

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)

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(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

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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.

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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.

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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 vaccinees 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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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- *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.

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- *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.

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- *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 disease. 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.

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- *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.

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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.

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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

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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.

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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.

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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.

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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.

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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.

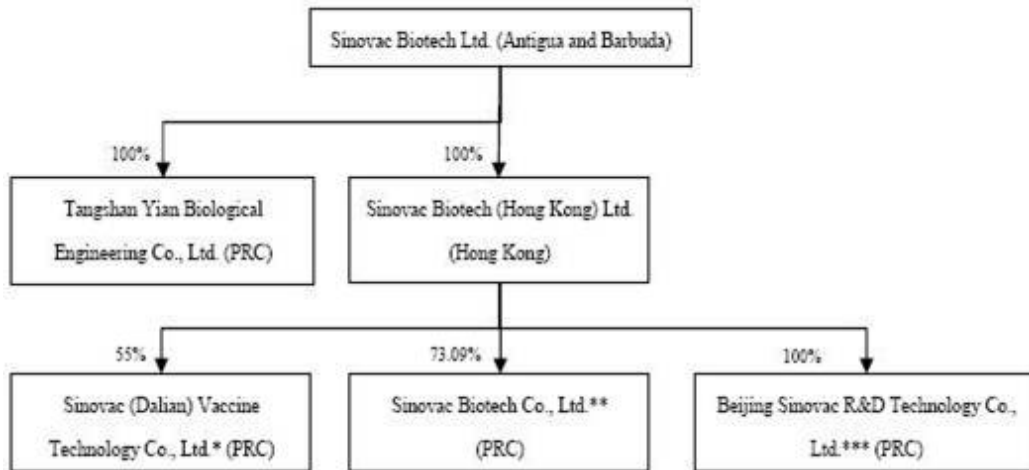
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We can directly apply for product permission number of pharmaceutical products for which there are published state pharmaceutical standards.

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.

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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 filling 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.

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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 (in thousands)	Current Status	Estimated Completion Date	Estimated Cost to Completion (in thousands)	Funding
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.

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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 2013 and \$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.

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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.

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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 vaccinees 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 expanded 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.

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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 dividend 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.

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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:

Sales	Twelve months ended December 31	
	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.

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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:

Sales	Twelve months ended December 31	
	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.

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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.

Cash Flows and Working Capital

The following table sets forth a summary of our net cash flows for the periods indicated:

	Year ended December 31,		
	2011	2012	2013
		(in thousands)	
Net cash provided by (used in) operating activities	\$ 13,936	\$ (16,254)	\$ 5,576
Net cash used in investing activities	(13,790)	(16,151)	(5,176)
Net cash provided by financing activities	613	17,330	14,419
Exchange gain on cash and cash equivalents	1,943	2,029	1,182
Increase (decrease) in cash and cash equivalents	2,702	(13,046)	16,001
Cash and cash equivalents at beginning of period	101,585	104,287	91,241
Cash and cash equivalents at end of period	\$ 104,287	\$ 91,241	\$ 107,242

Net cash provided by operating activities was \$5.6 million in 2013, compared to cash used in operating activities of \$16.3 million in 2012. Net cash provided by our operating activities in 2013 resulted primarily from (1) our net income of \$10.4 million, (2) an increase in inventory provision of \$1.4 million, (3) depreciation of property, plant and equipment and amortization of licenses of \$6.7 million, (4) an decrease in accounts receivable of \$7.3 million. For a more detailed analysis of our accounts receivable, see “— Accounts Receivable” below.

Net cash used in operating activities was \$16.3 million in 2012, compared to cash provided by operating activities of \$13.9 million in 2011. Net cash used in our operating activities in 2012 resulted primarily from (1) our net loss of \$18.7 million, (2) an increase in long-lived assets impairment of \$2.2 million, (3) an increase in deferred revenue of \$1 million, (4) an decrease in prepaid expenses and deposits of \$913,084. These items were partially offset by (1) an increase in inventory provision of \$3.5 million, (2) depreciation of property, plant and equipment and amortization of licenses of \$4.5 million, (3) a decrease in accounts receivable of \$4.3 million. For a more detailed analysis of our accounts receivable, see “— Accounts Receivable” below.

Investing Activities

Net cash used in investing activities was \$5.2 million in 2013, compared to \$16.2 million in 2012. We used less cash to acquire property, plant and equipment in 2013 as there were no major construction projects.

Net cash used in investing activities was \$16.2 million in 2012, compared to \$13.8 million in 2011. In 2012, cash used in investing activities was mainly to acquire property, plant and equipment.

Financing Activities

Net cash provided by financing activities was \$14.4 million in 2013 compared to \$17.3 million in 2012. In 2013, net cash provided by our financing activities included net proceeds of \$0.8 million from issuance of common shares and government funding of \$0.8 million. We also received loan proceeds of \$16.8 million and made loan repayments of \$4.1 million in 2013.

Net cash provided by financing activities was \$17.3 million in 2012 compared to \$0.6 million in 2011. In 2012, net cash provided by our financing activities included net proceeds of \$0.5 million from issuance of common shares and government funding of \$2.4 million. We also received loan proceeds of \$16.8 million and made loan repayments of \$4.8 million. We paid dividends of \$0.8 million to and received loan repayment of \$3.2 million from non-controlling interest shareholders in Sinovac Beijing in 2012.

Accounts Receivable

Our total accounts receivable, including other receivables increased by \$8.5 million to \$31.9 million as of December 31, 2013 from \$23.4 million as of December 31, 2012. Our average accounts receivable turnover time in 2013 was 175 days, as compared to 153 days in 2012. The decrease in our average turnover time was mainly due to more effective credit control.

Our maximum exposure to credit risk at the balance sheet dates relating to accounts receivables is summarized as follows:

	December 31,	
	2012	2013
	(in thousands)	
Aging within one year	\$ 22,065	\$ 29,565
Aging greater than one year, net of allowance for doubtful accounts	605	1,749
Total trade receivable — net	\$ 22,670	\$ 31,314

Borrowings

As of December 31, 2013, we had \$16.2 million in short-term borrowings, offset by \$107.2 million in cash, resulting in a liquid assets balance of \$91 million, compared with \$87.9 million at the end of 2012. We hold our cash and cash equivalents in interest-bearing dollar and renminbi denominated accounts at domestic commercial banks. The following table summarizes our borrowings as of December 31, 2013:

Type	Amount	Yearly Interest Rate	Interest Payment	Maturity Date	Purpose
Loan from Beijing Zhongguancun Development Group	RMB12 million (\$2.0 million)	0.36%	yearly	February 24, 2016	EV71 vaccine research

The total loan is RMB12 million (\$2.0 million), of which RMB6 million was received in 2012 and the second RMB6 million was received on February 25, 2013. The loan is unsecured and due on February 24, 2016. The Beijing Zhongguancun Development Group is entitled to 10.62% ownership of the profits, if any, generated from the intellectual property during the term of the loan. We can repay the loan at any time during the term of the loan. 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, which was \$0.4 million in 2013 as compared with \$0.2 million in 2012.

