to rely on such technologies.

If a third party claims that we infringe upon its proprietary rights, any of the following may occur:

- we may become involved in time-consuming and expensive litigation, even if the claim is without merit;
- we may become liable for substantial damages for past infringement if a court decides that our technology infringes upon a competitor's patent;
- a court may prohibit us from selling or licensing our product without a license from the patent holder, which may not be available on commercially reasonable terms, if at all, or which may require us to pay substantial royalties or grant cross licenses to our patents;
- we may have to reformulate our product so that it does not infringe upon others' patent rights, which may not be possible or could be very expensive and time-consuming; and
- we may be subject to injunctions prohibiting the manufacture and sale of our products or the use of our technologies.

If any of these events occurs, our business will suffer and the market price of our common shares could decline.

The success of our business may depend on licensing vaccine components from, and entering into collaboration arrangements with, third parties. We cannot be certain that our licensing or collaboration efforts will succeed or that we will realize any revenue from them.

The success of our business strategy depends, in part, on our ability to enter into licensing and collaboration arrangements and to manage effectively the resulting relationships. Our ability to enter into agreements with commercial partners depends in part on our ability to convince them of the value of our technology and know-how. This may require substantial time and effort on our part. While we anticipate expending substantial funds and management effort, we cannot assure you that strategic relationships will result or that we will be able to negotiate additional strategic agreements in the future on acceptable terms, if at all. Furthermore, we may incur significant financial commitments to collaborators in connection with potential licenses and sponsored research agreements. In addition, we may not be able to control the areas of responsibility undertaken by our strategic partners and may be adversely affected should these partners prove unable to carry a product candidate forward to full commercialization or should they lose interest in dedicating the necessary resources toward developing any such product quickly.

Third parties may terminate our licensing and other strategic arrangements if we do not perform as required under these arrangements. Generally, we expect that agreements for rights to develop technologies will require us to exercise diligence in bringing product candidates to market and may require us to make milestone and royalty payments that, in some instances, could be substantial. Our failure to exercise the required diligence or make any required milestone or royalty payments could result in the termination of the relevant license agreement, which could have a material adverse effect on us and our operations. In addition, these third parties may also breach or terminate their agreements with us or otherwise fail to conduct their activities in connection with our relationships in a timely manner. If we or our partners terminate or breach any of our licenses or relationships, we may:

- lose our rights to develop and market our product candidates;
- lose patent and/or trade secret protection for our product candidates;
- experience significant delays in the development or commercialization of our product candidates;
- not be able to obtain any other licenses on acceptable terms, if at all; and
- incur liability for damages.

Licensing arrangements and strategic relationships in our industry can be very complex, particularly with respect to intellectual property rights. Disputes may arise in the future regarding ownership rights to technology developed by or with other parties. These and other possible disagreements between us and third parties with respect to our licenses or our strategic relationships could lead to delays in the research, development, manufacture and commercialization of our product candidates. These disputes could also result in litigation or arbitration, both of which are time-consuming and expensive. These third parties also may pursue alternative technologies or product candidates either on their own or in strategic relationships with others in direct competition with us.

Any cessation or suspension of our collaborations with scientific advisors and academic institutions may increase our costs in research and development, lengthen our new vaccines development process and lower our efficiency in new products development.

We work with scientific advisors and academic collaborators who assist us in our research and development efforts. Almost all of our pre-clinical and research programs are heavily reliant upon such collaborators and we generally benefit considerably from the resources, technology and experience these collaborations can provide. These scientists are not, however, our employees and may have other commitments that limit their availability to us. If a conflict of interest arises between their work for us and their work for another entity, we may lose the services of these scientists and institutions. Any cessation or suspension of our collaborations with scientific advisors and academic institutions may increase our research and development costs, lengthen our new vaccines development process and lower our efficiency in new products development. In addition, although our scientific advisors and academic collaborators generally sign agreements not to disclose our confidential information, it is possible that valuable proprietary knowledge may become publicly known which would compromise our competitive advantage.

We may lose the right to use "科兴" (Kexing) on our vaccine products and/or as part of our trade name.

We currently use "科兴" (Kexing) as part of Sinovac Beijing's Chinese trade name in the PRC. We also use "科兴" (Kexing) as part of the Chinese trade name of Sinovac Dalian in the PRC. Shenzhen Kexing currently owns the"科兴" trademark registered in China for Class 5 (Pharmaceuticals) under the International Classification of Goods and Services. To protect our interest in using "科兴" in our trade name, we applied to register "科兴" in China for Class 42 (Scientific & Technological Services & Research) in 2006 and the PRC Trademark Office of the State Administration for Industry and Commerce approved our application in 2010. The "科兴" trademark owned by Shenzhen Kexing has not been identified as "Well-known Trademark" by the relevant PRC authorities since we first started using "科兴" in the trade name of Sinovac Beijing in 2001. If the "科兴" trademark owned by Shenzhen Kexing is ever officially identified as a "Well-Known Trademark", however, we may be subject to trademark infringement claim for the use of "科兴" in our trade name. Although the trademark application and the trade name approval systems are administered separately in China, it is possible that we may lose our ability to use the "科兴" trademark in our trade name due to a successful trademark infringement claim, which may adversely affect our ability to maintain and protect our brands, cause us to incur litigation costs and divert resources and management attention.

Risks Related to Doing Business in China

Adverse changes in political, economic and other policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and materially and adversely affect our competitive position.

All of our business operations are conducted in China, and over 98.4% of our sales are currently made in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including:

- the extent of government involvement;
- the level of development;
- the growth rate;
- the control of foreign exchange;
- the allocation of resources;
- an evolving regulatory system; and
- lack of sufficient transparency in the regulatory process.

While the Chinese economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the Chinese government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over Chinese economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Efforts by the PRC government to slow the pace of growth of the Chinese economy could result in hospitals spending less, which in turn could reduce demand for our products.

Moreover, the political relationship among foreign countries and China is subject to sudden fluctuation and periodic tension. Changes in political conditions in China and changes in the state of foreign relations are difficult to predict and could adversely affect our product export and international collaborations. This could lead to a decline in our profitability in the future.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on overall economic growth and the level of healthcare investments and expenditures in China, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our businesses.

Future changes in laws, regulations or enforcement policies in China could adversely affect our business.

Laws, regulations and enforcement policies in China, including those regulating our business, are evolving and subject to future change. Future changes in laws, regulations or administrative interpretations, or stricter enforcement policies by the PRC government, could impose more stringent requirements on us, including fines or other penalties. Changes in applicable laws and regulations may also increase our operating costs. Compliance with such requirements could impose substantial additional costs or otherwise have a material adverse effect on our business, financial condition and results of operations. These changes may relax some requirements, which could be beneficial to our competitors or could lower market entry barriers and increase competition. Further, regulatory agencies in China may, sometimes abruptly, change their enforcement practices. Therefore, prior enforcement activity, or lack of enforcement activity, is not necessarily predictive of future actions. Any enforcement actions against us could have a material and adverse effect on us and the market price of our common shares. In addition, any litigation or governmental investigation or enforcement proceedings in China may be protracted and may result in substantial cost and diversion of resources and management

attention, negative publicity, damage to our reputation and decline in the price of our common shares.

We rely on dividends paid by our PRC subsidiaries for our cash needs. If they are unable to pay us sufficient dividends due to statutory or contractual restrictions on their abilities to distribute dividends to us, our various cash needs may not be met.

We are a holding company, and we rely on the dividends paid by our PRC subsidiaries, including majority-owned subsidiary, Sinovac Beijing, our wholly owned subsidiaries, Tangshan Yian and Beijing Sinovac R&D Technology Co., Ltd. (formerly known as Sinovac Biological), or Sinovac R&D, and our 55%-owned joint venture, Sinovac Dalian, for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses. The payment of dividends in the PRC is subject to limitations. Regulations in the PRC currently permit payment of dividends by our PRC subsidiaries only out of accumulated profits as determined in accordance with accounting standards and regulations in China. For instance, Tangshan Yian is required to set aside at least 10% of its after-tax profits each year to contribute to its reserve fund until the accumulated balance of such reserve fund reaches 50% of the registered capital of Tangshan Yian. Tangshan Yian is also required to reserve a portion of its after-tax profits to its employee welfare and bonus fund, the amount of which is subject to its board of directors. Sinovac Beijing is required to set aside, at the discretion of its board of directors, a portion of its after-tax profits to its reserve fund, enterprise development fund and employee welfare and bonus funds. Besides, Sinovac Beijing needs to reserve 10 % of its after-tax profits as Legal Reserves in accordance with the regulations in China. These funds reduce the ability of the subsidiaries to pay dividend in cash. In addition, if Sinovac Beijing, Tangshan Yian or Sinovac R&D (formerly known as Sinovac Biological) incurs debt on its own behalf in the future, the instruments governing the debt may restrict either company's ability to pay dividends or make other distributions to us.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

We receive over 98.4% of our revenues in renminbi, which currently is not a freely convertible currency. A portion of our revenues may be converted into other currencies to meet our foreign currency obligations, including, among others, payment of dividends declared by our subsidiaries. Under China's existing foreign exchange regulations, Sinovac Beijing, Sinovac R&D, Tangshan Yian and Sinovac Dalian are able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange, or the SAFE, by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take future measures to restrict access to foreign currencies for current account transactions.

Our PRC subsidiaries' ability to obtain foreign exchange is subject to significant foreign exchange controls and, in the case of amounts under the capital account, requires the approval of and/or registration with PRC government authorities, including the SAFE. In particular, if we finance our PRC subsidiaries by means of foreign currency from us or other foreign lenders, the amount is not allowed to exceed the difference between the amount of total investment and the amount of the registered capital as approved by the Ministry of Commerce and registered with the SAFE. Further, such loans must be registered with the SAFE. If we finance our PRC subsidiaries by means of additional capital contributions, the amount of these capital contributions must first be approved by the relevant government approval authority. These limitations could affect the ability of our PRC subsidiaries to obtain foreign exchange through debt or equity financing.

Fluctuation in the value of the renminbi may have a material adverse effect on your investment.

The value of the renminbi against the U.S. dollar, Euro and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the renminbi to the U.S. dollar and permitted the renminbi to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the renminbi to appreciate approximately more than 21.5% against the U.S. dollar over the following three years. Since reaching a high against the U.S. dollar in July 2008, however, the renminbi has traded within a narrow band against the U.S. dollar. As a consequence, the renminbi has fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. In June 2010 and March 2014, the PRC government indicated that it would make the foreign exchange rate of the renminbi more flexible and widen the trading band of renminbi, which increases the possibility of sharp fluctuations in renminbi's value in the future as well as the unpredictability associated with renminbi's exchange rate. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant fluctuations of the renminbi against foreign currencies. As a portion of our costs and expenses is denominated in renminbi, a resumption of the appreciation of the renminbi against the U.S. dollar would further increase our costs in U.S. dollar terms. In addition, as our operating subsidiaries in China receive revenues in renminbi, any significant depreciation of the renminbi against the U.S. dollar may have a material adverse effect on our revenues in U.S. dollar terms and financial condition, and the value of, and any dividends payable on, our common shares. For example, to the extent that we need to convert U.S. dollars into renminbi for our operations, appreciation of the renminbi against the U.S. dollar would have an adverse effect on the renminbi amount we receive from the conversion. Conversely, if we decide to convert our renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes, appreciation of the U.S. dollar against the renminbi would have a negative effect on the U.S. dollar amount available to us.

Our business benefits from certain government tax incentives. Expiration, reduction or elimination of these incentives will increase our tax expenses and in turn decrease our net income.

Pursuant to the PRC Enterprise Income Tax Law, or the EIT Law, and its implementation rules, both domestic companies and the foreign invested enterprises, or the FIEs, are subject to a unified income tax rate of 25%. Tax exemption or reduction with fixed terms enjoyed by enterprises including us will continue until the expiry of the prescribed period. Preferential tax treatments will continue to be granted to high and new technology enterprises that conduct business in encouraged sectors, whether FIEs or domestic companies. Sinovac Beijing reconfirmed its "High and New Technology Enterprises," or HNTE, status according to the new criteria and obtained the corresponding certificate with a three-year valid period on September 14, 2011. As a result, subject to satisfaction of applicable criteria as confirmed by the competent authorities, Sinovac Beijing was entitled to a reduced enterprise income tax, or EIT, rate of 15% from 2011 to 2014. The PRC government could eliminate any of these preferential tax treatments before their scheduled expiration. Expiration, reduction or elimination of such tax incentives will increase our tax expenses and in turn decrease our net income.

The EIT Law could affect tax exemptions on dividends received by us and increase our enterprise income tax rate.

We are incorporated under the laws of Antigua and Barbuda. Under the EIT Law and its implementation rules, if we are deemed as a non-PRC tax resident enterprise without an office or premises in the PRC, withholding tax at the rate of 10% will be applicable to dividends received by us from Tangshan Yian, unless the tax is entitled to reduction or elimination in accordance with any future PRC laws or regulations or an applicable tax treaty between the PRC and Antigua and Barbuda. As of the date of this annual report, Antigua and Barbuda has not entered into any such tax treaties with the PRC. According to the Arrangement between Mainland of China and Hong Kong Special Administrative Region Arrangement on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income agreed between China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the Hong Kong investor owns directly at least 25% of the shares of the foreign-invested enterprise for a period of greater than 12 months), or otherwise 10%. In 2009, Sinovac Biotech (Hong Kong) Ltd., or Sinovac Hong Kong, paid 10% withholding tax rate on the dividend received from Sinovac Beijing due to the holding period of the subsidiary less than 12 months from the date of the transfer the ownership of Sinovac Beijing to Sinovac Hong Kong. In May 2012, Sinovac Hong Kong was granted the status of 5% withholding tax on dividends from Sinovac Beijing for three years from 2012 to 2014. The granted status is subject to regular administrative review procedure applicable to the approving tax authority. We are not certain that we will enjoy the same preferential tax status after the period when we re-apply in accordance with the tax regulations because there may be changes in conditions or tax regulations.

In addition, the EIT Law provides that, if an enterprise incorporated outside the PRC has its "de facto management organization" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on its worldwide income. Under the implementation rules of the EIT Law, "de facto management organization" means the organization which is essentially in charge of overall management and control with respect to the operation, personnel, books and accounts, and assets of the enterprise in question. As substantially all members of our management are located in the PRC, we may be deemed a PRC tax resident enterprise and therefore be subject to an enterprise income tax rate of 25% on our worldwide income, although the dividends that we receive from our PRC subsidiaries would be exempt from PRC withholding tax if we are recognized as a PRC tax resident.

Under the EIT Law, dividends payable by us and gains on the disposition of our shares may be subject to PRC taxation.

If we were considered a PRC resident enterprise under the EIT Law, our shareholders who are deemed non-resident enterprises may be subject to the EIT at the rate of 10% upon the dividends payable by us or upon any gains realized from the transfer of our shares, if such income is deemed derived from China, provided that (i) such foreign enterprise investor has no establishment or premises in China, or (ii) it has an establishment or premises in China but its income derived from China has no real connection with such establishment or premises. If we were required under the EIT Law to withhold PRC income tax on our dividends payable to our non-PRC enterprise shareholders, or if any gains realized from the transfer of our shares by our non-PRC enterprise shareholders were subject to the EIT, such shareholders' investment in our shares would be materially and adversely affected.

The regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to acquire PRC companies or to inject capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute profits to us, or otherwise adversely affect our financial position.