Type	Amount	Yearly Interest Rate	Interest Payment	Maturity Date	Purpose
Bank loan from Bank of China	RMB10 million (\$1.7 million)	7.4% floating ⁽¹⁾	monthly	September 23, 2014	operation

Sinovac Dalian entered into a bank loan agreement with Bank of China with a credit line of \$3.3 million (RMB 20 million). The first RMB5 million (\$0.8 million) was drawn down on March 13, 2013 and repaid on March 12, 2014. The second RMB5 million (\$0.8 million) with an annual interests of 7.4% that are payable monthly was received on September 24, 2013 and is repayable on September 23, 2014. Land and buildings of Sinovac Dalian with a net book value of RMB60.0 million (\$9.9 million) were pledged as collateral.

Type	Amount	Yearly Interest Rate	Interest Payment	Maturity Date	Purpose
Bank loan from Bank of Beijing	RMB146,069,905 (\$24.1 million)	6.4% floating ⁽²⁾	quarterly	November 13, 2015	construction of Changping facility

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The loan is for construction of the Changping facility and has a maximum credit facility amount of RMB200 million (\$33.0 million). The loan is repayable in four equal installments on May 13, 2014, November 13, 2014, May 13, 2015 and November 13, 2015. We also obtained a credit line with a maximum quota for issuing letter of credits of RMB80 million (\$13.2 million) with the same bank. Land and buildings of Sinovac Beijing with a net book value of RMB126.5 million (\$20.9 million) were pledged as collateral.

Type	Amount	Yearly Interest Rate	Interest Payment	Maturity Date	Purpose
Bank loan from China Construction Bank	RMB50 million (\$8.3 million)	6.15% floating ⁽²⁾	monthly	December 12, 2015	operation and production

The loan is to be used exclusively for the operation and production costs of Sinovac Beijing. Interest is payable monthly. The loan is unsecured. 10%, 10% and 80% of the principal amount is repayable in 2013, 2014 and 2015, respectively. Pursuant to the covenants set out in the agreement, the debt to total assets ratio must not be higher than 85%, current ratio must not be lower than 1, contingent liabilities must not be higher than RMB91 million (\$15.0 million), and contingent liability as a percentage of total stockholders' equity must not be higher than 10%.

Type	Amount	Yearly Interest Rate	Interest Payment	Maturity Date	Purpose
Bank loan from China Construction Bank	RMB88 million (\$14.5 million)	6.4% floating ⁽²⁾	monthly	February 9, 2015	purchase of Changping facility

The loan is exclusively for the purchase of the Changping facility. Interest is payable monthly. Land and building of the Changping facility of Sinovac Beijing with a net book value of RMB46.97 million (\$7.8 million) were pledged as collateral. RMB1 million (\$0.2 million) was repaid on June 20, 2013 and RMB1 million (\$0.2 million) was repaid on December 20, 2013. RMB2 million (\$0.3 million) is due in 2014 and the remaining balance is due in 2015.

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- (1) Annual interest rate at 10% above Bank of China's prime rate for loans of six months to one year plus 1.456% of financing fee per year.
 - (2) Annual interest rate at the bank's prime lending rate and adjusted every 12 months.

Our weighted average effective interest rate was 6.71%, 7% and 6.6% for the years ended December 31, 2011, 2012 and 2013, respectively.

Restrictions on Cash Dividends

We are a holding company, and we rely on dividends paid by our subsidiaries, Sinovac Beijing, Sinovac Dalian, Sinovac R&D and Tangshan Yian, for our cash needs, mainly our operating expenses. The payment of dividends in China is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Our subsidiary is also required to set aside at least a portion of its after-tax profit based on PRC accounting standards each year to fund certain reserve funds. These reserves can be used to recoup previous years' losses, if any, and, subject to the approval of the relevant PRC government authority, may be converted into share capital in proportion to their existing shareholdings, or by increasing the par value of the shares currently held by them. Such reserves, however, are not distributable as cash dividends. In addition, at discretion of their board of directors, our subsidiaries may allocate a portion of its after-tax profits based on PRC accounting standards to its enterprise development funds and employee welfare and bonus funds. These funds also are not distributable as cash dividends. In addition, if Sinovac Beijing, Sinovac Dalian, Sinovac R&D or Tangshan Yian incurs debt on its own behalf in the future, the instruments governing the debt may restrict the ability of one or more of our PRC subsidiaries, as the case may be, to pay dividends or make other distributions to us.

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The ability of our subsidiary to convert renminbi into U.S. dollars and make payments to us is subject to PRC foreign exchange regulations. Under these regulations, the renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of renminbi for capital account items, such as direct investment, loan, security investment and repatriation of investment, however, is still subject to the approval of the SAFE. See “Item 10D. Exchange Controls.”

Capital Expenditures

We made capital expenditures of \$15.5 million, \$16.2 million and \$5.2 million in 2011, 2012 and 2013, respectively. We spent \$5.4 million to build up Changping facility and \$9.2 million on purchasing equipment in 2013. As of December 31, 2013, our commitments of capital expenditures were approximately \$1.4 million primarily for manufacturing facility expansion and purchase of Changping facility. We will finance such commitments through short-term and long-term borrowings, proceeds from our public offering in 2010 and cash generated from operations.

C. Research and Development, Patents and Licenses, Etc.

See discussions under “— ITEM 5A. Research and Development Programs.”

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2013 to December 31, 2013 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

We do not, and did not, have any interest in variable interest entities or any other off-balance sheet arrangements that require disclosure.

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our estimated contractual obligations and commitments as of December 31, 2013 for the periods indicated:

	Payments due by period				
	Total	Less than 1 year	1 – 3 years (in thousands)	4 – 5 years	More than 5 years
Contractual obligations	—	—	—	—	—
Debt obligations including amount owing to related party (including interest)	\$ 55,394	\$ 20,159	\$ 35,235	\$ —	\$ —
R&D expenses, liabilities and commitment	181	181	—	—	—
Operating lease obligations	8,703	847	1,694	1,694	4,468
Purchase of facilities commitments	1,400	1,400	—	—	—
Accounts payable and accrued liabilities	28,037	28,037	—	—	—
Total	\$ 93,712	\$ 50,621	\$ 36,929	\$ 1,694	\$ 4,468

G. Safe Harbor

This annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. The forward-looking statements are contained principally in the sections entitled “Item 3. Key Information — D. Risk Factors,” “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects.” These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “may,” “will,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” or other and similar expressions. Forward-looking statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement, including but not limited to the following:

- our ability to maximize sales of our existing products within the Chinese market;
- our ability to develop new vaccines;
- our ability to improve our existing vaccines and lower our production costs;
- our ability to expand our manufacturing facilities to meet need of the growing Chinese market and other geographic markets;
- our ability to acquire new technologies and products;
- uncertainties in and the timeliness of obtaining necessary governmental approvals and licenses for marketing and sale of our vaccines in certain overseas markets;
- our ability to compete successfully against our competitors;
- risks associated with our corporate structure and the regulatory environment in China; and
- other risks outlined in our filings with the Securities and Exchange Commission, or the SEC, including this annual report on Form 20-F.

The forward-looking statements made in this annual report on Form 20-F relate only to events or information as of the date on which the statements are made in this annual report on Form 20-F. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report on Form 20-F completely and with the understanding that our actual future results may be materially different from what we expect.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report:

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Weidong Yin	49	Chairman, President, Chief Executive Officer
Simon Anderson ⁽¹⁾⁽²⁾⁽³⁾	52	Independent Director
Yuk Lam Lo ⁽¹⁾⁽²⁾⁽³⁾	65	Independent Director
Kenneth Lee ⁽²⁾⁽³⁾	46	Independent Director
Meng Mei ⁽¹⁾⁽²⁾⁽³⁾	59	Independent Director
Nan Wang	47	Chief Financial Officer, Vice President
Ming Xia	40	Vice President, Sales and Marketing

(1) Member of the audit committee.