SAFE issued a public notice in October 2005, or the SAFE Notice 75, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China, or an offshore special purpose company, for the purposes of overseas capital raising with assets or equities of PRC companies. In addition, the PRC resident who is the shareholder of an offshore special purpose company is required to amend its SAFE registration with the local SAFE branch, with respect to that offshore special purpose company, in the event of any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over the assets located in China or other material changes in share capital. If any PRC shareholder fails to make the required SAFE registration and amendment, the PRC subsidiaries of that offshore special purpose company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to the offshore special purpose company. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability to our PRC beneficial owners or our PRC subsidiaries under PRC laws for evasion of applicable foreign exchange restrictions.

SAFE Notice 75 applies retroactively to PRC residents who have established or controlled an offshore special purpose company that made onshore investments in the PRC prior to the issuance of the SAFE Notice 75. In May 2007, SAFE issued relevant guidance to its local branches with respect to the operational procedures for SAFE registration under SAFE Notice No. 75. This guidance standardized more specific and stringent supervision on registrations relating to the SAFE Notice No. 75. Mr. Weidong Yin has made the required SAFE registration with respect to his investments in our company The failure of our beneficial owners who are PRC residents to make their SAFE registrations or timely amend their SAFE registrations pursuant to the SAFE Notice 75 or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in the SAFE Notice 75 may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions and may also result in a restriction on our PRC subsidiaries' ability to distribute profits to us or otherwise adversely affect our business.

As it is uncertain how the SAFE Notice 75 will be interpreted or implemented, we cannot predict how and to what extent it will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends, re-investments of profits and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC company with equity interests or assets, we or the owners of such company, as the case may be, may not be able to complete the necessary approvals, filings and registrations for the acquisition. This may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC operating subsidiaries and affiliated entities.

In funding our PRC subsidiaries, we must comply with PRC legal requirements relating to foreign debt registration and to PRC foreign-investment companies' "registered capital" and "total investment." "Registered capital" refers to the capital contributed to or paid into a PRC foreign-investment company in cash or in kind, and "total investment" refers to the amount of a PRC foreign-investment company's registered capital plus all external borrowings by such company. The amounts of a PRC foreign-investment company's registered capital and total investment are set forth in the company's constitutional documents and approved by the competent government authority in advance and, in the case of Sinovac Beijing and Sinovac Dalian, must be approved by their minority shareholders, Xiamen Bioway or Dalian Jin Gang Group, respectively, as well.

Loans by us or Sinovac Hong Kong to Sinovac Beijing, Sinovac R&D (formerly known as Sinovac Biological), Tangshan Yian or Sinovac Dalian cannot exceed the difference between such company's registered capital and total investment, unless the company has obtained the approval of the approval authority and, in the case of Sinovac Beijing or Sinovac Dalian, the approval of Xiamen Bioway or Dalian Jin Gang Group, respectively, also to increase the amount of total investment. Further, such loans must be registered with the SAFE or its local counterpart.

We may also decide to finance our PRC subsidiaries by making additional capital contributions. These additional contributions must be approved by the government approval authority and, in the case of Sinovac Beijing or Sinovac Dalian, by Xiamen Bioway or Dalian Jin Gang Group, respectively, also. We cannot assure you that we will be able to obtain these government registrations or approvals, or the approval of Xiamen Bioway or Dalian Jin Gang Group, on a timely basis, if at all, with respect to future loans or additional capital contributions by us to our subsidiaries or affiliates. If we fail to receive such registrations or approvals, our ability to capitalize our PRC operations would be negatively affected, which could adversely and materially affect the liquidity of our subsidiaries and our ability to expand our business.

Because we are incorporated under Antigua and Barbuda law, substantially all of our operations, property and assets are located in China and all of our directors and officers and substantially all of their assets are located outside of the United States, you may be unable to protect your shareholder rights under US law in a court in the United States.

We are incorporated in Antigua and Barbuda. Our corporate affairs are governed by our articles of incorporation and by-laws and by the International Business Corporations Act and common law of Antigua and Barbuda. The rights of shareholders to take legal action against our directors, officers and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us are to a large extent governed by the International Business Corporations Act and common law of Antigua and Barbuda. The common law of Antigua and Barbuda is derived in part from comparatively limited judicial precedent in Antigua and Barbuda as well as from English common law, which has persuasive, but not binding, authority on a court in Antigua and Barbuda. The rights of our shareholders and the fiduciary responsibilities of our directors under Antigua and Barbuda law are not as clearly established as they would be under statutes or judicial precedents in the United States. Among other things, Antigua and Barbuda has a less developed body of securities laws as compared to the United States, and provides significantly less protection to investors. Further, Antigua and Barbuda's body of securities law, and the experience of its courts in addressing corporate and securities law issues of a type often experienced by public companies, is likely less developed than that of some of the other jurisdictions where publicly traded China-based companies are incorporated, such as the Cayman Islands.

It may be difficult or impossible for you to bring an action against us or our directors or officers in Antigua and Barbuda or to enforce or protect your rights under U.S. securities laws or otherwise. Even if you are successful in bringing an action of this kind, you may be unable to enforce a judgment against our assets or the assets of our directors and officers under the laws of Antigua and Barbuda.

There is doubt as to whether Antigua and Barbuda courts would enforce judgments of United States courts obtained in actions against us or our directors or officers that are predicated upon the civil liability provisions of the Securities Act, or in original actions brought against us or such persons predicated upon the Securities Act. There is no treaty in effect between the United States and Antigua and Barbuda providing for such enforcement, and there are grounds upon which Antigua and Barbuda courts may not enforce judgments of United States courts. In addition, Antigua and Barbuda corporations may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between the PRC and the country where the judgment is made or on reciprocity between jurisdictions. If there are no treaties or reciprocity arrangements between the PRC and a foreign jurisdiction where a judgment is rendered, matters relating to the recognition and enforcement of the foreign judgment in the PRC may be resolved through diplomatic channels. The PRC does not have any treaties or other arrangements with the United States or Antigua and Barbuda that provide for the reciprocal recognition and enforcement of foreign judgments. As a result, it is generally difficult to enforce in the PRC a judgment rendered by a U.S. or Antigua and Barbuda court.

As a result of all of the above, as well as the fact that substantially all of our property, assets and operations are located in China and all of our directors and officers and substantially all of their assets are located outside of the United States, you may be unable to protect your shareholder interests through actions against us or our management, directors or major shareholders.

We may be adversely affected by the final outcome of the administrative proceedings brought by the SEC against Ernst & Young Hua Ming LLP and other accounting firms in China.

In December 2012, the SEC initiated administrative proceedings against the China affiliates of five accounting firms, including our independent registered public accounting firm, Ernst & Young Hua Ming LLP, alleging that they refused to produce audit work papers and other documents related to certain China-based companies under investigation by the SEC for potential accounting fraud, and thus violated U.S. securities laws and SEC rules and regulations. In January 2014, an SEC administrative law judge ruled in favor of the SEC, issuing an initial decision which censured each of the accounting firms for failure to provide their audit work papers to the SEC and ordered a six-month suspension of Ernst & Young Hua Ming LLP's and the other China-based affiliates of the Big Four accounting firms' right to practice before the SEC. The accounting firms have appealed the decision of the administrative law judge to the SEC, and the decision will not come into force unless and until an order of finality is issued by the SEC. If the SEC upholds the decision of the administrative law judge, the accounting firms may appeal the order of finality in U.S. federal court.

We are not party to this action and cannot predict the outcome of the SEC's review of the initial decision or any subsequent appeal process. If, as a result of this or any other action, the SEC suspends the right of Ernst & Young Hua Ming LLP to practice before the SEC, our ability to file financial statements in compliance with SEC requirements could be impacted. If none of the China-based auditors are able to continue to act as auditors for Chinese companies listed in the U.S., we may not be able to meet the reporting requirements under the Exchange Act, which may ultimately result in our deregistration by the SEC and delisting from the NASDAQ Stock Market, which would substantially reduce or effectively terminate the trading of our common shares in the United States. Moreover, any negative news about the proceedings against these audit firms may erode investor confidence in China-based, United States listed companies and the market price of our common shares may be adversely affected.

We and our investors may be adversely affected by the inability of the Public Company Accounting Oversight Board (the "PCAOB") to carry out inspections of Ernst & Young Hua Ming LLP and other accounting firms in China.

Under the Sarbanes Oxley Act, auditors of companies whose shares are publicly traded in the United States, including our independent registered public accounting firm, Ernst & Young Hua Ming LLP, are required to register with the PCAOB and to undergo regular inspections by the PCAOB to assess compliance with applicable U.S. legal and accounting professional standards. As the PCAOB is currently unable to conduct inspections in China, Ernst & Young Hua Ming LLP has not yet been inspected by the PCAOB. PCAOB inspections of other audit firms in other jurisdictions have identified deficiencies in the audit and quality control procedures of those firms, which may be addressed to improve future audit quality. The inability of the PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit or quality control procedures. As a result, investors in our common shares may have less confidence in our publicly reported financial information and procedures and the quality of our financial statements. In addition, the PCAOB may choose to impose sanctions or take other actions against Ernst & Young Hua Ming LLP, including suspending or revoking Ernst & Young Hua Ming LLP's registration with the PCAOB. If Ernst & Young Hua Ming LLP and other China-based auditors are unable to maintain registration with the PCAOB, we may be unable to meet the ongoing reporting requirements under the Exchange Act, which ultimately may result in the termination of the registration of our common shares and ordinary shares under the Exchange Act or the delisting of our common shares from Nasdaq, or both, which would substantially reduce or effectively terminate the trading of our common shares in the United States.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is Sinovac Biotech Ltd. Our principal executive offices are located at No. 39, Shangdi Xi Road, Haidian District, Beijing 100085, PRC. Our telephone number at this address is +86-10-8289-0088. Our registered address is located at The Colony House, 41 Nevis Street, St. John's in Antigua and Barbuda. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, 4th Floor, New York.

We are a holding company and conduct our business in China through our 73.09% majority-owned subsidiary, Sinovac Beijing, our wholly owned subsidiaries, Tangshan Yian, Sinovac R&D (formerly known as Sinovac Biological) and Sinovac Hong Kong, and our 55%-owned joint venture Sinovac Dalian. Sinovac Beijing was incorporated on April 28, 2001, Tangshan Yian was incorporated on February 9, 1993, Sinovac Hong Kong was incorporated on October 21, 2008, Sinovac R&D (formerly known as Sinovac Biological) was incorporated on May 7, 2009, and Sinovac Dalian was established on January 19, 2010.

We were incorporated in Antigua and Barbuda on March 1, 1999. Before we adopted our current name on October 21, 2003, we were called Net-Force System Inc. and were primarily engaged in the online gaming business. We were quoted on the OTC Bulletin Board on February 21, 2003. In September 2003, we issued ten million new shares to Lily Wang, one of our then principal shareholders to acquire a 51% equity interest in Sinovac Beijing. Ms. Wang had contracted to purchase these shares from certain of Sinovac Beijing's then shareholders for cash immediately before the above 51% share transfer. However, this 51% equity interest in Sinovac Beijing was transferred to us directly from those shareholders and was recorded under applicable PRC law transfer documents as a cash transaction. Lily Wang was responsible for paying the cash to those shareholders. The transfer of the Sinovac Beijing equity interest to us was registered and approved by PRC government authorities in August 2004. In September 2004, we acquired an additional 20.6% equity interest in Sinovac Beijing for approximately $3.3 million in cash. In October 2011, we further acquired an additional 1.53% equity interest in Sinovac Beijing through contributing the dividends declared to Sinovac Hong Kong but unpaid in amount of RMB18.6 million ($3.1 million). We currently own 73.09% of the equity interest in Sinovac Beijing.

In January 2004, we entered into a share purchase agreement with Heping Wang and issued him 3.5 million of our common shares and a promissory note in the amount of $2.2 million to acquire from him a 100% equity interest in Tangshan Yian. Mr. Wang had contracted to purchase these shares from Tangshan Yian's then two shareholders immediately before the above 100% share transfer. However, this 100% equity interest in Tangshan Yian was transferred to us directly from those shareholders and was recorded under applicable PRC law transfer documents as a cash transaction. Heping Wang was responsible for paying the cash to the two shareholders. The transfer of the Tangshan Yian equity interest by Mr. Wang to us was registered and approved by PRC government authorities in November 2004.

In the first quarter of 2008, we issued and sold an aggregate of 2.5 million common shares at $3.90 per share to Sansar Capital Management. We received approximately $9.75 million in gross proceeds from this private placement of our common shares.

In October 2008, we established Sinovac Hong Kong, a wholly owned subsidiary focused primarily on registering and distributing current and newly-developed vaccine products in Hong Kong and exporting our products abroad. In addition, Sinovac Hong Kong seeks research and development collaboration opportunities with third parties in Hong Kong.

In November 2009, we entered into an agreement with Dalian Jin Gang Group to establish Sinovac Dalian. In January 2010, we established Sinovac Dalian which focuses on the research, development, manufacturing and commercialization of vaccines, such as asvaricella, mumps and rubella vaccines for human use. We manufacture live attenuated vaccines and vero cell cultured vaccines at the production facilities of Sinovac Dalian. Pursuant to the joint venture agreement, we made an initial cash contribution of RMB60 million ($9.9 million) in exchange for a 30% equity interest in Sinovac Dalian and Dalian Jin Gang Group made an asset contribution of RMB140 million ($23.1 million), including manufacturing facilities, production lines and land use rights, in exchange for the remaining 70% interest in Sinovac Dalian. In December 2010, we purchased an additional 25% equity interest in Sinovac Dalian from Dalian Jin Gang Group with a consideration of RMB50 million ($8.3 million). We and Dalian Jin Gang Group currently own 55% and 45% equity interests in Sinovac Dalian, respectively.

In February 2010, we closed a public offering of our common shares. We issued and sold 11.5 million common shares at the price of $5.75 per share. We received net proceeds of approximately $61.8 million, after deducting underwriting discounts and commissions and offering expenses payable by us.

In February 2010, we entered into an agreement to acquire buildings, land use rights and utility facilities in Changping District, Beijing for a total consideration of approximately RMB123.6 million ($20.4 million). As of December 31, 2012, we have paid off the consideration. We have completed the construction of a new warehouse, a new filling and packaging line and a production line for EV71 vaccine in compliance with the new GMP standards.

In 2013, we increased the capital investment to Tangshan Yian with the total amount of $4 million that was borrowed by Tangshan from us in 2010. In the same year, we lent Tangshan Yian $1 million to be used for sales and marketing spending and other corporate purposes operational activities.

For additional information regarding our principal capital expenditures, see "— D. Property, Plants and Equipment."

Investor inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our website is *http://www.sinovac.com*. The information contained on our website does not form part of this annual report.