(2) Member of the corporate governance and nominating committee.

(3) Member of the compensation committee.

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Dr. Weidong Yin has served as our chairman, president, chief executive officer and secretary since September 2003. Mr. Yin is also the general manager of Sinovac Biotech and the chairman of Sinovac Hong Kong, Tangshan Yian and Sinovac Dalian. He is the former general manager of Tangshan Yian Bioengineering Co., Ltd., and previously he worked as a medical doctor in infectious disease at the China Center for Disease Control and Prevention, Tangshan City, Hebei province. Dr. Yin has been dedicated to hepatitis research for over 20 years and was instrumental in the development of Healive. In addition, Dr. Yin has been appointed as the principal investigator by the Chinese Ministry of Science and Technology for many key governmental R&D programs such as Inactivated Hepatitis A Vaccine R&D, Inactivated SARS Vaccine R&D and New Human Influenza Vaccine (H5N1) R&D. He is also the president of Zhongguancun Listed Companies Association. He obtained his MBA from the National University of Singapore.

Mr. Simon Anderson has served as an independent director of our company since July 2004. Mr. Anderson is a member of our audit, compensation, and corporate governance and nominating committees. Mr. Anderson provides consulting expertise in the areas of regulatory compliance, exchange listings and financial operations. He was admitted as a member of the Institute of Chartered Accountants in British Columbia in 1986. Mr. Anderson serves as chief financial officer of companies listed on North American stock exchanges, including IBC Advanced Alloys Corp., which manufactures and processes alloys at its U.S. plants. Mr. Anderson also serves as a director of Simba Gold Corp., a gold exploration company.

Mr. Yuk Lam Lo has served as an Independent Director of our company since March 2006. Mr. Lo is a member of the audit, compensation and corporate governance and nominating committees. Mr. Lo was heavily involved in several committees of the HKSAR Government. He had been appointed a Director of the Hong Kong Applied R&D Fund Co. Ltd., Chairman of the Biotechnology Committee of the Hong Kong Industry & Technology Development Council, and Chairman of Biotechnology Projects Vetting Committee of the Innovation and Technology Fund, HKSAR. Currently Mr. Lo is serving as a Member of the Advisory Council for Food Safety of the Food and Health Bureau HKSAR, a Director of the Chinese Manufacturers' Association of Hong Kong (CMA) and Chairman of the Innovation and Technology Committee of CMA. Mr. Lo is also the Honorary Founding Chairman of Hong Kong Bio-Organization. In the educational area, Mr. Lo has been elected an Honorary Fellow of the Hong Kong University of Science and Technology. He is a member of the Advisory Committee of the Vocational Training Council, an Executive Vice-President of Asian College of Management, Adjunct Professor of the Chinese University of Hong Kong and Honorary Professor of several universities in China. In China, Mr. Lo was a Consultant to the Economic Bureau of Changchun and a Member of the Advisory Committee of the Shenzhen Municipal Science and Technology Bureau. At present, he is a Consultant of the Centre for Disease Control and Prevention of China. In the business sector, Mr. Lo is the Chairman of Lo's Associates Ltd., vice-Chairman of Santai Eco-Fishery Ltd., vice-Chairman of APlus OTC Health Group Ltd., Senior Advisor of Questmark Capital Management Sdn. Bhd., and Senior Director of Questmark Asia Ltd. Mr. Lo is an Independent Director of South East Group Ltd. (0726.HK) and Shangpharma (NYSE:SHP).

Mr. Kenneth Lee has served as a director on the board of our company from May 2011 to July 2012. In July 2012, he was determined by the Board to be an independent director under NASDAQ Rules and was appointed as a member of Compensation Committee and Corporate Governance and Nominating Committee. He is a Partner at SAIF Partners, which is one of the largest and most successful growth venture capital funds focused on China. SAIF Partners IV L.P. is the largest shareholder in Sinovac Biotech Ltd. Mr. Lee has close to 20 years of experience across private equity investment, corporate finance, and business development in China. Before becoming a member of the SAIF team in 2007, he had served as the Chief Financial Officer of Topsec Holdings from 2006 to 2007. From 2004 to 2005, he worked as a Principal at RimAsia Capital Partners. Prior to RimAsia Capital Partners, Mr. Lee served in various positions at Delta Associates, the exclusive advisor to Asia Equity Infrastructure Fund, CNK Telecommunications Limited, H&Q Asia Pacific, and Salomon Brothers Inc. in New York. Currently, he is a non-executive director on the boards of four Chinese portfolio companies publicly listed on the stock exchanges of USA and Hong Kong and a board director for four other private Chinese companies backed by SAIF Partners. Mr. Lee is a graduate of Amherst College in Massachusetts, USA. He is a Trustee of International School of Beijing.

Mr. Meng Mei has served as an independent director of our company since March 2012. Mr. Mei is the chairman of compensation committee, and member of the audit and corporate governance and nominating committees. Mr. Mei founded TusPark, a science park established by Tsinghua University in 1994, to incubate high growth companies. He has been the director of TusPark's development Center since its inception. Mr. Mei is also the Chairman of TusPark Co., Ltd., which is engaged in the development, construction, and management of TusPark and is providing services to enterprises based in TusPark. TusPark is also involved in venture capital investments in China. Mr. Mei sits on the judging expert panel of China's National Science & Technology Award. He has developed courses on entrepreneurship and new venture formation as a Tsinghua University professor and an entrepreneur. Mr. Mei holds a bachelor's degree in automation from Tsinghua University, PRC.

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Ms. Nan Wang has served as our chief financial officer since June 2013 and our vice president of Sinovac Beijing since 2001. Ms. Wang served as the Vice General Manager of Sinovac Beijing from 2001 to 2013 where she oversees business development and clinical research. From 1988 to 1993, Ms. Wang was a researcher in biology at the Life Science College of Peking University, PRC. From 1993 to 2001, she worked as a manager at SinoBioway. Ms. Wang received her bachelor's degree in biology from Peking University and her master degree from University of International Business and Economics, PRC. Ms. Wang also received a diploma in financial management from Beijing College for Entrepreneurs, PRC in 2003.

Mr. Ming Xia has served as Vice President of Sinovac Beijing since 2011 where he oversees sales and marketing departments. Mr. Ming Xia has over 15 years' experience in vaccine sales and marketing in China. He joined Sinovac in 2002 and has served as Regional Sales Manager, National Sales Manager and Sales Director at Sinovac. Mr. Xia obtained his bachelor degrees in Biochemistry at Anhui University and in International Trade at Shanghai Institute of Foreign Trade. Mr. Xia has made significant contributions to our sales revenue growth in previous years with outstanding leadership and performance results. He kept his top record of generating sales revenue for many years after joining Sinovac. He is a leader with creativity and developed the sales strategy for our existing products. Mr. Ming Xia organized the reform on sales and marketing strategy to meet the change of the market situation.

B. Compensation

In 2013, the aggregate cash compensation paid to our directors and executive officers was approximately \$756,000. No executive officer is entitled to any severance benefits upon termination of his or her employment with our company. The bonus plan of executive officers is made based on our annual performance in different functions. Each vice president's bonus is determined based on a comparison of their actual performance in each of the functional areas they supervise objectives set at the beginning of the years. The bonus payoff plan is approved by our board they are serving.