B. Business Overview

We are a fully integrated China-based biopharmaceutical company that focuses on the research, development, manufacturing and commercialization of vaccines that protect against human infectious diseases including hepatitis A, hepatitis A and B, seasonal influenza, H5N1 and H1N1 pandemic influenza and mumps, as well as animal rabies vaccine. In 2002, we launched our first product, Healive, which was the first inactivated hepatitis A vaccine developed, produced and marketed by a China-based manufacturer. In 2005, we received regulatory approvals for the production of Bilive in China, a combined hepatitis A and B vaccine, and Anflu, a split viron influenza vaccine. In April 2008, we received regulatory approval for the production in China of our whole viron H5N1 pandemic influenza (avian flu) vaccine, which is the only vaccine approved for sale to the Chinese national vaccine stockpiling program. In September 2009, we were granted a production license for Panflu.1, which was the first approved vaccine in the world against the influenza A H1N1 virus (swine flu). In 2011, our animal rabies vaccine was approved by the Ministry of Agriculture for commercialization. In December 2011, Sinovac Dalian obtained the production license from the CFDA for its mumps vaccine product and launched the mumps vaccine in late 2012. Our pipeline consists of various vaccine candidates in the pre-clinical and clinical development phases in China. On December 23, 2010, we obtained the approval from the CFDA to commence human clinical trials of a vaccine against EV71. In 2011, phase I and II clinical trials of the EV 71 vaccine were completed. The phase III clinical trial was initiated in 2012 and completed in 2013. In February 2014, the phase III clinical results of our EV71 vaccine were published online on The New England Journal of Medicine, or NEJM, which showed the efficacy of the vaccine against HFMD, or herpangina, was 94.8% among infants and young children. We filed NDA for our EV71 vaccine candidate in May 2013, which is under the technological review by CFDA. We filed applications for the clinical trials of pneumococcal conjugate vaccine, pneumococcal polysaccharide vaccine and rubella vaccine in early 2011. We also filed an application for the clinical trial of varicella vaccine in January 2013. In January 2014, we filed a clinical trial application with the CFDA to commence human clinical trials for our vaccine candidate against avian influenza A (H7N9) virus. Our product pipeline also includes other human vaccines against various diseases that are in pre-clinical development.

Our Products

We specialize in the sales, marketing, manufacturing, and development of vaccines for infectious disease with significant unmet medical need. Set forth below is a chart that outlines our current marketed products and those that we have developed or are developing.

Product	Indication	Pre-clinical	File IND	Obtain Clinical Approval from CFDA	Phase I	Phase II	Phase III	On sale
Healive	Hepatitis A							
Bilive	Hepatitis A&B							
Anflu	Influenza							
Panflu Whole Viron Pandemic Influenza Vaccine	Pandemic Influenza Virus							(1)
Split Viron Pandemic Influenza Vaccine	Pandemic Influenza Virus							(2)
Panflu.1	Influenza A H1N1 virus							
RabEnd	Rabies Virus (in animals)							
Mumps Vaccine	Mumps					(3)		
EV71 Vaccine	EV71 Virus							
Pneumococcal Polysaccharide Vaccine	Pneumococcus							
Pneumococcal Conjugate Vaccine	Pneumococcus							

Varicella Vaccine	Varicella-zoster virus (Herpes virus 3, Human)
Rubella Vaccines	Rubella
H7N9 Vaccine	H7N9 Influenza

(1) Our Panflu whole viron pandemic influenza vaccine did not undergo phase III clinical trials because none were required by the relevant authorities in order to receive regulatory approval.

(2) Our Panflu split viron Pandemic Influenza Vaccine will not undergo phase III clinical trials because none were required by the relevant authorities in order to receive regulatory approval.

(3) Our mumps vaccine did not undergo clinical trials because none were required by the relevant authorities.

- *Healive*. In May 2002, we obtained the final PRC regulatory approval for the production of Healive, the first inactivated hepatitis A vaccine developed in China. The hepatitis A virus, which is endemic in China and other developing countries, primarily impacts the liver by causing it to swell and preventing it from functioning properly. The disease is highly contagious and can be spread by close personal contact, by consuming contaminated food or by drinking water that has been contaminated by hepatitis A. According to the WHO, as no specific treatment exists for hepatitis A, prevention is the most effective approach against the disease. In February 2008, the PRC government included hepatitis A vaccine into its national immunization program, and announced plans to expand vaccination to newborns nationwide by the end of 2010. According to the NIFDC lot release records, 39.23 million doses of hepatitis A vaccines were approved and released in China in 2013. Administered intramuscularly, Healive is available in different doses for use by both adults (1.0 ml dose) and children (0.5 ml dose). Our production line to manufacture our hepatitis vaccines, Healive and Bilive, interchangeably has an aggregate combined production capacity of approximately 10 million doses annually. In 2011, 2012 and 2013, we sold approximately 2.7 million, 3.7 million and 4.1 million doses of Healive, which generated approximately $14.2 million, $20.1 million and $26.4 million in revenues, respectively. Since we launched Healive in 2002, we have sold a total of approximately 41.6 million doses as of December 31, 2013. We are selling Healive in Mongolia and Nepal, and are currently seeking the regulatory approval to sell Healive in Asia and South America.

- *Bilive*. In June 2005, we obtained the final PRC regulatory approval for the production of Bilive, the first combined inactivated hepatitis A and B vaccine developed and marketed in China. Bilive is a combination vaccine formulated with purified inactivated hepatitis A virus antigen, which we manufacture, and recombinant (yeast) hepatitis B surface antigen, which we source from a third-party supplier. Bilive vaccinations must be privately paid by the recipients under China's current vaccination program. Bilive is designed for boost immunization or for users in the private-pay market who prefer the convenience of one inoculation rather than two. Similar to hepatitis A, hepatitis B is endemic in China, a major disease worldwide and a serious global public health issue. A substantial percentage of people infected with the hepatitis B virus carry chronic or lifelong infections. The chronically infected are at a high risk of death from cirrhosis of the liver or liver cancer. Currently, we are the only supplier in China that produce a combined inactivated hepatitis A and B vaccine, and our market share in China, according to the NIFDC lot release records, is 100% in 2013. Bilive is available in different doses for use in both adults and children. The 1.0 ml dose is for non-immune adults and adolescents 16 years of age and older. The 0.5 ml dose is for pediatric use in non-immune infants, children and adolescents from one year up to and including 15 years of age. The standard Bilive vaccination schedule consists of three doses. The second dose is administered one month after the first dose and the third dose is administered six months after the first dose. Booster vaccinations are recommended five years after the initial immunization. Our production line to manufacture our hepatitis vaccines, Healive and Bilive, interchangeably has an aggregate combined production capacity of approximately 10 million doses annually. In 2011, 2012 and 2013, we sold approximately 1.8 million, 2.6 million and 2.5 million doses of Bilive, which generated approximately $12.7 million, $19.8 million and $20.8 million in revenues, respectively.

- *Anflu*. In October 2005, we received the final approval from the CFDA to produce our Anflu vaccine against influenza. We began marketing Anflu in September 2006. The primary influenza vaccine used worldwide is the split viron vaccine, which contains virus particles disrupted by detergent treatment. The market penetration of the seasonal flu vaccine in China is significantly below that in the developed markets. We are the first Influenza Vaccine Supply, or IVS, taskforce member from a developing country that collaborates with world-class partners in influenza vaccine research. Our Anflu vaccine is an inactivated split viron influenza vaccine formulated from three split inactivated viron solutions. Anflu is produced with the virus strains recommended by the WHO each year and, we believe, is the only flu vaccine, among all produced by other domestic manufacturers that do not contain preservatives. According to the NIFDC lot release records, 38.10 million doses of influenza vaccines were approved and released in China in 2013, compared to 47.25 million doses in 2012. Our production line to manufacture our flu vaccines, Anflu, Panflu and Panflu.1, interchangeably has an annual production capacity of approximately 8 million doses of Anflu. We sold 2.2 million, 2.9 million and 3.4 million doses of Anflu in 2011, 2012 and 2013, which generated approximately $8.1 million, $9.2 million and $12.2 million in revenues, respectively. Anflu is registered for sales in Hong Kong, Mongolia and Mexico. In addition, we are currently seeking regulatory approval to sell Anflu in Asia and South America.

- *Panflu*. In April 2008, we were granted a production license for Panflu by the CFDA. Panflu is the only approved vaccine available in China against the H5N1 influenza virus although we received the virus strains at the same time as other manufacturers globally, which demonstrated our strong research and development capability. The vaccine is approved for supply within China to the Chinese national vaccine stockpiling program and may not be sold directly to the Chinese commercial market. Panflu is also registered for sale in the Hong Kong market. Our production line to manufacture our flu vaccines, Anflu, Panflu and Panflu.1, interchangeably has an annual production capacity of approximately 20 million doses of Panflu or 20 million doses of Panflu.1 given the yield of virus strain received from WHO. We produced Panflu for government reservation since 2008, and we started recognizing revenue in 2010. Our revenue from the sale of Panflu amounted to $7.8 million, $nil and $10.7 million in 2011, 2012 and 2013, respectively.

- *Panflu.1.* In September 2009, we were granted a production license for Panflu.1 by the CFDA. Panflu.1 is the first approved vaccine in the world against the influenza A H1N1 virus. The outbreaks of influenza A H1N1 was caused by a new virus that had not been seen previously in either human beings or animals. We received orders of 20.97 million doses as of the date of this annual report. According to the NIFDC lot release records, we were ranked number two in market share in China in 2009 and number three in 2010. Our production line to manufacture our flu vaccines, Anflu, Panflu and Panflu.1, interchangeably has an annual production capacity of approximately 20 million doses of Panflu or 20 million doses of Panflu.1. We started to sell Panflu.1 in September 2009. Our revenue from Panflu. 1 amounted to approximately $14 million, $nil, and $nil in revenues in 2011, 2012 and 2013, respectively, which will not likely to generate revenues in the foreseeable future. Panflu.1 is also registered for sale in Mexico.

- *Mumps vaccine*. Mumps is a viral disease of the human species caused by mumps virus, which poses a significant threat to human health in the developing countries. According to the NIFDC, 13.0 million, 9.2 million and 9.12 million doses of vaccines for mumps were approved for sale in China in 2011, 2012 and 2013, respectively. In September 2012, we were granted a production license for mumps vaccine. We began to sell mumps vaccine in December of 2012. We sold approximately 1.2 million doses of mumps vaccine in 2013, which generated approximately $1.7 million in revenues in 2013.

- *Split viron pandemic influenza vaccine*. Our split viron pandemic influenza vaccine has been developed in conjunction with our whole viron pandemic influenza vaccine. Split viron vaccines are considered to have a better safety profile than whole viron vaccines, both of which are for the governmental stockpiling program. This product has been developed to address the needs of young children, who may be more susceptible to adverse reactions to whole viron pandemic influenza vaccine than to a split viron vaccine. In November 2011, we were granted the production license of split viron pandemic influenza vaccine that is to be used among the teenagers aged from 12 to 17.

- *RabEnd*. Animal rabies is the leading cause of transmission that results in human rabies. Animal vaccination can reduce the incidence of rabies in humans by reducing human contact with rabid animals. The vaccine is manufactured in Tangshan Yian. The product was approved for sales in September 2011. We sold 5,000 and 0.2 million doses of RabEnd in 2012 and in 2013, which generated approximately $50,000 and $0.8 million in revenues, respectively.

Our pipeline consists of vaccine candidates in the clinical and pre-clinical development phases in China. We completed the clinical studies of our EV71 vaccine in 2013. We have also filed clinical trial applications for our human vaccines against various other diseases, including pneumococcal, varicella and rubella.

- *EV71 vaccine*. EV71 causes HFMD among children under ten years old. HFMD is a common and usually mild childhood disease; however, HFMD caused by EV71 has shown a higher incidence of neurologic involvement, and a higher acute fatal incidence. There have been a number of outbreaks of HFMD caused by EV71 in the Asia-Pacific region since 1997 including in China, Malaysia, Singapore, Australia, Vietnam and Taiwan. According to the statistics from National Health and Family Planning Commission of China, from 2008 to 2013, more than nine million cases of HFMD were reported, resulting in around 2,700 reported fatalities in China. According to an epidemiological study, from 2008 to 2012, EV71 infection caused around 80% of the severe cases and over 90% of the fatal cases. There is no identified treatment for enterovirus infections and no vaccine is currently available. We started our research and development of the EV71 vaccine in 2007. In December 2009, the CFDA accepted our application to commence human clinical trials, which was the first clinical trial application for the EV71 vaccine in China. We obtained the approval from the CFDA to commence clinical trials on December 23, 2010 and initiated phase I clinical trial for EV71 vaccine on December 30, 2010. We completed phase I and II clinical trials in 2011. The phase III clinical trial was initiated in 2012 and completed in 2013, which showed our EV71 vaccine candidate has an efficacy rate of 94.8% against HFMD among infants and young children. And in February 2014, the phase III clinical results of our EV71 vaccine were published online on NEJM, which showed the efficacy of the vaccine against HFMD, or herpangina, was 94.8% among infants and young children. We have seven patents relating to the EV71 vaccine in China. Our EV71 vaccine will primarily target children five years old or under, who number approximately 80 million in China.

- *Pneumococcal polysaccharide vaccine.* Pneumococcal polysaccharide vaccine, or PPV, is a vaccine used to prevent streptococcus pneumoniae (pneumococcus) infections, such as pneumonia and septicemia among adults aged 65 or older, adults with serious long-term health problems, smokers, and children older than two years with serious long-term health problems. We filed an application for clinical trials to the CFDA in February 2011.

- *Pneumococcal conjugate vaccine*. Pneumococcal infection is a leading cause of serious illness in children and adults throughout the world. The disease is caused by a common bacterium, the pneumococcus, which can attack different parts of the human body. According to the WHO, pneumococcal disease is the leading vaccine-preventable killer of children under five years old in the world. At least one million children die of pneumococcal disease every year, most of whom are young children in developing countries. Since the U.S. commenced vaccination programs against this disease, the pneumococcal disease incidence has decreased by 94% in the U.S. Currently, in China, there is only one imported vaccine product against this diseases. No domestic producer has been licensed to supply this vaccine. Our pneumococcal conjugate vaccine will primarily target children two years old or under, who number approximately 32 million in China. We filed an application for clinical trials with the CFDA in March 2011.

- *Rubella vaccine*. Rubella is a disease caused by the rubella virus and an acute infection is usually associated with the symptoms of fever and systemic rash. We filed an application for clinical trials with the CFDA in April 2011 and subsequently submitted supplementary documents to the CFDA in September 2012.

- *Varicella vaccine*. Varicella is a highly contagious infectious disease caused by the varicella-zoster virus (herpesvirus 3, Human). It usually affects children, is spread by direct contact or respiratory route via droplet nuclei and is characterized by the appearance on the skin and mucous membranes of successive crops of lesions that are easily broken and become scabbed. Varicella is relatively benign in children, but may be complicated by pneumonia and encephalitis in adults. According to the NIFDC lot release records, 17.6 million doses of varicella vaccines were approved and released in China in 2013, compared to 14.87 million doses in 2012. We had completed the pre-clinical studies of a human vaccine against varicella. The clinical trial application was filed with CFDA in January 2013.

- *Avian influenza A(H7N9) vaccine*. Avian influenza A(H7N9) is a subtype of influenza viruses that had been detected in birds in the past and was first found in human in China in March 2013. Incidence rates for H7N9 continue to increase in China, with 153 H7N9 Human infectious cases reported in 2013 according to the WHO. As of the date of this annual report, over 200 H7N9 cases have been reported in China in 2014. We completed the pre-clinical research on our H7N9 vaccine and filed an application for clinical trials with CFDA in January 2014.

Research and Development

We have established a leadership position in the research and development of vaccines in China. Since our inception, we have successfully developed and marketed Healive, Bilive, Anflu, Panflu and Panflu.1, mumps vaccine and RabEnd, and have made significant advances in the prevention of SARS. We believe that we were the first company in the world to complete a phase I clinical trial of a SARS vaccine. In addition, our avian influenza vaccine product, Panflu, is the only approved vaccine available in China against the H5N1 influenza virus. Our Panflu.1 is the first approved vaccine in China and the world against the influenza A H1N1 virus. We believe our R&D capabilities provide us with a key competitive advantage. We intend to continue to focus our research and development efforts on developing vaccines for infectious diseases with significant unmet medical needs, such as EV71, H7N9, as well as the vaccine products with extensive market demand in China and other developing countries, such as pneumococcal vaccines.

We started our research and development of EV71 vaccine in 2008 and obtained the approval to commence clinical trials from the CFDA on December 23, 2010. Phase I and II clinical trials were completed in 2011 and phase III clinical trial was completed in 2013.

In 2008, we initiated the research and development of pneumococcal conjugate vaccine and pneumococcal polysaccharide vaccine, among other vaccines. We have completed the preclinical studies on pneumococcal conjugate vaccine and pneumococcal polysaccharide vaccine. The applications for commencing human clinical studies were submitted to the CFDA in 2011.

In 2008, we restructured our R&D team in Beijing to better utilize our scientific and personnel resources. In 2009, we built an R&D center of approximately 13,300 square feet in the campus of our Beijing headquarter to meet our R&D demand. In 2011, we built a lab of 6,778 square feet, which is focused on maintaining quality control of our pipeline products.

In order to achieve our R&D goal, part of our R&D strategy is to focus on in-house development and to establish collaborations with domestic and international partners on technology and virus strains use rights licensing. We have entered into collaborations with a group of leading universities, colleges and research institutes that have strong vaccine research capabilities and proven track records in China. In most cases, we will own the commercial rights to the products that result from our existing R&D strategic collaborations.

The continuous investment in R&D is one of our strategies, which, we believe, will ensure the company's future growth. Our research and development expenses were $9.0 million, $17.0 million and $8.4 million in 2011, 2012 and 2013, respectively. We have obtained financial support from the PRC government to conduct preclinical and clinical research of vaccines for government-sponsored programs, including SARS and pandemic influenza. We received government research funding in the amount of $1.6 million, $2.4 million and $0.8 million in 2011, 2012 and 2013, respectively.

Sales and Marketing

Our sales strategy is to maintain our market share and competitive advantage in the private vaccine sales market while leveraging this strength to established a presence in the government-paid market.

In 2013, we successfully implemented our strategy of increasing our sales of Healive, Bilive and Anflu in the private market. Revenue generated from hepatitis vaccines in private market increased by 30.8% to $40.0 million in 2013.

We primarily rely on our own sales force to sell our products directly to CDCs in the private market. As of December 31, 2013, our in-house sales and marketing team consisted of 170 staff members located in 31 provinces throughout China. We also collaborate with the reputable and experienced distributors in regions that are not covered by our sales team. We enter into sales agreements with CDCs each time a CDC places a purchase order. Pursuant to the sales agreements, CDCs typically agree not to re-sell our products to regions outside the territory the pertinent CDC covers administratively. Our sales team maintains stable relationships with our customers by providing them with technical support and trainings. We believe these efforts have contributed to our reputation for quality and brand awareness in the Chinese vaccine market.

We intend to increase our sales to international markets and enhance awareness of our products outside of China. Our products are currently registered in Hong Kong (Panflu and Anflu), Mexico (Panflu.1 and Anflu), Nepal (Healive), Philippines (Anflu) and Mongolia (Healive and Anflu). We have already exported some of our product to Philippines, Nepal and Mongolia. And we have obtained approval to commercialize our Anflu in Mexico and Hong Kong. We are currently seeking regulatory approval to sell a number of our products in approximately 10 countries in Asia and South America. We will continue to explore the globalization of our portfolio and develop products targeting other potential international markets where we believe we can be successful.

Seasonality

Our business is highly seasonal. For example, the influenza season generally runs from November through March of the next year, and the largest percentage of influenza vaccinations is administered between September and November of each year. As a result, we expect to realize most of our annual revenues from Anflu during this period. You should expect this seasonality in our business to contribute to significant quarterly fluctuations in our operating results. In the first quarter, our strong winter-season sales are usually offset by the slow-down of business during the Chinese New Year holiday season that effectively lasts more than half a month. During this holiday season, many businesses in China, including CDCs and most departments in hospitals are either closed or substantially reduce the level of their activities. See "Item 3. Key Information — D. Risk Factors — Risks Related to Our Company — Our business is highly seasonal. This seasonality will contribute to our operating results fluctuating considerably throughout the year."

Suppliers

We obtain the raw materials from local and overseas suppliers. We generally maintain at least two suppliers for each key raw material, with the exception of hepatitis B antigens we use for Bilive production. We source hepatitis B antigens entirely from Beijing Temple of Heaven. We and Beijing Temple of Heaven agreed to enter into annual hepatitis B antigens supply agreements after our previous ten-year exclusive supply framework agreement expired in October 2012. We entered into the recent hepatitis B antigens annual supply agreement in June 2013. It is uncertain whether Beijing Temple of Heaven will continue to furnish us with hepatitis B antigens after the expiry of the agreement. Raw materials generally are in good supply and the prices we pay for them remain stable. We target to maintain our gross margin in the event of rising raw materials costs by improving our production processes and technical methods.

Manufacturing, Safety and Quality Assurance

We have four manufacturing bases located in Haidian and Changping Districts of Beijing, Dalian City of Liaoning Province, and Tangshan City of Hebei Province.

We have two upstream production facilities in Haidian District, Beijing. Our Healive and Bilive share the same production line, which has an aggregate annual capacity of 10 million doses. Our Anflu production line has an annual capacity of 8 million doses, which can also be used to produce 20 million doses of Panflu or Panflu.1 annually. Our Healive, Bilive and Anflu production facilities received their GMP certificates initially in March 2002, June 2005 and October 2005, respectively, and renewed their GMP certificates for another five years in 2008, 2010 and 2010, respectively. The upstream production plants for our hepatitis vaccines and flu vaccines in Haidian District have passed the new GMP certification and obtained the new GMP certificate on April 17, 2013.

We have built a new production site in in Changping District, Beijing, which comprises a new filing and packaging line that complies with the new PRC GMP standards, EV71 production facilities and a warehouse. The EV71 vaccine production line has a designed annual capacity of 20 million doses. The validation and commissioning for EV71 facility has been completed. We filed NDA for our EV71 vaccine in May 2013, which is under the technological review by CFDA.

Our production site in Tangshan focuses on manufacturing animal vaccines.

Each of our subsidiaries has its own quality assurance departments, which are under the supervision of quality assurance team of Sinovac parent company. The quality assurance departments of subsidiaries manufacturing human vaccines are operating the systems established under a unified framework. Timely training is provided by the quality assurance team at parent level to the quality assurance team at subsidiaries. The parent company's quality assurance team assists Tangshan Yian to establish animal vaccine production quality management system, but the quality governing organization and policies are little different from those used for human vaccine production.

According to the National Suspected Adverse Event Following Immunization Supervision Plan, we have established a response system to report the severe Adverse Event Following Immunization, or AEFI, cases, and to regularly summarize and analyze the AEFI cases coming from our produced vaccine immunization and the supervision data, to summarize the safety information both domestic and overseas, to make the risk and efficiency evaluation, and to draft the regular safety update report. Meanwhile, we are required to assist the authorities to investigate on the AEFIs and provide the required information.

Collaborations

We licensed from MedImmune, LLC, or MedImmune, certain rights to use patented reverse genetics technology pertaining to virus strain used for the production of Panflu (H5N1). We have agreed to pay an upfront license fee and to pay milestone payments of up to an aggregate of $9.9 million upon the achievement of certain amount of cumulative net sales of licensed products in China (including Hong Kong and Macau), as well as royalty payments less than 10% of net sales of the licensed products in China (including Hong Kong and Macau). On August 15, 2012, we entered into amendment agreements with MedImmune in respect of four of our patent license agreements with MedImmune to, among other things, extend the effectiveness of each agreement to reflect revised termination dates between December 2015 and May 2021. We made $3.4 million payment in September 2012, including $2.9 million in royalties and upfront license fees and $0.5 million in withholding tax. As of December 31, 2013, a royalty of $1.0 million was capitalized as inventory costs and included in our accounts payable and accrued liabilities.

In March 2009, we entered into a technology transfer agreement with Tianjin CanSino Biotechnology Inc. ("Tianjin CanSino"), a third party company, to develop a 7-valent pneumococcal conjugate vaccine. According to the agreement, Tianjin CanSino will transfer the technology of a pneumococcal vaccine to the Company. The collaboration term under the technology transfer agreement is from the signing date to eight years after the first sales of the vaccine developed under the technology transfer agreement in the Chinese market. Under this technology transfer agreement, we agreed to make milestone payments of up to $3 million and royalty payment ranging from 6% to 10% for the net sales in Chinese market. Each of the future milestone payments is subject to certain conditions, including the PRC government approvals at different stages, which are uncertain. We also agreed to make royalty payments for eight years after the first sales of the vaccine developed under the technology transfer agreement in the Chinese market. The sales of the pneumococcal vaccine in the Chinese market are also subject to the PRC government approval. Both parties agreed to work together to develop international markets for the products. On December 14, 2011, we entered into an amendment to the technology transfer of another six serotypes and related technology to us for $0.3 million to develop a 13-valent pneumococcal conjugate vaccine. As of the date of this annual report, we have paid a total of $1.2 million.

In August 2005, we entered into a distribution agreement with Glovax C.V., a Dutch biopharmaceutical company with operations in Mexico, pursuant to which we appointed Glovax to be the exclusive distributor of our vaccine products in the Mexican market. We obtained the registration approval for our H1N1 vaccine in Mexico on October 13, 2009, and GMP license for both Anflu and Healive from Mexico government. In April 2013, we obtained the commercial license for our Anflu in Mexico.

In December 2004, we signed a pandemic influenza vaccine co-development agreement with China CDC to jointly develop a pandemic influenza vaccine. Pursuant to this co-development agreement, we agreed, among other things, to conduct pandemic influenza vaccine R&D based on our established vaccine R&D technical platform and to apply for the new drug certificate, production license and patents for the pandemic influenza vaccine. China CDC agreed, among other things, to strategize development of the pandemic influenza vaccine, provide us with scientific guidance to vaccine technicalities and conduct certain pandemic related research and vaccine development-related analysis and testing. Both parties agreed to be responsible for certain specified expenditures associated with the vaccine development and to jointly apply for government R&D funds. However, the co-development agreement expressly provides that we will be the applicant for and owner of the future new drug certificate, production license and any patent or know-how in connection with the pandemic influenza vaccine. In return, we have agreed to fund and support China CDC's influenza-related investigation and other pandemic control efforts after we gain profits from the sale of pandemic influenza vaccines. The regulatory approval for production of our whole viron pandemic influenza vaccine was obtained in April 2008.

Competition

The pharmaceutical, biopharmaceutical and biotechnology industries both within China and globally are intensely competitive and are characterized by rapid and significant technological progress, and our operating environment is increasingly competitive. In recent years, the CFDA increased the quality standard of some vaccine products by issuing a new version of Pharmacopeia. As a result, some vaccine products manufactured by multinational companies can no longer be sold in China. According to the CFDA, there are approximately 40 vaccine companies in China, of which we believe approximately ten are our direct competitors. In addition, multinational companies have started to localize their vaccine production in China, which is expected to further intensify the competition.

Even with the advent of private medical and healthcare insurance programs in China and the government vaccine purchase program's expanded vaccine list, most Chinese citizens must pay for their own vaccines because these insurance programs do not typically cover vaccines and the government vaccine purchase program covers only infants and young children. We believe the consumer market is health conscious yet price sensitive and accordingly would favor our products over both cheaper but not enough high quality vaccines provided by local manufacturers and comparable quality but more expensive vaccines manufactured by some of our international competitors. Our competitors, both domestic and international, include large integrated multinational pharmaceutical, domestic state-owned entities and domestic private companies that currently engage in or have engaged in or may engage in efforts related to the discovery and development of new biopharmaceuticals and vaccines. Many of these entities have substantially greater research and development capabilities and financial, scientific, manufacturing, marketing and sales resources than we do, as well as more experience in research and development, clinical trials, regulatory matters, manufacturing, marketing and sales, although these advantages are not comprehensive

There are multiple vaccines products approved for sale worldwide. Many of these vaccine products are marketed by our major competitors and are in the areas of hepatitis A, hepatitis B and influenza. Specifically, with respect to the hepatitis A vaccine, we consider Kunming Institute of Biological Product, Pukang Biological Co., Ltd., Changchun Institute of Biological Products and Changchun Changsheng Life Sciences Ltd as our major competitors. With respect to the hepatitis A and B vaccines, we are the only company to supply hepatitis A and B vaccine in China. Finally, with respect to the influenza vaccines, we consider Hualan Biological Engineering Inc., Changchun Institute of Biological Products, GSK, Aleph Biological Co., Ltd. (Dalian Yalifeng) and Zhejiang Tianyuan as our major competitors.

And for the upcoming EV71 vaccine against HFMD, which is under the regulatory approval process, there are three companies under the similar stage, who are Kunming Institute of Biological Product, Beijing Vigoo Biological Co., Ltd and Sinovac. We consider Kunming Institute of Biological Product and Beijing Vigoo Biotech as our major potential competitors.

We believe we enjoy a number of advantages over our PRC domestic and multinational competitors. Generally, we believe that the principal competitive factors in the markets for our products and product candidates include:

- vaccine development capability;
- safety and efficacy profile;
- product price;
- ease of application;
- length of time to receive regulatory approval;
- product supply;
- enforceability of patent and other proprietary rights;
- marketing and sales capability; and
- post-sales service.

Intellectual Property and Proprietary Technology

Protection of our intellectual property and proprietary technology is very important for our business. We rely primarily on a combination of trademark, patent and trade secret protection laws in China and other jurisdictions, as well as employee and third-party confidentiality agreements to safeguard our intellectual property, know-how and our brand. Our ability to protect and use our intellectual property rights in the continued development and commercialization of our technologies and products, operate without infringing the proprietary rights of others and prevent others from infringing our proprietary rights is crucial to our continued success. We will be able to protect our products and technologies from unauthorized use by third parties only to the extent that they are covered by valid and enforceable patents, trademarks or copyrights, or are effectively maintained as trade secrets, know-how or other proprietary information.

We have no patent protection for our hepatitis or influenza vaccines. We have nineteen issued patents and a number of pending patent applications relating to our vaccine products in the PRC.

With respect to, among other things, proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on trade secret protection and confidentiality agreements to safeguard our interests. We believe that many elements of our vaccine products, clinical trial data and manufacturing processes involve proprietary know-how, technology or data that are not covered by patents or patent applications. We have taken appropriate security measures to protect these elements. We have entered into confidentiality agreements (which include, in the case of employees, non-competition provisions) with many of our employees, consultants, outside scientific collaborators, sponsored researchers and other advisors. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of our employees, the agreements provide that all of the technology which is conceived by the individual during the course of employment is our exclusive property and require our employees to assign to us all of their inventions, designs and technologies they develop during their terms of employment with us and cooperate with us to secure patent protection for these inventions if we wish to pursue such protection.

We relied on administrative protection afforded new drugs through the monitoring period provided by the CFDA in the past. During the monitoring period, third parties' applications for manufacturing or importing the same drug are not accepted by the CFDA. The administrative protection for Healive expired in December 2007 and Bilive expired in January 2008. We may get new drug protection for new products to be commercialized in China through the same way.

We maintain 15 registered trademarks in China, including (i) Sinovac, (ii) Sinovac Chinese name and its logo, (iv) Healive, its Chinese name and logo, (v) Bilive and its Chinese name, (vi) Anflu and its Chinese name, (vii) Panflu, its Chinese name and the logo, (viii) PANFLU.1 and its Chinese name, and (ix) Chinese name of EV71 vaccine. We have registered "Sinovac" trademark in Canada, Columbia, India, Malaysia, Philippines, Thailand and the United States and we have registered "Sinovac" as trademarks under the "Madrid international trademark registration system," which can be used in the member countries of Madrid Union, including France, United Kingdom and Germany.