Our board of directors and shareholders have authorized two share incentive plans which in aggregate provide for the issuance of up to 9,000,000 shares of common stock, including 5,000,000 shares reserved under the 2003 Stock Option Plan and 4,000,000 shares reserved under 2012 Share Incentive Plan. The following table summarizes, as of March 31, 2014, the outstanding options that we granted to several of our directors, executive officers, principal shareholders and to other individuals as a group, all of which were made under our 2003 Stock Option Plan.

<u>Name</u>	<u>Common Shares Underlying Outstanding Options</u>	<u>Exercise Price (\$/Share)</u>	<u>Grant Date</u>	<u>Expiration Date</u>
Yuk Lam Lo	50,000	1.60	January 20, 2009	January 19, 2015
Ming Xia	31,500	2.37	December 26, 2011	December 25, 2017
Other individual as a group	822,900			
Total Outstanding Options	904,400	2.14*		

* Weighted Average Exercise Price

We have not set aside or accrued any amount of cash to provide pension, retirement or other similar benefits to our officers and directors. Our PRC subsidiaries and consolidated affiliated entities as well as their subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her retirement benefit, medical insurance benefits, housing funds, unemployment and other statutory benefits.

2003 STOCK OPTION PLAN

Our board of directors adopted the 2003 Stock Option Plan, or the 2003 Plan, on November 1, 2003. The purpose of the plan is to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business. Our board of directors believes that our company's long-term success is dependent upon our ability to attract and retain superior individuals who, by virtue of their ability, experience and qualifications, make important contributions to our business.

Set forth below is a summary of the principal terms of the 2003 Plan.

- **Size of plan.** We have reserved an aggregate of 5,000,000 of our common shares for issuance under the 2003 Plan. As of December 31, 2013, options to purchase an aggregate of 904,400 of our common shares were issued and outstanding and an aggregate of 4,017,800 common shares have been issued pursuant to options issued under the 2003 Plan.
- **Administration.** The 2003 Plan is administered by our board of directors. The board will determine the provisions, terms and conditions of each option grant, including without limitation the option vesting schedule or exercise installment, the option exercise price, payment contingencies and satisfaction of any performance criteria.
- **Vesting schedule.** The vesting schedules of options granted will be specified in the applicable option agreements.
- **Option agreement.** Options granted under the 2003 Plan are evidenced by option agreements that contain, among other things, provisions concerning exercisability and forfeiture upon termination of employment or consulting arrangements by reason of death or otherwise, as determined by our board. In addition, the option agreement also provides no option shares will be issued under the plan unless the Securities Act has been fully complied with.
- **Option term.** The term of options granted under the 2003 Plan may not exceed ten years from the date of grant.
- **Termination of options.** Where the option agreement permits the exercise of the options granted for a certain period of time following the recipient's termination of services with us, the options will terminate to the extent any is not exercised or purchased on the last day of the specified period or the last day of the original term of the options, whichever occurs first.
- **Change of control.** If a third-party acquires us through the purchase of all or substantially all of our assets, a merger or other business combination, all outstanding stock options will become fully vested and exercisable immediately prior to such transaction.
- **Termination of plans.** Unless terminated earlier, the Plan will expire in 2023. Our board of directors has the authority to terminate the 2003 Plan prior to the expiry of the plan provided that such early termination shall not affect the options then outstanding under the plan.

2012 SHARE INCENTIVE PLAN

In August 2012, our shareholders adopted a 2012 Share Incentive Plan, or the 2012 Plan. The maximum aggregate number of common shares which may be issued pursuant to all awards under the 2012 Plan is 4,000,000 shares. The following paragraphs describe the principal terms of the 2012 Plan.

Types of Awards

The types of awards we may grant under the plans include the options to purchase our common shares at a specified price and in a specified period determined by our board. Under the 2012 Plan, we may also grant awards of our (1) restricted shares, (2) restricted share units, (3) dividend equivalents, (4) deferred shares, (5) share payments and (6) share appreciation rights under the terms and conditions determined by our board of directors.

Eligibility

We may grant awards to our directors, officers, advisors and employees of us and our wholly owned subsidiaries and any entity which may thereafter be established.

Plan Administration

Our board of directors will administer the plans. The board will determine the terms and conditions of each grant, including but not limited to, the exercise, grant or purchase prices, any reload provision, any restrictions or limitations on the awards, vesting schedules, restrictions on the exercisability of the awards, any accelerations or waivers, and any provision related to non-competition and recapture of gain on the awards.

Award Agreement

Awards granted under the plans will be evidenced by an award agreement that will set forth the terms, conditions and limitations for each award. The award agreement should be signed by the employee and a director or an officer of us. Share awards may be evidenced by way of an issuance of certificates or book entries with appropriate legends. The certificates and book entry procedures may be subject to counsels' advice, stop-transfer orders or other conditions or restrictions where the plan administrator deems necessary to comply with the required laws and regulations.

Vesting

The 2012 Plan provides that the administrator may set the period during which an option or a share appreciation right can be exercised and may determine that an option or a share appreciation right may not be exercised for a specified period after it is granted. Such vesting can be based on criteria selected by the administrator. At any time after the grant of an option or a share appreciation right, the administrator may, in its sole discretion and subject to terms and conditions it determines, accelerate the period during which an option or a share appreciation right vests. No portion of an option or a share appreciation right unexercisable at the termination of service of an option or a share appreciation right holder with our company or subsidiaries can become exercisable afterwards, unless otherwise provided by the administrator.

Exercise Price and Term of Awards

The exercise price per share of options granted under the 2012 Plan is determined by the plan administrator in the award agreement. The price may be fixed or variable related to the fair market value of our ordinary shares. The term of any option granted should not exceed ten years. However in the case where our incentive option is granted to an individual who, at the date of grant, owns more than ten percent of the total voting power of all classes of our shares, the price granted shall not be less than 110% of the fair market value on the date of grant and the option is exercisable for no more than five years from the date of grant.

For common share awards granted under the 2012 Plan, namely (1) restricted shares, (2) restricted share units, (3) dividend equivalents, (4) deferred shares, and (5) share payments, the consideration shall not be less than the par value of the shares purchased. The terms of the share awards are set by the plan administrator in its sole discretion.

The exercise price of share appreciation right under the 2012 Plan is determined by the plan administrator and set forth in the award agreement which may be a fixed or variable price related to the fair market value of the shares. The term of the share appreciation right will not exceed ten years.

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The approval of shareholders is required for downward adjustment of the exercise prices of options or share appreciation rights. A downward adjustment of the exercise prices of options or share appreciation rights means (i) lowering the exercise price of outstanding options or share appreciation rights, or (ii) cancelling outstanding options or share appreciation rights in exchange for cash, other awards, or options or share appreciation rights with an exercise price that is less than the exercise price of the original options or share appreciation rights.

Transfer Restrictions

The awards granted under the 2012 Plan may not be sold, pledged, assigned or transferred other than by will or the laws of descent and distribution or, subject to the consent of the plan administrator, as required under the applicable laws.

Amendments or Termination

The 2012 Plan provides that in the event of any changes affecting our common shares or our share price, the plan administrator can make proportionate and equitable adjustments to reflect such changes. Upon or in anticipation of a corporate transaction, including acquisition, disposal of substantially all or all assets, reverse takeover, dissolution, the plan administrator should in its discretion provide for replacement or assumption of such award. In the event of other changes, the board of directors should in its discretion make adjustments in the number and class of shares subject to awards outstanding on the date of such change to prevent dilution or enlargement of rights. The 2012 Plan will expire and no further awards may be granted after the tenth anniversary of the plan was adopted.