We currently use "科兴" (Kexing) as part of Sinovac Beijing's Chinese trade name in the PRC. We also use "科兴" (Kexing) as part of the Chinese trade name of Sinovac Dalian in the PRC. Shenzhen Kexing currently owns the "科兴" trademark registered in China for Class 5 (Pharmaceuticals) under the International Classification of Goods and Services. To protect our interest in using "科兴" in our trade name, we applied to register "科兴"in China for Class 42 (Scientific & Technological Services & Research) in 2006 and the PRC Trademark Office of the State Administration for Industry and Commerce approved our application in 2010. The "科兴" trademark owned by Shenzhen Kexing has not been identified as "Well-known Trademark" by the relevant PRC authorities since we first started using "科兴" in the trade name of Sinovac Beijing in 2001. If the "科兴" trademark owned by Shenzhen Kexing is ever officially identified as a "Well-Known trademark", however, we may be subject to trademark infringement claim for the use of "科兴" in our trade name. Although the trademark application and the trade name approval systems are administered separately in China, it is possible that we may lose our ability to use the "科兴" trademark in our trade name due to a successful trademark infringement claim, which may adversely affect our ability to maintain and protect our brands, cause us to incur litigation costs and divert resources and management attention. As our brand name is becoming more recognized in the vaccine market, we are working to maintain, increase and enforce our rights in our trademark portfolio, the protection of which is important to our reputation and branding.

We have registered our domain names, including *www.sinovac.com.cn and www.sinovac.com*, with the China Internet Network Information Center.

Despite any measures we take to protect our intellectual property, we cannot assure you that unauthorized parties will not attempt to copy aspects of our products or manufacturing processes or otherwise infringe our proprietary technology or to obtain and use information that we regard as proprietary.

Insurance

We maintain property insurance coverage with an annual aggregate insured amount of approximately RMB321 million ($51.5 million) to cover our property and facilities from claims arising from fire, earthquake, flood and a wide range of other natural disasters. Our worldwide product liability insurance of Healive, Anflu and Panflu (excluding USA and Europe) from 2013 to 2014 is limited. Moreover, we do not carry liability insurance to cover liability claims that may arise from the incidents relating to the clinical trials of our vaccine products because such insurance program has not become available in China. Our insurance coverage may not be sufficient to cover any claim for product liability or damage to our fixed assets. We do not maintain any business interruption insurance. We are carrying worldwide product liability insurance for Healive, Anflu and Panflu (excluding USA and Europe) from 2013 to 2014 with the premium of $21,000. We are currently negotiating with the insurance providers for a renewal of our product liabilities insurance policies. See "ITEM 3. Key Information — D. Risk factors—Risks related to our company—we could be subject to costly and time-consuming product liability actions and carry limited insurance coverage."

Regulatory Framework of the Pharmaceutical Industry in the PRC

The testing, approval, manufacturing, labeling, advertising and marketing, post-approval safety reporting, and export of our vaccine products or product candidates are extensively regulated by governmental authorities in the PRC and other countries.

In the PRC, the CFDA regulates and supervises biopharmaceutical products under the Pharmaceutical Administration Law, the Implementing Regulations on Pharmaceutical Administration Law, the Administration of Registration of Pharmaceuticals Procedures, and other relevant rules and regulations which are applicable to manufacturers in general. Every step of our biopharmaceutical production is subject to the requirements on the manufacture and sale of pharmaceutical products as provided by these laws and regulations, including but not limited to, the standards of clinical trial, declaration, approval and transfer of new medicine registrations, applicable industry standards of manufacturing, distribution, packaging, advertising and pricing.

Pre-clinical Studies. Pre-clinical studies include in-vitro laboratory evaluation of the product candidate, as well as in-vivo animal studies to assess the potential safety and efficacy of the product candidate. Pre-clinical studies must be conducted in compliance with Good Laboratory Practice for Non-clinical Studies of Pharmaceuticals, or GLP. With respect to vaccines, the pre-clinical studies should also comply with Technical Guidance for Pre-clinical Studies on Preventive Vaccines. We must submit file package for investigational new drug application, or IND, to the provincial level CFDA. The files should include pharmaceutical research, pharmacology and toxicology research, together with the records of manufacturing and testing and the sample of product candidate. We cannot commence clinical trials until we get IND. We cannot assure that submission of an IND will result in the CFDA allowing clinical trials to begin, or that, once begin, issues will not arise that result in the suspension or termination of such clinical trials.

Clinical trials. Clinical trials involve the administration of the product candidate to healthy volunteers or vaccinees under the supervision of principal investigators, who are generally physicians or an independent third party not employed by us or under our control. Clinical trials typically are conducted in three sequential phases, but the phases may overlap or be combined. In phase I, the initial introduction of the drug into human subjects, the drug is usually tested for safety (adverse effects), dosage tolerance, and pharmacologic action. Phase II usually involves studies in a limited vaccinee population to evaluate preliminarily the efficacy of the drug for specific, targeted conditions and to determine dosage tolerance, appropriate dosage and to identify possible adverse effects and safety risks. Phase III trials generally further evaluate clinical efficacy and test further for safety within an expanded vaccinee population. Clinical trials have to be conducted in compliance with the Good Clinical Trial Practice of Pharmaceuticals, or GCP. With respect to vaccines, we also have to comply with the CFDA's Requirements on Application for Clinical Trial of New Preventive Biological Products. The sample vaccine products must be tested by the NIFDC before they may be used in the clinical trials. We or the CFDA may suspend clinical trials at any time on various grounds, including a finding that subjects are being exposed to an unacceptable health risk.

After three phases of clinical trials, we apply for New Drug Application, or NDA. We submit to the provincial level CFDA the NDA file package, which includes clinical trial research report, pharmaceutical research data, and records of manufacturing and testing of three batches of product, to apply for a new drug certificate and/ or production license. For vaccines, we have to comply with the CFDA's Guidelines for Clinical Trial Report on Vaccines.

New Drug Certificate. The provincial level CFDA will conduct a preliminary examination of our application for a new drug certificate. Once it decides to accept our application based upon such preliminary examination, the provincial level CFDA will, within five days, conduct an on-site examination on the circumstances of our clinical trials and pharmaceutical research. Then the provincial level CFDA will submit its opinion, together with our application materials, to the Centers for Drug Evaluation. The Centers for Drug Evaluation will review our application materials, and give their technical opinion to CFDA. The CFDA will decide whether or not to issue a new drug certificate to us. We consider obtaining the new drug certificate for our product candidates a significant milestone in our business.

Production Permit. Simultaneously with the application of new drug certificate, we also apply to the provincial level CFDA for a production license to manufacture the new drug to be approved by the CFDA. The production license application will be examined with similar stage procedure as for the new drug certificate, first by the provincial level CFDA followed by the Centers for Drug Evaluation, and the CFDA the last. After the provincial level CFDA accepts the application, conducts the on-site examination and forms its opinion, the provincial level CFDA will transfer the file to the Centers for Drug Evaluation, and the Centers for Drug Evaluation will review the application files and give technical opinion. If the Centers for Drug Evaluation is satisfied with our application materials, it will notify us to apply for the on-site production inspection within six months after being so notified. The Center for Drug Certification will conduct an on-site inspection on our production procedures within 30 days after receipt of our application and take samples from three batches of our products, and the NIFDC will test the selected samples and later submit its testing reports to the Centers for Drug Evaluation. The Center for Drug Certification must submit the on-site production inspection report to Center for Drug Evaluation. The Centers for Drug Evaluation will form a comprehensive opinion based upon the technical review and evaluation opinion, the on-site production inspection report and the testing results of the samples, and submit its opinion and relevant materials to the CFDA. The CFDA will decide whether or not to issue the production permit to us. If the product approval and production approval both meet the criteria, the CFDA will issue the production permit together with the new drug certificate at the same time. The production permit is valid for a term of five years and must be renewed before its expiration. During the renewal process, our production facilities will be re-evaluated by the appropriate governmental authorities and must comply with the effective standards and regulations.

Under certain circumstances, for instance, where drugs are developed to cure a disease without effective therapeutic methods, the CFDA provides a special proceeding for its review of the new drug certificate application and production permit application relating to such drugs.

The CFDA will specify a monitoring period ranging from three to five years when approving the first production permit for most new drugs. During this monitoring period, the manufacturers holding the new drug certificates must regularly report, among other things, the production process, efficacy, stability and side effects of the new drugs involved to the provincial level CFDA. During the same period, the CFDA will not accept any new application for approval of the same drug involved. However, if a third party has filed an application for the same drug and obtained the clinical trial permit before the monitoring period commences, the third party may still obtain a new drug certificate and production permit for the same drug.

We may also be required to conduct clinical trials prior to commencing the manufacture of pharmaceutical products for which there are published state pharmaceutical standards.

GMP Certificate. After receiving the on-site inspection notification for production permit, we should submit the GMP inspection application to the Center for Drug Certification as well. The Center for Drug Certification will arrange for the inspection on our facilities for both purposes of GMP inspection and production permit at the same time. If we pass the GMP inspection, CFDA will issue the GMP Certificate after we get the Production Permit. A GMP Certificate is used to approve the quality system, including quality assurance and quality control management, production management, material and product, qualification and validation, facility and equipment, etc. The CFDA has issued GMP standards for pharmaceutical manufacturers to minimize the risks arising out of the production process of drugs that will not be identified or eliminated through testing the final products.

A GMP Certificate is valid for five years and we should apply for a renewal of our GMP Certificate no later than six months prior to the expiration of our GMP Certificate.

We cannot commence the manufacture of a new drug unless and until we have obtained a valid new drug certificate, production permit and GMP Certificate.

Batch Approval. Our vaccine products cannot be distributed in the market before they obtain the batch approval. After we get the GMP certificate, we will start the commercial production, after which we need to apply for batch release approval by the NIFDC for the commercial lots. For each batch of products, we will provide samples taken from cold rooms by inspectors, together with manufacturing records, self-testing records and other quality control documents. The NIFDC will review the documents and test the samples and issue a batch approval within approximately two months, if our manufacture procedures and the quality of the products are ascertained to meet the standards as approved by the CFDA. With the batch approval, we may distribute the approved batch of vaccines to the market.

Regulatory Framework of the Animal Vaccine Products in the PRC

The testing, approval, manufacturing, labeling, advertising and marketing, and export of our vaccine products or product candidates are extensively regulated by governmental authorities in the PRC and other countries.

In the PRC, the Ministry of Agriculture, or the MOA, regulates and supervises veterinary biopharmaceutical products under the Chinese veterinary pharmacopoeia, the Regulations on Veterinary Drug Administration, the Method of Registration of Veterinary Drug and other relevant rules and regulations which are applicable to manufacturers in general. Every step of our biopharmaceutical production is subject to the requirements on the manufacture and sale of veterinary pharmaceutical products as provided by these laws and regulations, including but not limited to, the standards of clinical testing, declaration, approval and transfer of new medicine registrations, applicable industry standards of manufacturing, distribution, packaging, advertising and pricing.

Pre-clinical Tests. Pre-clinical tests include in-vitro laboratory evaluation of the product candidate, as well as in-vivo animal studies to assess the potential safety and efficacy of the product candidate. Pre-clinical tests must be conducted in compliance with the Method of New Veterinary Drug Registration. With respect to vaccines, the pre-clinical tests should also comply with the Announcement No. 442 and No. 683 of the MOA. We must submit the results of the pre-clinical tests, together with manufacturing information, analytical data to the MOA as part of an investigational new drug application, which must be approved before we may commence clinical studies. We cannot assure that submission of an investigational new drug application will result in the MOA allowing animal clinical studies to begin, or that, once studies begin, issues will not arise that result in the suspension or termination of such animal clinical studies.

Clinical Studies. Clinical studies involve the administration of the product candidate to the target species under the supervision of the veterinary administration department, who are generally veterinarians or an independent third party not employed by us or under our control. Clinical studies typically are conducted in one phase. Clinical studies generally further evaluate clinical efficacy and test further for safety within an expanded animal population. Clinical studies have to be conducted in compliance with the Good Clinical Practice in the Guidance for Industry VICH GL9. We or the MOA may suspend clinical studies at any time on various grounds, including a finding that animals are being exposed to an unacceptable health risk. Assurance about the integrity of the clinical study data, and that due regard has been given to animal welfare and protection of the personnel involved in the study, the environment and the human and animal food chains.

After clinical studies, we will submit a report containing the results of the pre-clinical and clinical studies to the MOA, together with other detailed information, including information on the manufacture and composition of the product candidate, to apply for a new veterinary drug certificate. For vaccines, we have to comply with the Announcement No. 442 and No. 683 of the MOA.

New Veterinary Drug Certificate. The Center for Veterinary Drug Evaluation of the MOA will conduct a formal examination of our application for a new veterinary drug certificate. Once it decides to accept our application based upon such formal examination, it will notify us within 10 working days and a group of experts will conduct a preliminary examination on our materials. The Center for Veterinary Drug Evaluation will distribute its opinion to the applicant, and the applicant will supplement the materials and tests according to the opinion. The applicant will then submit a supplemental application to the Center for Veterinary Drug Evaluation. The Center for Veterinary Drug Evaluation's experts will reexamine on the supplemental application. If the Center for Veterinary Drug Evaluation is satisfied with our materials, it will ask for samples from three batches of our products and they will inspect the selected samples and later submit its inspection reports to the MOA. The Center for Veterinary Drug Evaluation will form a comprehensive opinion based upon the technical examination and evaluation opinion, and the inspection results of the samples, and submit its opinion and relevant materials to the MOA. The MOA will decide whether or not to issue a new veterinary drug certificate to us. We consider obtaining the new veterinary drug certificate for our product candidates a significant milestone in our business.

GMP Certificate. After conducting the workshop, we will need to submit an application for a GMP Certificate to the MOA. A GMP Certificate is used to approve the manufacturing equipment, process and workshop used in producing a particular drug. The MOA has issued GMP standards for veterinary pharmaceutical manufacturers to minimize the risks arising out of the production process of veterinary drugs that will not be identified or eliminated through testing the final products. The application for a GMP Certificate will be examined through a two-stage procedure. The first stage is the static examination and the second stage is the dynamic examination. In the first stage, the MOA will conduct an examination in the static circumstance and will give us a notice to applying for the dynamic examination if they accept our static examination. After that, we will apply for the dynamic examination and if successful, the MOA will issue us a GMP certificate.

A GMP Certificate is valid for five years and we must apply for a renewal of our GMP Certificate no later than six months prior to the expiration of our GMP Certificate.

Production License. After receiving the GMP certificate, we can apply to the MOA for a production license to manufacture the new veterinary drug. The MOA will issue the production license certificate to us within 40 working days. The production license is valid for a term of five years and must be renewed before its expiration. During the renewal process, our production facilities will be re-evaluated by the appropriate governmental authorities and must comply with the then effective standards and regulations.

Product Permission Number. After receiving the production license we can apply to MOA for a product permission number to manufacture the new drug. We should offer our GMP certificate, the production license certificate and the new veterinary drug certificate. The MOA will decide whether or not to issue the product permission number to us within 20 working days.

A product permission number is valid for five years and we must apply for a renewal of our product permission number no later than six months prior to the expiration of our product permission number.

We cannot commence the manufacturing of a new drug unless and until we have obtained a valid new drug certificate, GMP certificate, production license and product permission number.

Under certain circumstances, for instance, where drugs are developed to cure a disease without effective therapeutic methods, the MOA provides for a special proceeding for its review of the new veterinary drug certificate application and production permit application relating to such drugs.