C. [Board Practices](#)

Board of Directors

Our Articles of Association prescribes that we should have a minimum of one and a maximum of 15 directors. Currently, our board of directors comprises five board members, four of whom are independent. Under Antigua law, our directors have a duty of loyalty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our Articles of Incorporation and by-laws, as amended and re-stated from time to time. A shareholder has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registering of such shares in our share register.

Terms of Directors and Executive Officers

Our officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until a successor is elected at the next annual shareholders' meeting. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors or (ii) dies or is found by our company to be or becomes of unsound mind. None of our directors has a service contract with us or any of our subsidiaries providing for benefits upon termination of employment.

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Committees of the Board of Directors

Our board of directors has established an audit committee, a compensation committee and a corporate governance and nominating committee.

Audit Committee

Our audit committee consists of Messrs. Simon Anderson, Yuk Lam Lo and Meng Mei, and is chaired by Simon Anderson, all of whom satisfy the “independence” requirements of Rule 5605 of the NASDAQ Listing Rules and Rule 10A-3 under the Securities Exchange Act of 1934. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;
- reviewing with our independent auditors any audit problems or difficulties and management’s response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and our independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately and periodically with management and our internal and independent auditors; and
- reporting regularly to the full board of directors.

In 2013, our audit committee held meetings or passed resolutions by unanimous written consent seven times.

Compensation Committee

Our compensation committee consists of Messrs. Simon Anderson, Yuk Lam Lo, Kenneth Lee and Meng Mei, and is chaired by Mr. Meng Mei, all of whom satisfy the “independence” requirements of Rule 5605 of the NASDAQ Listing Rules and Rule 10C-1 under the Securities Exchange Act of 1934. Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- approving and overseeing the compensation package for our executive officers;
- reviewing and making recommendations to the board with respect to the compensation of our directors;
- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives, and setting the compensation level of our chief executive officer based on this evaluation; and
- reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

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In 2013, our compensation committee held meetings or passed resolutions by unanimous written consent twice.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of Messrs. Simon Anderson, Yuk Lam Lo, Kenneth Lee and Meng Mei, and is chaired by Mr. Yuk Lam Lo, all of whom satisfy the “independence” requirements of Rule 5605 of the NASDAQ Listing Rules. The corporate governance and nominating committee assists the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board in light of the characteristics of independence, age, skills, experience and availability of service to us;
- identifying and recommending to the board the directors to serve as members of the board’s committees;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations and making recommendations to the board on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

In 2013, our corporate governance and nominating committee held meetings or passed resolutions by unanimous written consent once.

Interested Transactions

A director may vote in respect of any contract or transaction in which he or she is interested, provided that the nature of the interest of any directors in such contract or transaction is disclosed by him or her at or prior to its consideration and any vote in that matter.

Remuneration and Borrowing

The directors may determine remuneration to be paid to the directors. The compensation committee assists the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all our powers to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whether outright or as security for any debt obligations of our company or of any third party.

D. Employees

As of December 31, 2011, 2012 and 2013, we had 614, 652 and 715 full-time employees, respectively. Of our workforce as of December 31, 2013, about 95 employees are primarily engaged in research and development and 170 employees are engaged in sales and marketing. We consider our relationship with our employees to be good.

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E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our common shares, as of December 31, 2013, by:

- each of our directors and executive officers; and
- each person/organization known to us to own beneficially more than 5% of our common shares.

The calculations in the table below are based on 55,570,361 common shares outstanding as of December 31, 2013. Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Shares Beneficially Owned	
	Number	%
Directors and Executive Officers:		
Weidong Yin	6,207,500	11.17%
Simon Anderson	50,000	*
Yuk Lam Lo	50,000	*
Nan Wang	48,000	*
Ming Xia	63,000	*
Institutional Shareholders (as of December 31, 2013)		
SAIF Partners IV ⁽¹⁾	10,595,720	19.07%
Wellington Management Company, LLP ⁽²⁾	3,888,473	7%
1 Globe capital, L.L.C ⁽³⁾	3,385,776	6.09%
SJ Strategic Investments, L.L.C. ⁽⁴⁾	2,115,083	3.8%

* Less than 1%.

(1) According to the 13-D Filing made by SAIF Partners on December 29, 2011

(2) According to the 13-D Filing made by Wellington Management Company, LLP on December 31, 2013

(3) According to the 13-D Filing made by 1 Globe capital, L.L.C on April 29, 2013

(4) According to the 13-D Filing made by SJ Strategic Investments, L.L.C on February 14, 2014

None of our existing shareholders has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of December 31, 2013, 55,570,361 of our common shares were issued and outstanding. Approximately 89% of the issued and outstanding shares are held by the record shareholders in the United States.

For the options granted to our directors, officers and employees, please refer to “— B. Compensation of Directors and Executive Officers.”

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees — Share Ownership.”

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B. Related Party Transactions

Transaction with Lo Yuk Lam

In connection to the establishment of the Sinovac Hong Kong, we have been using part of our independent director's office as our office. We pay our share of the utilities and property management fees.

Transactions with Certain Directors and Affiliates

We entered into two operating lease agreements with SinoBioway, a non-controlling shareholder of Sinovac Beijing, in 2004, 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 to increase the rent from RMB452,600 (\$74,764) 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 RMB2,043,270 (\$0.3 million). 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 expansion of Sinovac R&D's business on research and development for an annual lease payment of RMB861,202 (\$0.1 million). 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 operating lease agreements was extended to April 7, 2033.

Loan from a non-controlling shareholder

In 2011, Sinovac Dalian entered into an agreement to borrow \$3.3 million (RMB 20 million) loan from its non-controlling shareholder, Dalian Jin Gang Group. The loan was unsecured, bearing interest at 7.2% per year. Interest is payable monthly. The loan is repayable on March 14, 2014.

Share Options

See ITEM 6.B. "Directors, Senior Management and Employees — 2003 Stock Option Plan" and "Directors, Senior Management and Employees — 2012 Share Incentive Plan."

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal and Administrative Proceedings

We are not currently a party to any material litigation or other legal proceedings brought against us. We are also not aware of any legal proceedings, investigation or claim, or other legal exposure that has a more than remote possibility of having a material adverse effect on our business, financial condition or results of operations. We may be subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time.

Dividend Policy

We have never declared or paid any dividends, nor do we have any present plan to pay any cash dividends on our common shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

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Our board of directors has complete discretion on whether to pay dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. Cash dividends on our common shares, if any, will be paid in U.S. dollars.

We are a holding company, and we rely on the dividends paid by our majority-owned subsidiary, Sinovac Beijing and Sinovac Dalian, and wholly owned subsidiaries Sinovac R&D through Sinovac HK and wholly owned Tangshan Yian, 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 China 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. 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 and Sinovac Dalian are required to set aside, at the discretion of their boards of directors, a portion of their after-tax profits to their reserve fund, enterprise development fund and employee welfare and bonus funds. These funds are not distributable in cash dividends.

Furthermore, under the PRC Enterprise Income Tax Law promulgated on March 16, 2007, and its implementation rules promulgated by the State Council of China on December 6, 2007, 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. Pursuant to the double tax arrangement between Hong Kong and PRC, 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 foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise for a period greater than 12 months), or otherwise 10%. Whether the favorable rate will be applicable to dividends received by Sinovac Hong Kong from our PRC subsidiaries is subject to the approval of the PRC tax authorities because it is unclear whether Sinovac Hong Kong is considered as the beneficial owner of the dividends in substance. The PRC tax authorities have 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. This new withholding tax imposed on dividends paid to us by our PRC subsidiaries would reduce our net income attributable to the stockholders. In May 2012, Sinovac Hong Kong was granted by the local tax bureau the status of 5% withholding tax on dividends declared by Sinovac Beijing for three years from 2012 to 2014. The State Administration of Taxation has the authority to re-assess the approval of the preferential dividend withholding tax rate granted by the local tax bureau.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

The table below sets forth, for the periods indicated, the high and low closing prices on the NASDAQ Global Market and the NASDAQ Global Select Market for our common shares.

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	Sales Price	
	High	Low
Annual High and Low		
2009	\$ 12.50	\$ 1.02
2010	7.78	3.50
2011	4.92	1.91
2012	3.50	1.64
2013	6.57	3.00
Quarterly High and Low		
First quarter 2012	2.36	1.92
Second Quarter 2012	2.45	1.64
Third Quarter 2012	2.83	2.04
Fourth Quarter 2012	3.50	2.28
First quarter 2013	5.09	3.00
Second Quarter 2013	4.40	3.16
Third Quarter 2013	6.27	3.80
Fourth Quarter 2013	6.57	5.34
First Quarter 2014	8.14	5.98
Monthly High and Low		
October 2013	6.46	5.34
November 2013	6.45	5.45
December 2013	6.57	5.58
January 2014	7.23	5.98
February 2014	7.10	6.00
March 2014	8.14	6.35
April 2014(through April 14, 2014)	\$ 7.47	\$ 6.01

B. Plan of Distribution

Not applicable.

C. Markets

Our common shares have been listed on the NASDAQ Global Select Market since January 3, 2011 under the symbol “SVA.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We are an Antiguan company with limited liability and our affairs are governed by our Articles of Incorporation, By-laws and the International Business Corporation Act. The following are summaries of material provisions of our Articles of Incorporation, By-laws and the International Business Corporations Act.

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General

All of our outstanding common shares are fully paid and non-assessable. The common shares are issued in registered form. Holders of common shares are entitled to receive share certificates. Our shareholders who are non-residents of Antigua may freely hold and vote their common shares.

Dividends

The holders of our common shares are entitled to such dividends as may be declared by our board of directors subject to the International Business Corporations Act.

Voting Rights

Each common share is entitled to one vote on all matters upon which the common shares are entitled to vote.

A quorum required for a meeting of shareholders consists of shareholders who hold at least a majority of our shares at the meeting present in person or by proxy. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate at least five percent of our issued share capital. Advance notice of at least 21 days is required for the convening of our annual general meeting and other shareholders meetings.

Unless the International Business Corporations Act otherwise requires, resolutions to be passed by the shareholders requires a simple majority vote. Important matters such as changes to our by-laws require a resolution passed by a vote of shareholders holding a majority of all the outstanding and issued shares.

Transfer of Common Shares

Our shareholders may transfer common shares by endorsing the relevant share certificates, completing a share transfer form or by other proper evidence of succession, assignment or authority to transfer.

Liquidation

On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of common shares), assets available for distribution among the holders of common shares shall be distributed among the holders of the common shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Inspection of Books and Records

Holders of our common shares will have no general right under Antigua law to inspect or obtain copies of our list of shareholders or our corporate records. They may, however, access such corporate information as is publicly available in the Companies Registry in St. John's, Antigua. We will also provide our shareholders with annual audited consolidated financial statements.

Changes in Capital

We may from time to time by a resolution passed by a majority of the shares entitled to vote:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution may prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

We may by special resolution reduce our share capital and any capital redemption reserve in any manner authorized by law.

Differences in Corporate Law

The International Business Corporations Act is modeled after English law but does not follow many recent English law statutory enactments. In addition, the International Business Corporations Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the International Business Corporations Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements

Antigua and Barbuda law does not provide for mergers as that expression is understood under United States corporate law. However, there are statutory provisions for amalgamation that facilitate the consolidation of companies, provided that the arrangement is approved by a majority number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement may be, but is not required to be, sanctioned by the High Court of Antigua and Barbuda. While a dissenting shareholder has the right to express to the court his view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the dual majority vote have been met;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such that a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the International Business Corporations Act.

When a take-over offer is made and accepted (within four months) by holders of 90% of the shares affected, the offerer may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the High Court of Antigua and Barbuda but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits

We are not aware of any reported class action or derivative action having been brought in a court in Antigua and Barbuda. In principle, the company itself will normally be the proper claimant in actions against directors, and derivative actions may not generally be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in Antigua and Barbuda, there are exceptions to the foregoing principle, including when:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, required a special resolution, which was not obtained; and
- those who control the company are perpetrating a "fraud on the minority."

Directors' Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation. As a matter of Antigua and Barbuda law, a director of an Antigua and Barbuda company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company — a duty to act bona fide in the best interests of the company, a duty not to make a profit out of his position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third-party. A director of an Antigua and Barbuda company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in Antigua and Barbuda.

Shareholder Action by Written Consent

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Antigua and Barbuda law and our by-laws provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

Shareholder Proposals

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. Antigua and Barbuda law and our by-laws allow our shareholders holding not less than five per cent of the paid up voting share capital of the company to requisition a shareholder's meeting. We are obligated under our by-laws and the International Business Corporations Act to call shareholders' annual general meetings.

Cumulative Voting

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under Antigua and Barbuda law, our by-laws will not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our by-laws, directors can be removed by a majority vote of the shareholders.

Transactions with Interested Shareholders

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an “interested shareholder” for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target’s outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target’s board of directors.

Antigua and Barbuda law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Antigua and Barbuda law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation’s outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under the International Business Corporations Law, our company may be dissolved, liquidated or wound up only by the vote of holders of two-thirds of our shares voting at a meeting or the unanimous written resolution of all shareholders.

Variation of Rights of Shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Antigua and Barbuda law and our by-laws, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the vote at a class meeting of holders of two-thirds of the shares of such class or unanimous written resolution.

Amendment of Governing Documents

Under the Delaware General Corporation Law, a corporation’s governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Antigua and Barbuda law, our by-laws may only be amended with the vote of holders representing a majority of all our shares voting issued and outstanding or the unanimous written resolution of all shareholders. By-laws can be amended by a vote or unanimous written resolution of the directors.

Indemnification of Directors and Executive Officers and Limitation of Liability

Antigua and Barbuda law does not limit the extent to which a company's by-laws may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Antigua and Barbuda courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our by-laws permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from negligence or illegal action of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law to a Delaware corporation. In addition, we have entered into indemnification agreements with our directors and senior executive officers that provide such persons with additional indemnification beyond that provided in our by-laws.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

We have obtained directors and officers insurance providing indemnification for our directors for certain liabilities.

Anti-takeover Provisions in the By-laws

Some provisions of our By-laws may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders.

However, under Antigua and Barbuda law, our directors may only exercise the rights and powers granted to them under our By-laws for what they believe in good faith to be in the best interests of our company.