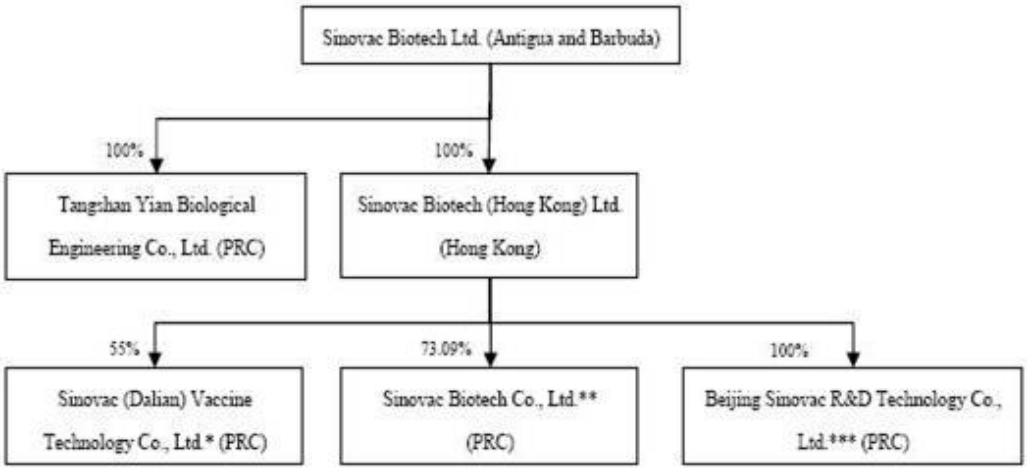
The MOA will specify a monitoring period ranging from three to five years when approving the first production permit for most new drugs. During this monitoring period, the MOA will not accept any new application for approval of the same drug involved. However, if a third party has filed an application for the same drug and obtained the clinical trial permit before the monitoring period commences, the third party may still obtain a new drug certificate and production permit for the same drug.

We can directly apply for product permission number of pharmaceutical products for which there are published state pharmaceutical standards.

Batch Approval. Our vaccine products cannot be distributed in the market before they are approved for sale by China Institute of Veterinary Drug Control. We have to apply for examination or inspection, or both examination and inspection, of each batch of our products by the China Institute of Veterinary Drug Control. For each batch of products, we will provide China Institute of Veterinary Drug Control with samples together with manufacturing records, internal inspection records and other quality control documents. The China Institute of Veterinary Drug Control will review the documents and/or inspect the samples and issue a batch approval within approximately three months if our manufacture procedures and the quality of the products are ascertained to meet the standards as approved by the MOA. With the batch approval, we may distribute the approved batch of vaccines to the market.

Organizational Structure

The following diagram illustrates our company's organizational structure, and the place of incorporation, ownership interest and affiliation of each of our subsidiaries as of the date of this report.



* Dalian Jingang Group Co., Ltd. owns the remaining 45% equity interest in Sinovac Dalian.

** Xiamen Bioway Group Co., Ltd., owns the remaining 26.91% equity interest in Sinovac Beijing.

*** The former name is Beijing Sinovac Biological Technology Co., Ltd.

C. Property, Plants and Equipment

We are headquartered in the Peking University Biological Industry Park (Haidian) in Beijing in a 48,900 square-foot facility, of which approximately 16,700 square feet are used as office space and approximately 32,200 square feet are used for the production plant for Healive and Bilive, where the production equipment for hepatitis vaccines is located. We own the above-described 48,900-square-foot facility in Beijing. In August 2004, we signed two 20-year leases with SinoBioway, pursuant to which we leased two buildings of approximately 28,000 and 13,300 square feet, respectively, located at the Peking University Biological Park in Beijing. We house our Anflu manufacturing and R&D center in these two buildings. One of the lease agreements was amended on August 12, 2010 to reflect an increase in lease payment. In June 2007, we signed another 20-year lease with SinoBioway, in order to expand Sinovac Beijing's production facilities in Beijing, pursuant to which we leased one building of approximately 37,000 square feet, located at Peking University Biological Park. Part of our administrative offices and filling facilities are located in this building. In September 2010, we entered an agreement with SinoBioway, under which we lease a space of 6,778 square feet. The lease term is five years and we used it for our research and development function. On April 8, 2013, we entered into four supplemental agreements with SinoBioway, under which the expiration date of each of the four operating lease agreements was extended to April 7, 2033.

We have two production lines located in the Peking University Biological Park (Haidian). Our production line to manufacture our hepatitis vaccines, Healive and Bilive, interchangeably has an aggregate combined production capacity of approximately 10 million doses annually. Our production line to manufacture our flu vaccines, Anflu, Panflu and Panflu.1, interchangeably has an annual production capacity of approximately 8 million doses of Anflu, or the equivalent of 20 million doses of Panflu or 20 million doses of Panflu.1. In May 2013, our new filling and packaging line in Changping site was granted the new GMP certificate, after which we moved the filling and packaging activities to our Changping site.

We conduct research and development and manufacturing of animal vaccines in a 40,000-square-foot facility in Tangshan, Hebei province. In Tangshan, we obtained a state-owned land use certificate of a parcel of granted land with an area of approximately 214,200 square feet. We have obtained GMP license and production permission number for our animal rabies vaccine, which are valid for five years.

In February 2010, we acquired a land use right of approximately 312,400 square feet of land located in Changping District, Beijing, or Changping Site, with five buildings with a total built-out area of 32,322 square meters (approximately 347,900 square feet) on 29,021 square meters (for a total consideration of approximately RMB123.6 million ($20.4 million). We have made all required payments by December 31, 2012. We have built a new filing and packaging line, EV71 production facilities and a warehouse on the Changping site. The new filling and packaging line and warehouse commenced operation in May 2013 and December 2010, respectively. The EV71 vaccine production line has a designed annual capacity of 20 million doses. The validation and commissioning for EV71 facility has been completed. We filed NDA for our EV71 vaccine in May 2013, which is under the technological review by CFDA. We financed the acquisition and construction of this site through short-term and long-term borrowings from commercial banks in China.

In November 2009, we entered into an agreement with Dalian Jin Gang Group to establish Sinovac Dalian. In January 2010, we established Sinovac Dalian which focuses on the research, development, manufacturing and commercialization of vaccines, such as varicella, mumps and rubella vaccines for human use. Sinovac Dalian has seven existing buildings with a total built-out area of 20,000 square meters (approximately 215,280 square feet) on 95,685 square meters (approximately 1,030,000 square feet) of land, located at DD Port, Economic and Technical Development Zone, Dalian City, Liaoning province. Sinovac Dalian has received its GMP certificate (2010 version) from the CFDA for its mumps vaccine in September 2012.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "ITEM 3. Key Information — D. Risk Factors" or in other parts of this annual report on Form 20-F.

A. Operating Results

Overview

We are a fully integrated, China-based biopharmaceutical company that focuses on the research, development, manufacturing and commercialization of vaccines against infectious diseases. We have successfully developed a portfolio of products, consisting of vaccines against hepatitis A, hepatitis B, influenza viruses and mumps. The following table sets forth certain information on our commercialized products.

Products	Date of Approval	Number of Doses Sold 2011	2012	2013
Healive	May 2002	2.7 million	3.7 million	4.1 million
Bilive	June 2005	1.8 million	2.6 million	2.5 million
Anflu	October 2005	2.2 million	2.9 million	3.4 million
Panflu[1]	April 2008	2.3 million	nil	3.0 million
Panflu.1[1]	September 2009	6.1 million	nil	nil
Mumps	September 2012	nil	nil	1.2 million
Rabend	August 2011	nil	5,000	0.2 million

(1) We sold all of our Panflu and Panflu.1 products to the PRC government. Our sales of Panflu and Panflu.1 depend on the completion of government audit on our fulfillment to the stockpiling order. In 2013, 3.0 million doses of Panflu products manufactured for the government stockpiling order were not used and expired. Sales of Panflu and Panflu. 1 generated revenues of $10.7 million in 2013.

Our pipeline consists of various vaccine candidates in the pre-clinical and clinical development phases in China. We completed three phases of clinical trials on our EV71 vaccine and the phase III clinical results showed our EV71 vaccine candidate has an efficacy rate of 94.8% against HFMD among infants and young children. We filed NDA for our EV71 vaccine candidate in May 2013, which is under the technological review by CFDA. In addition, we filed applications to conduct clinical trials for pneumococcal conjugate vaccine, pneumococcal polysaccharide vaccine and rubella vaccine in early 2011. We filed an application for the clinical trial of varicella vaccine in January 2013.

Our Proprietary Rights

Healive was co-developed by Tangshan Yian and the NIFDC. In April 2001, Tangshan Yian contributed its proprietary rights to Healive to Sinovac Beijing as its capital contribution to Sinovac Beijing. In 2002, the NIFDC, Tangshan Yian and Sinovac Beijing agreed that Sinovac Beijing owns the right to market and sell Healive, and that Sinovac Beijing was required to pay the NIFDC approximately $1 million for the Healive technology consulting fee that Tangshan had not paid by that time. We obtained Healive's new drug certificate from the CFDA in December 1999, the production license in May 2002, and final PRC regulatory approval for production of Healive in May 2002. Production of Healive commenced in July 2002.

Bilive was initially developed by Tangshan Yian. In March 2002, Tangshan Yian and Beijing Keding entered into an agreement under which Tangshan Yian transferred to Beijing Keding its proprietary rights to Bilive at no cost. In August 2002, Sinovac Beijing acquired the proprietary rights to Bilive from Beijing Keding in consideration of a 10.7% equity interest in Sinovac Beijing and a cash payment of $18,000. Beijing Keding is owned by Dr. Weidong Yin and three other senior officers of Sinovac Beijing. We received the production license for Bilive from the CFDA in January 2005. In June 2005, we obtained the final PRC regulatory approval for production of Bilive. The cost of the proprietary rights to Bilive was expensed as purchased in-process research and development. Production of Bilive commenced in June 2005.

In March 2003, Sinovac Beijing acquired the proprietary rights to Anflu from Tangshan Yian at the vendor's cost. In November 2004, we completed the acquisition of 100% of the shares of Tangshan Yian. We received the final PRC regulatory approval for the production of Anflu in October 2005. The cost of the proprietary rights to Anflu was expensed as purchased in-process research and development.

Sinovac Beijing started to research and develop the H5N1 vaccine in 2004. In 2004, Sinovac Beijing entered an agreement with the National Institute for Biological Standards and Controls, or NIBSC, an England based laboratory under the WHO, on transferring the H5N1 virus strain. According to the agreement, Sinovac Beijing as the recipient would receive the materials and information from NIBSC. The agreement indicated that Sinovac Beijing can only use received materials and information for academic in-house research purposes. In April 2008, Sinovac Beijing received a production license for H5N1 from the PRC government and started to produce H5N1 vaccines for the government-stockpiling program in June 2008.

In 2011, we licensed from MedImmune certain rights to use patented reverse genetics technology pertaining to virus strain production for H5N1 influenza vaccine. We have agreed to pay an upfront license fee, milestone payments up to an aggregate of $9.9 million based upon the achievement of cumulative net sales of licensed products in China (including Hong Kong and Macau), as well as royalty payments in single digit of net sales of the licensed products in China (including Hong Kong and Macau).On August 15, 2012, we entered into amended agreements with MedImmune to, among other things, extend the effectiveness of each agreement to reflect revised termination dates between December 2015 and May 2021. We paid $3.4 million in September 2012, including $2.9 million in royalties and upfront license fees and $0.5 million in withholding tax. As of December 31, 2013, royalty of $1.0 million was included in the account payable and accrued liabilities.

Amortization expense for these proprietary rights was $0.3 million, $0.2 million and $0.4 million in 2011, 2012 and 2013, respectively.

Research and Development Programs

Due to the risks inherent in the clinical trial process and the early stage of development of our products, we did not track our internal research and development costs for each of our research and development programs. We use our research and development resources, including employees and our technology, across multiple product development programs. As a result, we cannot state precisely the costs incurred for each of our research and development programs or our clinical and pre-clinical product candidates. However, the table below presents our best estimate of our total research and development costs allocable to our leading research and development programs for the periods indicated. We have allocated direct and indirect costs to each program based on certain assumptions and our review of the status of each program, payroll related expenses and other overhead costs based on estimated usage by each program.

	Year ended December 31,		
	2011	2012	2013
		(in thousands)	
Research and development programs			
Animal rabies	$ 1,027	$ 165	$ 215
EV71 vaccine	1,945	10,889	2,571
Pneumococcal conjugate vaccine	435	858	1,358
Pneumococcal polysaccharide vaccine	435	858	440
Varicella vaccine	324	567	945
Mumps vaccine	1,480	1,410	227
Others	3361	2,297	2,628
Total	$ 9,007	$ 17,044	$ 8,384

R&D Project Status

Projects	Cost Incurred	Current Status	Estimated Completion Date	Estimated Cost to Completion	Funding
	(in thousands)			(in thousands)	
EV 71 Vaccine	$ 18,565	NDA Review	2014-2015	$ 2,598	Sinovac Beijing
Pneumococcal Polysaccharide Vaccine (23 valent)	$ 2,649	IND Filed	2018	$ 22,789	Sinovac

Significant additional expenditures are generally required to complete clinical trials, set up designated production plant, apply for regulatory approvals, improve the production process, and bring product candidates to market. The eventual total cost of each clinical trial depends on a number of uncertain variables such as trial design, the length of trials, the number of clinical sites and the number of subjects. The process of obtaining and maintaining regulatory approvals for new therapeutic products is lengthy, expensive and uncertain. We anticipate that we will determine which of our early stage product candidates is best suited for further development, as well as how much funding to direct to each program, on an on-going basis in response to the scientific and clinical success and commercial potential of each product candidate.

EV71 vaccine against hand foot and mouth diseases, is our most important pipeline product. We completed three phases' clinical trials for our EV71 vaccine and the clinical results showed that the vaccine has good safety, immunogenicity and efficacy profile. In February 2014, the phase III clinical results were published online on NEJM. The clinical results showed the efficacy of the vaccine against HFMD, or herpangina, was 94.8% among infants and young children. The expenses of phase III clinical trial are estimated about RMB70 million ($11.2 million). We have completed the construction of an EV71 vaccine production plant with total capital expenditure of RMB19.1 million ($3.2 million) in 2013and $23 million accumulatively.

We expect to obtain the new drug certificate for the EV71 vaccine and launch to the market between 2014 and 2015. However, the risks and uncertainties of this pipeline product are identified as follows:

- The technology used to produce the vaccine developed in the research and development stage will not meet the mass production requirements, therefore affecting the quality of the vaccine.

- The quality standard of the vaccine might be changed by the regulator. The regulatory process might be delayed, which is out of management's control.

- The market demand for the vaccine will be diminished due to the reduced threat of hand, foot and mouth disease.

Government Grants

Deferred government grants represent funding received from the government for research and development, or investment in building or improving production facility. The amount of deferred government grants as of year end is net of research and development expenditures or depreciation incurred. We received deferred government grants of RMB5,908,100 ($0.9 million) and RMB 5,179,235 ($0.8 million) in 2012 and 2013, respectively.

Deferred government grants included RMB10,895,017 ($1.8 million) representing the unamortized portion of the RMB20 million government grants received by us in connection with the construction of a pandemic influenza vaccine production facility in 2007, with RMB1,800,065 ($0.3 million) to be amortized in 2014 included in the current portion and RMB9,094,951 ($1.5 million) to be amortized after 2014 included in the non-current portion of government grants. The government grants require us to make the entire production facility available for manufacturing pandemic influenza vaccines upon request by the Chinese government and we have fulfilled such conditions. $0.3 million, $0.3 million and $0.3 million of the government grants relating to this production facility were recorded as a reduction to depreciation expenses in 2011, 2012 and 2013, respectively.

Deferred government grants also included RMB4,797,619 ($0.8 million) being the unamortized portion of the RMB6.2 million government grants that we received in 2009 for purchasing H1N1 vaccine production equipment, with RMB885,714 ($0.1 million) to be amortized in 2014 included in the current portion and RMB3,911,905 ($0.6 million) to be amortized after 2014 included in the non-current portion of government grants. We have fulfilled the conditions attached to such government grants and $82,000 and $0.1 million of the government grant were recorded as a reduction to depreciation expenses in 2012 and 2013, respectively.

Deferred government grants also included RMB600,000 ($99,000) being the unamortized portion of the amount that we received in 2013 for purchasing H5N1 vaccine production equipment, with RMB 85,714($14,000) to be amortized in 2014 included in the current portion and RMB514,286 ($85,000) to be amortized after 2014 included in the non-current portion of government grants. The grant will be recorded as a reduction to depreciation expense.

Deferred government grants also include RMB12,888,335 ($2.1 million) in relation to other research projects. As of December 31, 2013, we have not fulfilled the conditions attached to such government grants, and has recorded the grants as long-term deferred government grants.

We received RMB12 million ($2.0 million) loans bearing interest rate at 0.36% per year from Beijing Zhongguancun Development Group. The fair value difference (between the face value and the fair value using the effective interest rate method at our borrowing rate of 6.9%) is recorded as a government grant of $0.4 million.

Critical Accounting Policies and Estimates

Our consolidated financial information has been prepared in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (3) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

When reviewing our financial statements, you should consider (1) our selection of critical accounting policies, (2) the judgment and other uncertainties affecting the application of those policies and (3) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements.

Revenue Recognition

Revenues are recognized when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery has occurred and there is a reasonable assurance of collection of the sales proceeds. We generally obtain purchase authorizations from its customers for a specified amount of products at a specified price and considers delivery to have occurred when the customer takes title of the products. We provide certain customers with a right of return. Revenues for inactivated hepatitis A, combined inactivated hepatitis A and B and seasonal influenza vaccines are recognized when delivery has occurred and we estimate return provision for these products. The product return provisions for inactivated hepatitis A vaccine and combined inactivated hepatitis A and B vaccine are estimated based on historical return and exchange levels, as well as the inventory levels and the remaining shelf lives of the products in the distribution channel. As of December 31, 2013, sales return provision for inactivated hepatitis A vaccine and combined inactivated hepatitis A&B vaccine were $2.2 million as compared with $1.7 million as of December 31, 2012. Sales return provisions accounted for 5.4% and 5.5% of private pay market sales of inactivated hepatitis A and combined inactivated hepatitis A and B vaccine in 2012 and 2013, respectively. We do not accept returns for hepatitis products sold under the Expanded Program on Immunization and exports, as such no sales returns are estimated for these sales. The product return provisions for seasonal influenza vaccine are estimated based on actual sales returns and expected sales returns to the end of the flu season because the returned products are generally accepted before the end of the flu season. As of December 31, 2013, reserves for seasonal influenza vaccine returns were approximately $0.6 million, as compared with $1.3 million as of December 31, 2012. Revenues for animal and mumps vaccines without a right of return for customers are recognized when delivery has occurred. Revenues for animal and mumps vaccines with a right of return for customers are recognized when customers make payment as we currently do not have sufficient historical data to estimate returns for these products.

Deferred revenues generally relate to government stockpiling programs and advances received from customers. Under government stockpiling programs for H1N1 and H5N1 vaccines, we generally obtain purchase authorizations from the government for a specified amount of products at a specified price, and no right of return is provided by us. Revenues are recognized when the government takes delivery of the products. Expired products that have passed government inspection are recognized as revenues once cash is received by us.

Allowance for Doubtful Accounts

We extend unsecured credit to our customers in the ordinary course of business but mitigate the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and recorded based on management's assessment of the credit history with the customer and current relationships with them.

We also maintain an allowance for doubtful accounts for estimated losses based on our assessment of the collectability of specific customer accounts and the aging of the accounts receivable. We analyze accounts receivable and historical bad debts, customer concentrations, customer solvency, current economic and geographic trends, and changes in customer payment terms and practices when evaluating the adequacy of our current and future allowance. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, a specific allowance for bad debt is estimated and recorded, which reduces the recognized receivable to the estimated amount we believe will ultimately be collected. We monitor and analyze the accuracy of the allowance for doubtful accounts estimate by reviewing past collectability and adjust it for future expectations to determine the adequacy of our current and future allowance. Our reserve levels have generally been sufficient to cover credit losses. As of December 31, 2013, the Company provided 100% (2012: 100%) allowance for accounts receivable aged more than three years, approximately 56.3% (2012: 100%) allowance for accounts receivable aged between two year and three years, approximately 16.9% (2012: 48.5%) allowance for accounts receivable aged between one year and two years, and approximately 1.7% (2012: 4%) allowance for accounts receivable aged less than one year. For the year ended December 31, 2013, the Company changed its estimates of the allowance for doubtful accounts due to an improved historical trend of being able to collect accounts aged two years or more. The change in estimate resulted in an increase to operating income and net income attributable to stockholders by $0.8 million and $0.6 million respectively. In addition, basic and diluted earnings per share increased by $0.02 and $0.01, respectively. Our allowance for doubtful accounts as of December 31, 2013 was $2.4 million, compared to $2.9 million as of December 31, 2012. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The bad debt recovery was $0.5 million as of December 31, 2013 as compared with $0.9 million recovery as of December 31, 2012.

Inventory Provision

We write off all the unsold seasonal influenza vaccines at the end of the fiscal year. In addition, we estimate an inventory provision for the existing products in inventories after considering the sales forecasts, the conditions of the raw material inventory, as well as the expiring date of Healive and Bilive inventory. The inventory provision in 2011, 2012 and 2013 was $4.0 million, $3.5 million and $1.4 million, respectively. The change of inventory provision is based on a review of our inventory expiration dates at year-end and estimated forecast sales.

Impairment of Long-Lived Assets

Long-lived assets, including intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset group may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset group. An asset group is identified as assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. If the asset group is not fully recoverable, an impairment loss would be recognized for the difference between the carrying value of the asset group and its estimated fair value, based on the discounted net future cash flows or other appropriate methods, such as comparable market values. We use estimates and judgments in its impairment tests and the timing and amount of impairment charges could be materially different if different estimates or judgment are utilized. We recorded impairment charges on long-lived assets of $57,000 in 2013, as compared with $2.2 million in 2012 and $0.4 million in 2011.

Amortization of Intangible Assets

We have amortized the value of intangible assets, being licenses, over an estimated useful life of 3 to 10 years. The estimated life of intangible assets is inevitably subjective, however, whenever events or changes in circumstance indicates the carrying value may not be recoverable or, at least once per year, we evaluate impairment and reevaluate the market opportunities for the intangible assets' products and determine whether the remaining useful life estimate is still reasonable. In 2011, 2012 and 2013, there was no impairment of intangible assets.

The following table shows the effect of a change in the estimated useful life of licenses and permits of 10% for 2013:

	Changes from Reported Amount Based on Hypothetical 10% Decrease in Useful Life	As Reported	Changes from Reported Amount based on Hypothetical 10% Increase in Useful Life
Useful life	9/2.7 years	10/3 years	11/3.3 years
Amortization expense	$ 450	$ 411	$ 368
Income for the year	$ 7,403	$ 7,442	$ 7,485
Income per share	$ 0.13	$ 0.13	$ 0.14

Given the nature of estimating the useful life of long-term assets, it is not yet possible to provide a meaningful assessment of historical accuracy of the useful life estimates employed. It is very likely that the useful life of the licenses and permits will be different from the estimate employed, and the changes could be material. Changes in the estimated life of the licenses will not have a bearing on the total amount charged to operations over the life of the assets, but could change the results of operations and financial position in any given period.

Leases

Leases are classified as capital and operating depending on the terms and conditions of the lease agreement. Operating leases are expensed in the period in which they are incurred. There are no capital leases for the periods presented.

In 2004, we entered into two operating lease agreements with Sino Bioway with respect to Sinovac Beijing's production plant and laboratory in Beijing, China with annual lease payments totaling RMB1,398,680 ($0.2 million). The leases commenced on August 12, 2004 and have a term of 20 years. One of the lease agreements was amended on August 12, 2010 with the rent increased from RMB452,600 ($75,000) to RMB1,357,800 ($0.2 million) per year.

In June 2007, we entered into another operating lease agreement with Sino Bioway, with respect to the expansion of Sinovac Beijing's production plant in Beijing, China for an annual lease payment of $0.3 million (RMB2,043,270). The lease commenced in June 2007 and has a term of 20 years.

In September 2010, we entered into another operating lease agreement with Sino Bioway with respect to the expansion of Sinovac R&D's business on research and development for an annual lease payment of $0.1 million (RMB861,202). The lease commenced on September 30, 2010 and has a term of five years.

On April 8, 2013, we entered into four supplemental agreements with SinoBioway, under which the expiration date of each of the four operating lease agreements was extended to April 7, 2033. $0.3 million (RMB 1,852,919) representing prepaid lease payments made to this related party was included in current and long-term prepaid expenses and deposits as compared with $0.4 million (RMB 2,714,120) as of December 31, 2012.

Income Tax Valuation Allowance

In 2013, we recorded $2.6 million in short term deferred income tax asset and $0.1 million in long term deferred income tax asset based on the difference in timing of certain deductions for income tax and accounting purposes. The Company evaluates its valuation allowance requirements at each reporting period by reviewing all available evidence, both positive and negative, and considering whether, based on the weight of that evidence, a valuation allowance is needed. When circumstances change causes a change in management's judgement about the realizability of deferred tax assets, the impact of the change on the valuation allowance is generally reflected in income from operations. The future realization of the tax benefit of an existing deductible temporary difference ultimately depends on the existence of sufficient taxable income of the appropriate character within the carryforward period available under applicable tax law.

Recently Adopted Accounting Standards

Effective January 1, 2013, we adopted ASU 2013-02, Comprehensive Income: Reporting Amounts Reclassified out of Accumulated Other Comprehensive Income, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. Adoption of this guidance does not have a material effect on our consolidated financial statements.

RESULTS OF OPERATIONS

	Year ended December 31,					
	2011		2012		2013	
	(in thousands, except for percentages)					
Consolidated Statements of comprehensive income data						
Sales	$ 56,842	100.0%	$ 49,216	100.0	$ 72,524	100.0%
Cost of sales	21,128	37.2%	19,100	38.8%	21,273	29.3%
Gross profit	35,714	62.8%	30,116	61.2%	51,251	70.7%
Operating expenses:						
Selling, general and administrative expenses[(1)]	23,809	41.9%	33,280	67.6%	34,538	47.6%
Recovery for doubtful accounts	(167)	(0.3)%	(874)	(1.8)%	(504)	(0.7)%
Research and development expenses	9,007	15.8%	17,044	34.6%	8,384	11.6%
Loss on disposal and impairment of property, plant and equipment	455	0.8%	2,190	4.4%	88	0.1%
Government grants recognized in income	(764)	(1.3)%	(373)	(0.8)%	—	—
Total operating expenses	32,340	56.9%	51,267	104%	42,506	58.6%
Operating income (loss)	3,374	5.9%	(21,151)	(43)%	8,745	12.1%
Interest and financing expenses	(384)	(0.7)%	(775)	(1.6)%	(3,031)	(4.2)%
Interest income	1,397	2.5%	2,370	4.8%	2,168	3.0%
Other income (expenses)	280	0.5%	(77)	(0.2)%	263	0.4%
Income (loss) before income taxes and non-controlling interests	4,667	8.2%	(19,633)	(39.9)%	8,145	11.2%
Income tax benefit (expenses)	(5,066)	(8.9)%	884	1.8%	2,225	3.1%
Net income (loss)	(399)	(0.7)%	(18,749)	(38.1)%	10,370	14.3%
Less: income (loss) attributable to non-controlling interests	445	(0.8)%	(3,896)	7.9%	2,928	4.0%
Net income (loss) attributable to the stockholders of Sinovac	$ (844)	(1.5)%	$ (14,853)	(30.2)%	$ 7,442	10.3%

(1) Includes stock-based compensation of $0.2 million, $0.3 million and $0.3 million in 2011, 2012 and 2013, respectively.

Sales

Revenues from sales represent: (1) the invoiced value of goods, net of value added taxes, or VAT, sales returns, trade discounts and allowances. See "ITEM 5. Operating and Financial Review and Prospects — A. Operating Results — Taxes and incentives." We recognize revenues at the time when our products are delivered, persuasive evidence of an arrangement exists, the price is fixed and final and there is reasonable assurance of collection of the sales proceeds; and (2) the value of goods produced for government stockpiling program. We recognize revenues from the sales of products to the government stockpiling program when cash has been received and the products have expired and passed government inspection or are delivered per government instruction.

Our revenues, growth and results of operations depend on several factors, including the level of acceptance of our products among doctors, hospitals and vaccinees, and our ability to maintain or increase prices for our products at levels that provide favorable margins. The level of acceptance among doctors, hospitals and vaccines is influenced by the performance, promotion and academic research, and pricing of our products.

We market and sell our vaccine products primarily through various provincial and municipal CDCs. We enter into sales agreements with CDCs each time a CDC places a purchase order. Pursuant to these sales agreements, CDCs typically agree not to re-sell our products to regions outside the territory the pertinent CDC covers administratively. Since hepatitis A vaccines was included into government sponsored expended immunization program in 2007, we have actively participated in the tender and bidding organized by various provincial CDCs. We enter into sales agreements with the CDCs when we win a bid.

Pricing

To gain market penetration, we price our Healive at levels that we believe offer attractive economic returns to CDCs and their end customers, such as hospitals, taking into account the prices of competing products in the market. We believe that our Healive and Bilive are competitively priced compared to hepatitis vaccines available in China. In the public market, we price our Healive in reference to the price guidance set up by the government and adjust the price from time to time as we judge necessary to win the bid. We price Anflu competitively to offer attractive economic returns to CDCs. The prices of our products are lower than those of foreign imports. Panflu and Panflu.1 pricing were determined on a cost plus basis in consultation with the government.

The provincial governments in China may adjust the fee rates from time to time. If they reduce the fee rates, some hospitals and distributors may be discouraged from purchasing our products, which would reduce our sales. In that event, we may need to decrease the price of our products to provide our customers acceptable returns on their purchases. We cannot assure you that our business, financial condition and results of operations will not be adversely affected by any reduction in fees for the vaccines in the future.

Cost of sales

Our cost of sales primarily consists of material, direct labor and production overheads. Depreciation of property, plant and equipment attributable to manufacturing activities and license amortization are capitalized as part of inventory, and expensed as cost of sales when product is sold. Cost of goods sold in 2011, 2012 and 2013 amounted to $21.1 million, $19.1 million and $21.3 million, respectively, of which idle capacity amounted to $1.2 million, $3.1 million and $2.2 million, respectively. We produce our products and conduct the final product packaging in-house.

As we source a significant portion of our components and raw materials in China, we currently have a relatively low cost base compared to vaccines manufacturers in more developed countries. We expect the costs of components and raw materials in China will increase in the future as a result of further economic development and inflation in China. In addition, our focus on new generations and applications of our products may require higher cost components and raw materials. We plan to offset increases in our cost of raw materials and components through more efficient product designs and product assembly enhancements as well as through savings due to economies of scale.

Sales, general and administrative expense

Sales and marketing expenses consist primarily of salaries and related expenses for personnel engaged in sales, marketing and customer support functions and costs associated with marketing activities and shipping. Going forward, we expect to increase our expenditures on sales and marketing, both on an absolute basis and as a percentage of revenue, to promote our products, especially Bilive and Anflu. We expect the sales and marketing expenses for Bilive will increase in 2014 as we will increase the selling activities on this product in the private market.