Rights of Non-resident or Foreign Shareholders

There are no limitations imposed by our by-laws on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our by-laws governing the ownership threshold above which shareholder ownership must be disclosed.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4, "Information on the Company" or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules promulgated in 1996 and amended in 1997 and various regulations issued by State Administration of Foreign Exchange, or SAFE, and other relevant PRC government authorities, renminbi is freely convertible only to the extent of current account items, such as trade related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from SAFE or its local counterpart for conversion of renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC.

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Payments for transactions that take place within PRC must be made in renminbi. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local counterpart. Unless otherwise approved, domestic enterprises must convert all of their foreign currency receipts into renminbi.

E. Taxation

Antigua and Barbuda Taxation

We and our securities holders, other than those resident in Antigua and Barbuda, are exempt from Antigua and Barbuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax. We are not subject to stamp or other similar duty on the issuance, transfer or redemption of our common shares. Under Section 276 of the International Business Corporations Act of Antigua and Barbuda, the tax exemption we and our securities holders currently enjoy will continue in effect for a period of 50 years from our date of incorporation, which is March 1, 1999. No reciprocal income tax treaty affecting us exists between Antigua and Barbuda and the United States.

United States Federal Income Taxation

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (as defined below) under current law of an investment in our common shares. This discussion applies only to U.S. Holders that hold our common shares as capital assets (generally, property held for investment) and have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below. The following discussion does not address all U.S. federal income tax consequences relevant to a U.S. Holder's particular circumstances, including the impact of the Medicare contribution tax on net investment income.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks and other financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- U.S. expatriates;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding a common share as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock;
- partnerships or other pass-through entities, or persons holding our common shares through such entities; or
- persons who acquired our common shares pursuant to the exercise of any employee share option or otherwise as compensation.

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INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE ESTATE AND GIFT, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR COMMON SHARES.

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are a beneficial owner of our common shares and you are, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any State thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (or other entity taxable as a partnership for U.S. federal income tax purposes) is a beneficial owner of our common shares, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership.

Taxation of Dividends and Other Distributions on Our Common Shares

Subject to the PFIC rules discussed below, the gross amount of any distributions we make to you with respect to our common shares generally will be includible in your gross income in the year received as dividend income to the extent the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent the amount of the distribution exceeds our current and accumulated earnings and profits, such excess amount will be treated first as a tax-free return of your tax basis in your common shares, and then, to the extent such excess amount exceeds your tax basis, as capital gain. We currently do not, and we do not intend to, calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. Any dividends we pay will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from U.S. corporations.

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, dividends may constitute “qualified dividend income” eligible to be taxed at the preferential rate applicable to capital gains, provided that (1) our common shares are readily tradable on an established securities market in the United States, or we are eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are neither a PFIC nor treated as such with respect to you (as discussed below) for the taxable year in which the dividend was paid and the preceding taxable year and (3) certain holding period requirements are met. Under Internal Revenue Service authority, common shares are considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the NASDAQ Global Select Market, as our common shares are. If we are treated as a “resident enterprise” for PRC tax purposes under the EIT Law (see “Item 10. Additional Information — E. Taxation — PRC Taxation”), we may be eligible for the benefits of the income tax treaty between the United States and the PRC. You should consult your tax advisors regarding the availability of the lower capital gains rate applicable to qualified dividend income for dividends paid with respect to our common shares.

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Dividends generally will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the U.S. foreign tax credit limitation generally will be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to our common shares generally will constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

If PRC withholding taxes apply to dividends paid to you with respect to the common shares (see “Item 10. Additional Information — E. Taxation — PRC Taxation”), subject to certain conditions and limitations, such PRC withholding taxes may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisors regarding the availability of a foreign tax credit in your particular circumstances.

Taxation of Disposition of Our Common Shares

Subject to the PFIC rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of a common share equal to the difference between the amount realized for the common share and your tax basis in the common share. Your tax basis in our common shares will generally equal the cost of such shares. The gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the common share for more than one year, you will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations.

Any gain or loss you recognize on a disposition of our common shares generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes. However, if we are treated as a resident enterprise for PRC tax purposes and PRC tax were to be imposed on any gain from the disposition of the common shares (see “Item 10. Additional Information — E. Taxation — PRC Taxation”), a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income. You should consult your tax advisors regarding the proper treatment of gain or loss in your particular circumstances.

Passive Foreign Investment Company

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 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:

- at least 75% of its gross income for such year is passive income, or
- 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.

For purposes of the PFIC rules, passive income includes, among other things, dividends, interest, royalties, rents, annuities, and net gains from certain commodity and foreign currency transactions, subject to certain exceptions. Passive income generally does not include rents and royalties derived from the active conduct of a trade or business (other than from a related person). We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

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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 you hold our common shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold our common shares, unless we cease to be a PFIC and you make a “deemed sale” election with respect to our common shares. If such election is made, you will be deemed to have sold common shares you hold at their fair market value and any gain from such deemed sale would be subject to the rules described in the following two paragraphs. After the deemed sale election, your common shares with respect to which such election was made will not be treated as shares in a PFIC unless we subsequently become a PFIC.

For each taxable year we are treated as a PFIC with respect to you, you will be subject to special tax rules with respect to any “excess distribution” you receive and any gain you recognize from a sale or other disposition (including a pledge) of the common shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the common shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or recognized gain will be allocated ratably over your holding period for the common shares;
- the amount allocated to the current taxable year, and any taxable years in your holding period prior to the first taxable year in which we became a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to the highest tax rate in effect for individuals or corporations, as applicable, for each such year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) from a sale or other disposition of the common shares cannot be treated as capital, even if you hold the common shares as capital assets.

If we are treated as a PFIC with respect to you for any taxable year, to the extent any of our subsidiaries are also PFICs or we make direct or indirect equity investments in other entities that are PFICs, you will be deemed to own shares in such lower-tier PFICs directly or indirectly owned by us in the proportion that the value of the common shares you own bears to the value of all of our common shares, and you may be subject to the rules described in the preceding two paragraphs with respect to the shares of such lower-tier PFICs that you would be deemed to own. You should consult your tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

A U.S. Holder of marketable stock (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the PFIC rules described above regarding excess distributions and recognized gains. If you make a mark-to-market election for the common shares, you will include in income for each year that we are a PFIC an amount equal to the excess, if any, of the fair market value of the common shares as of the close of your taxable year over your adjusted basis in such common shares. You will be allowed a deduction for the excess, if any, of the adjusted basis of the common shares over their fair market value as of the close of the taxable year. However, deductions will be allowable only to the extent of any net mark-to-market gains on the common shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain from the actual sale or other disposition of the common shares will be treated as ordinary income. Ordinary loss treatment will apply to the deductible portion of any mark-to-market loss on the common shares, as well as to any loss from the actual sale or other disposition of the common shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such common shares. Your basis in the common shares will be adjusted to reflect any such income or loss amounts. If you make a valid mark-to-market election, any distributions we make would generally be subject to the tax rules discussed above under “— Taxation of Dividends and Other Distributions on Our Common Shares,” except the lower capital gains rate applicable to qualified dividend income would not apply.