General and administrative expense consists primarily of compensation for employees in executive and operational functions, including finance and accounting, business development, and human resources. Other significant costs include facilities costs, stock-based compensation, professional fees for accounting and legal services and the income taxes we assumed for our employees as a result of their exercising the stock options.

Research and development expenses

Our research and development expenses consist primarily of:

- salaries and related expenses for personnel;
- fees paid to consultants and clinical research organizations in conjunction with their independent monitoring our clinical trials and acquiring and evaluating data in conjunction with our clinical trials;
- consulting fees paid to third parties in connection with other aspects of our product development efforts;
- costs of materials used in research and development; and
- depreciation of facilities and equipment used to develop our products.

We expense both internal and external research and development costs as incurred, other than those capital expenditures that have alternative future uses, such as the build-out of our plant. We expect our research and development costs will continue to be substantial and that they will increase as we advance our current portfolio of product candidates through clinical trials and move other product candidates into pre-clinical and clinical trials.

Taxes and incentives

Sinovac Beijing, Tangshan Yian, Sinovac R&D and Sinovac Dalian are subject to income taxes in China on their taxable income as reported in their statutory accounts at a tax rate in accordance with the relevant income tax laws applicable to foreign investment enterprises. Income tax returns filed by us and its active subsidiaries that are subject to examination are Sinovac Beijing and Tangshan Yian for the years since 2004 and Sinovac R&D and Sinovac Dalian for the year since 2010.

On January 1, 2008, the EIT Law became effective. This EIT Law eliminated the previous preferential tax treatment that was available to the foreign invested enterprises, or FIEs, but provided grandfathering of the preferential tax treatment currently enjoyed by the FIEs. Under the EIT Law, both domestic companies and FIEs are subject to a unified income tax rate of 25%. Sinovac Beijing reconfirmed its “High and New Technology Enterprise” (HNTE) status according to the new criteria and obtained the certificate on September 19, 2011. Sinovac Beijing qualifies for preferential income tax rate of 15% from 2011 to 2014. The income tax rate will need to be reviewed every three years thereafter depending on whether or not Sinovac Beijing is in compliance with the HNTE criteria. Tangshan Yian is subject to a 25% income tax rate. The unified income tax rate of 25% is also applicable to Sinovac R&D and Sinovac Dalian until they obtain HNTE certificates.

The EIT Law provides that, if an enterprise incorporated outside the PRC has its "de facto management organization" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on its worldwide income. Under the Implementation Rules of the EIT Law, "de facto management organization" means the organization which is essentially in charge of overall management and control with respect to the operation, personnel, books and accounts, and assets of the enterprise in question. As substantially all members of the management continue to be located in the PRC, we and our Hong Kong subsidiary may be deemed a PRC tax resident enterprise and therefore be subject to an enterprise income tax rate of 25% on its worldwide income. The dividends that we receive from its PRC subsidiaries would be exempt from PRC withholding tax but be subject to income tax at 25% if we are recognized as a PRC tax resident. However, the administration of laws and regulations in China is subject to a certain degree of discretion by the government authorities. In practice, the risk of Sinovac Hong Kong being deemed as a PRC tax resident is remote under the prevailing tax laws and regulations.

Pursuant to the arrangement between Hong Kong and PRC for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect To Taxes on Income, dividends paid by a mainland PRC tax resident company to a Hong Kong tax resident company may be taxed in the PRC if the beneficial owner of the dividends is a resident of Hong Kong, the tax so charged shall not exceed 10% of the gross amount of the dividend or 5% of the gross amount of the dividend when the beneficial owner is a company directly owns at least 25% of our capital which pays the dividends.

According to Guoshuihan [2009] No. 601, or Circular 601, the beneficial owners means persons who possess ownership and right of control on their proceeds or rights or properties generated from such proceeds. The beneficial owners generally engage in substantive operation activities whereas agents and conduit companies for tax evasion purposes are not beneficial owners. Circular 601 sets out several key factors for determining the existence of substantive operation activities, such as size of assets, number of employees, size of business and effective control over the shares. The tax authority determines if an applicant satisfies the definition of a beneficial owner by applying the substance over form principle. However, due to the lack of specific guidance on the execution of the substance over form principle in practice, the qualification of a beneficial owner is subject to the in-charge tax authority's judgment and discretion.

In addition, whether the favorable rate will be applicable to dividends received by a Hong Kong company from its PRC subsidiaries is subject to the approval of the PRC tax authority in-charge which has the discretion to assess whether a recipient of the PRC-sourced income is only an agent or a conduit, or lacks the requisite amount of business substance, in which case the application of the tax arrangement may be denied. In May 2012, Sinovac Hong Kong was granted by the in-charge tax bureau the status of 5% withholding tax on dividends declared by Sinovac Beijing for three years from 2012 to 2014. However, the higher level tax bureau has the authority to re-assess the approval of the preferential divided withholding tax rate granted by the in-charge tax bureau. It is uncertain if the higher level tax bureau will re-assess the approval granted by the in-charge tax bureau, or if the higher level tax bureau will agree with the approval issued by the in-charge tax bureau when a re-assessment is conducted. If Sinovac Hong Kong had not been subject to the preferential tax rate of 5%, the recovery of withholding tax expenses would have been decreased by approximately $0.9 million for the year ended December 31, 2012. Basic and diluted loss per common share would have been decreased by approximately $0.02 for the year ended December 31, 2012. On January 18, 2012, the withholding tax on dividends declared to Sinovac Hong Kong with amount of $0.8 million was paid. As of December 31, 2013, the deferred tax liability related to the withholding tax on undistributed earnings of Sinovac Beijing was $nil.

We were incorporated in Antigua and Barbuda, and has historically been involved in a number of business combinations and significant financing. As a result, we could be involved in various investigations, claims and tax reviews that arise in the ordinary course of business activities.

We determine deferred taxes for each tax-paying entity in each tax jurisdiction. The potential tax benefits arising from the losses incurred by its subsidiaries have not been recorded in the financial statements.

We evaluate our valuation allowance requirements at each reporting period by reviewing all available evidence, both positive and negative, and considering whether, based on the weight of that evidence, a valuation allowance is needed. When circumstances change causes a change in management's judgment about the realizability of deferred tax assets, the impact of the change on the valuation allowance is generally reflected in income from operations. The future realization of the tax benefit of an existing deductible temporary difference ultimately depends on the existence of sufficient taxable income of the appropriate character within the carry forward period available under applicable tax law.

The valuation allowance relating to losses carried forward of Tangshan Yian, Sinovac R&D and Sinovac Dalian are still required as realization of this element of the potential tax benefit is still uncertain. The potential tax benefits arising from the losses incurred by Tangshan Yian, Sinovac R&D and Sinovac Dalian have not been recorded in the financial statements. The tax losses of the PRC subsidiaries in the amount of RMB263.2 million ($43.5 million) can be carried forward for five consecutive years against profits starting from 2014 and will expire ranging from 2015 to 2018.

Year ended December 31, 2013 Compared to Year Ended December 31, 2012

Sales. Total sales for 2013 increased by 47.4% to $72.5 million from $49.2 million in 2012. Excluding revenue recognition of Panflu under the government stockpiling program in 2013, regular sales of Healive, Bilive, Anflu, mumps vaccine and RabEnd increased by 25.5% to $61.8 million in 2013 from $49.2 million in 2012. The increased sales mainly derived from the growth of sales of Healive and Anflu.

The table below sets forth a breakdown of our sales by product:

	Twelve months ended December 31	
Sales	**2012**	**2013**
	(in thousands)	
Hepatitis A vaccine	$ 26,420	$ 20,141
Hepatitis A&B vaccine	20,782	19,810
Influenza vaccines	12,156	9,191
Animal vaccine	750	50
Mumps vaccines	1,680	24
Regular sales subtotal	61,788	49,216
H5N1 vaccine	10,736	—
Total sales	**$ 72,524**	**$ 49,216**

Gross Profit. Gross profit in 2013 increased by 70.2% to $51.3 million from $30.1 million in 2012. Gross margin increased to 70.7% in 2013 from 61.2% in 2012. Excluding the impact of Panflu sales under the government-stockpiling program in 2013, gross margin increased to 72.6% in 2013 from 61.2% in 2012. Higher gross margin was mainly driven by the improved operational management, which resulted in less inventory provision charged to the cost of sales, as well as increased selling price of some of our products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, or SG&A expenses, include nonproduction related wages and salaries, stock-based compensation, consulting fees, travel, occupancy, advertising, public company costs and professional fees.

Selling, general and administrative expenses for 2013 were $34.5 million, which was maintained at a similar level of $33.3 million for 2012.

We recorded stock-based compensation of $0.3 million in 2013 compared to $0.3 million in 2012. As of December 31, 2013, we had unrecognized compensation costs of $0.5 million. This unearned component will be recognized over a period of 27 months.

Research and Development Expenses. Research and development expenses in 2013, which primarily represented amounts spent on the advancement of the pipeline vaccines, including EV71, pneumococcal vaccines and varicella vaccine, decreased to $8.4 million from $17.0 million in 2012. The decrease was mainly due to the completion of the phase III clinical trial of EV71 vaccine candidate in the first quarter of 2013.

Interest and Financing Expenses. Interest and financing expense increased by 291.4% to $3.0 million in 2013 from $0.8 million in 2012. The increase was mainly due to the $13.9 million increase in total borrowings as of December 31, 2013 over December 31, 2012. The construction of Changping site was completed and interest expenses were no longer capitalized in 2013. There were $1.5 million and $65,000 interest subsidy received in 2012 and 2013, respectively.

Income Taxes Expenses. We had an income tax benefit of $2.2 million in 2013, compared to an income tax recovery of $0.9 million in 2012. The income tax recovery resulted from recognition of deferred tax assets as Sinovac Beijing returned to profitability and deferred tax assets are expected to be realized in the future.

Net Income (loss). Net income attributable to stockholders of Sinovac was $7.4 million in 2013, compared to a net loss of $14.9 million in 2012.

Year ended December 31, 2012 Compared to Year Ended December 31, 2011

Sales. Sales of core vaccines (including Healive, Bilive and Anflu) in 2012 increased by 40.2% to $49.1 million from $35.0 million in 2011. Total sales decreased by 13.4% from $56.8 million total in 2011 because we had significant sales of non-core pandemic vaccines in 2011.

Revenue generated from sales of hepatitis vaccines increased by 48.3%. In 2012, we adjusted our sales strategy to adapt to the overall hepatitis vaccines market in China where both private market and public market exist. Our competitors, mainly multinational companies, withdrew their hepatitis A vaccine and hepatitis A and B vaccine because they were unable to meet the product standard specified in the 2010 pharmacopeia. We are the only supplier of hepatitis A and B vaccine in China and one of the two key suppliers of inactivated hepatitis A vaccine. As a result, sales of Bilive increased by 56% compared to the sales of 2011, while sale of Healive to the public market increased by 30% compared to 2011.

There were no sales of H1N1 and H5N1 vaccines in 2012. Sales of H1N1 and H5N1 vaccines represented 24.6% and 13.7%, respectively, of total revenue in 2011. The H1N1 and H5N1 vaccines were all sold to the PRC government. Our sales of H1N1 and H5N1 vaccines were dependent on government stockpiling purchases which were, in turn, dependent on expectation of disease outbreaks. The introduction or suspension of government stockpiling purchases had a material effect on our total sales. The table below sets forth a breakdown of our sales by product:

	Twelve months ended December 31	
Sales	**2011**	**2012**
	(in thousands)	
Hepatitis A vaccine	$ 20,141	$ 14,217
Hepatitis A&B vaccine	19,810	12,722
Influenza vaccines	9,191	8,113
Animal vaccine	50	
Mumps vaccines	24	—
Regular sales	49,216	35,052
H1N1 vaccine		14,008
H5N1 vaccine		7,782
Total sales	**$ 49,216**	**$ 56,842**

Cost of Sales. Cost of sales decreased by 9.6% to $19.1 million in 2012 from $21.1 million in 2011. Cost of sales decreased in 2012 mainly as a result of (i) the total sales decreased by 13.4% from $56.8 million in 2011, and (ii) sales return provision of hepatitis vaccines as a percentage of private market sales decreased from 8.3% in 2011 to 5.3% in 2012. By better matching production to demand, we were able to reduce production costs as a proportion of revenue.

Gross Profit. Gross profit decreased by 15.7% to $30.1 million in 2012 from $35.7 million in 2011. Gross profit margin was 61.2% and 62.8% for 2012 and 2011, respectively. The inventory write-offs and provision, included in the cost of sales, reduced the gross profit margin by 7.1% and 6.3% for 2012 and 2011, respectively.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, or SG&A expenses, include nonproduction related wages and salaries, stock-based compensation, consulting fees, travel, occupancy, advertising, public company costs and professional fees.

Our SG&A expenses increased by 39.9% to $33.3 million in 2012 from $23.8 million in 2011. Our selling expenses increased by 29.3% to $15.9 million in 2012 from $12.3 million in 2011. In 2012, G&A expenses increased due to the ongoing preparation costs for GMP upgrade for existing manufacturing facilities in both Changping and Shangdi sites, Changping facilities validation costs, the salaries and wages for the employees and cost for the Changping project.

In 2012, we realigned our sales and marketing efforts to better address the changing Chinese vaccine market. Selling expenses increased as a result of increased selling activities for selling Bilive in the private market, expanded sales team to cover a wider geographic area, and increased compensation to sales professionals to improve employee retention.

We recorded stock-based compensation of $0.3 million in 2012 compared to $0.2 million in 2011. As of December 31, 2012, we had unrecognized compensation costs of $0.8 million. This unearned component will be recognized over a period of 39 months.

Research and Development Expenses. Research and development expenses increased by 89.2% to $17.0 million from $9.0 million in 2011, primarily representing amounts spent on vaccines for EV71, pneumococcal conjugate, mumps and rabies in animals. These amounts are net of government grants to fund these activities. PRC government research and development grants are offset against the qualified research and development expenses as applicable, incurred in the period the conditions imposed by government authorities are fulfilled. In 2012, we received government grants of $0.6 million mainly related to the research and development of EV71, of which $0.1 million was offset against the qualified EV 71 clinical trial expenses and the remaining $0.4 million was deferred to offset future qualified research and development expenses. In 2012, we offset government research grant of $0.1 million against qualified research and development expenses compared to $0.7 million in 2011.

Interest and Financing Expenses. Interest and financing expense increased by 101% to $0.8 million in 2012 from $0.4 million in 2011. The increase was mainly due to the $12.5 million increase in total borrowings as of December 31, 2012 over December 31, 2011. In 2012 and 2011, we received $1.5 million and $0.7 million of interest subsidy related to Changping facility construction project, respectively, which were recorded as a reduction to interests capitalized.

Income Taxes Expenses. We had income tax benefit of $0.9 million in 2012, compared to an income tax expense of $5.1 million in 2011. The income tax benefit was attributable to the recovery withholding tax expenses of $0.9 million as Sinovac Hong Kong was granted a preferential withholding tax rate of 5% on dividends declared by Sinovac Beijing in May 2012, and $17,000 resulting from non-current deferred tax assets.

Net Loss. Net loss attributable to stockholders of Sinovac increased to $14.9 million in 2012 from a net loss of $0.8 million in 2011.

B. Liquidity and Capital Resources

We finance our operations primarily through short-term and long-term borrowings, proceeds from our public offering, capital raised in our private placement, cash generated from operations and, to a lesser extent, cash from government research grants. We believe that our current cash and cash equivalents, and anticipated cash flow will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditure, for the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from banks.