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The mark-to-market election is available only for “marketable stock,” which generally is defined as stock that is traded in greater than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. Our common shares are listed on the NASDAQ Global Select Market, which is a qualified exchange or other market for these purposes. Consequently, if the common shares remain listed on the NASDAQ Global Select Market and are regularly traded, and you are a holder of common shares, we expect the mark-to-market election would be available to you if we become a PFIC. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs that we own, a U.S. Holder may continue to be subject to the PFIC rules described above regarding excess distributions and recognized gains with respect to its indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

Alternatively, a U.S. Holder of stock in a PFIC may make a “qualified electing fund” election with respect to such corporation to elect out of the PFIC rules described above regarding excess distributions and recognized gains. A U.S. Holder that makes a qualified electing fund election with respect to a PFIC will generally include in income such holder’s pro rata share of the corporation’s income on a current basis. However, you may make a qualified electing fund election with respect to your common shares only if we furnish you annually with certain tax information, and we currently do not intend to prepare or provide such information.

Unless otherwise provided by the U.S. Treasury, each U.S. shareholder of a PFIC is required to file an annual report containing such information as the U.S. Treasury may require. If we become a PFIC, you should consult your tax advisors regarding any reporting requirements that may apply to you.

You are urged to consult your tax advisors regarding the application of the PFIC rules to your investment in our common shares.

Information Reporting and Backup Withholding

Dividend payments with respect to our common shares and proceeds from the sale, exchange or redemption of our common shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder that furnishes a correct taxpayer identification number and makes any other required certification on Internal Revenue Service Form W-9 or that is otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information in a timely manner.

Additional Reporting Requirements

Certain U.S. Holders who are individuals are required to report information relating to an interest in our common shares, subject to certain exceptions (including an exception for common shares held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of these rules on their ownership and disposition of our common shares.

PRC Taxation

Under the EIT Law, which took effect as of January 1, 2008, enterprises established under the laws of non-PRC jurisdictions but whose “de facto management body” is located in China are considered “resident enterprises” for PRC tax purposes. Under the implementation regulations issued by the State Council relating to the EIT Law, “de facto management bodies” are defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management are currently based in China, and may remain in China in the future. If we were treated as a “resident enterprise” for PRC tax purposes, we would be subject to PRC income tax on our worldwide income at a uniform tax rate of 25%. Dividends received by us from our PRC subsidiaries may be exempt from PRC withholding tax.

Under the EIT Law and its implementation regulations, dividends paid to a non-PRC investor are generally subject to a 10% PRC withholding tax, if such dividends are derived from sources within China and the non-PRC investor is considered to be a non-resident enterprise without any establishment or place of business within China or if the dividends paid have no connection with the non-PRC investor’s establishment or place of business within China, unless such tax is eliminated or reduced under an applicable tax treaty. Similarly, any gain realized on the transfer of common shares by such investor is also subject to a 10% PRC withholding tax if such gain is regarded as income derived from sources within China, unless such tax is eliminated or reduced under an applicable tax treaty.

If we were considered a PRC “resident enterprise”, it is possible that the dividends we pay with respect to our common shares, or the gain you may realize from the transfer of our common shares, would be treated as income derived from sources within China and be subject to the 10% PRC withholding tax.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at Judiciary Plaza, 100 F Street, N.E., Washington, D.C. 20549, and at the regional office of the Securities and Exchange Commission located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish the transfer agent of our common shares, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders’ meetings and other reports and communications that are made generally available to our shareholders. The transfer agent will make such notices, reports and communications available to holders of our common shares and, upon our request, will mail to all record holders of our common shares the information contained in any notice of a shareholders’ meeting received by the transfer agent from us.

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In accordance with the NASDAQ Rules, we will post this annual report on Form 20-F on our website www.sinovac.com. In addition, we will provide hardcopies of our annual report free of charge to shareholders upon request.

I. Subsidiary Information

For a listing of our subsidiaries, see “Item 4. C. Information on the Company — Organizational Structure.”

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Substantially all of our revenues and most of our costs and our expenses are denominated in renminbi. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents denominated in U.S. dollars as a result of our past issuances of common shares through a private placement and proceeds from our public offering of common shares. Furthermore, the renminbi prices of some of the materials and supplies for reagent kits that are imported from companies in the United States, Sweden and United Kingdom may be affected by fluctuations in the value of renminbi against the currencies of those countries. We also incur professional, investor relations, director compensation and miscellaneous fees related to our operations as a public company that are denominated in U.S. dollars.

The value of the renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. The conversion of renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People’s Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the renminbi to the U.S. dollar. Under the new policy, the renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. 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, remaining within 1% of its August 2008 high but never exceeding it. 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, the PRC government indicated that it would again make the foreign exchange rate of the renminbi more flexible. The PRC Government Working Report published in early March 2014 states that the government will make effort to widen the trading band of the renminbi exchange rate, 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. By way of example, assuming we had converted a U.S. dollar denominated cash balance of \$1.0 million as of December 31, 2013 into renminbi at the exchange rate of \$1.00 for RMB6.0537 as of December 31, 2013, such a cash balance would have been RMB6.05 million. Assuming a 1% appreciation/depreciation of the renminbi against the U.S. dollar, such a cash balance would have decreased/increased to RMB6.0 million as of December 31, 2013.

Our financial statements are expressed in U.S. dollars but our subsidiaries’ functional currency is renminbi. The value of our shares will be affected by the foreign exchange rate between U.S. dollars and renminbi. To the extent we hold assets denominated in U.S. dollars, any appreciation of the renminbi against the U.S. dollar could result in a change to our statements of comprehensive income and a reduction in the value of our U.S. dollar denominated assets. On the other hand, a decline in the value of renminbi against the U.S. dollar could reduce the U.S. dollar equivalent amounts of our financial results, the value of your investment in our company and the dividends we may pay in the future, if any, all of which may have a material adverse effect on the prices of our shares.

Interest Rate Risk

Our exposure to interest rate risk relates primarily to the interest expense associated with our short-term and/or long-term bank borrowings as well as interest income provided by excess cash invested in demand and term deposits. Such borrowing and interest-earning instruments carry a degree of interest rate risk. We have not historically used, and do not expect to use in the future, any derivative financial instruments to manage our exposure to interest risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. The weighted effective interest rate on our outstanding loans was 6.71%, 7% and 6.6% for the years ended December 31, 2011, 2012 and 2013. A hypothetical increase or decrease in interest rates of 1% would increase or decrease our annual interest and financing expenses by \$0.5 million based on our outstanding indebtedness as of December 31, 2013.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. — D. Material Modifications to the Rights of Security Holders

None.

E. Use of Proceeds

On February 2, 2010, we completed a follow-on public offering of our common shares. In this follow-on offering, we issued and sold an aggregate of 11,500,000 common shares at \$5.75 per share. The common shares offered and sold were registered pursuant to the registration statement on Form F-3 (File Number: 333-163165) effective on November 30, 2010 and the registration statement on Form F-3 (File Number: 333-164559) effective on January 27, 2010. UBS Securities LLC and Piper Jaffray & Co. were the representatives of the underwriters of the offering. We received net proceeds of approximately \$61.8 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We have spent approximately \$16.4 million in acquisition of Sinovac Dalian and invested \$10.0 million in research and development and other operating activities of operational entity in PRC.

We intend to use the remaining net proceeds we received from this offering for the following purposes:

- up to \$13.6 million to fund the expansion of production facilities for our pipeline products;
- up to \$5.0 million to fund the research and development of our product candidates; and
- the remaining amount for general corporate purposes.

The foregoing use of our net proceeds received from this offering represents our current intentions based upon our present plans and business condition. The amounts and timing of any expenditure will vary depending on the amount of cash generated by our operations, competitive and technological developments and the rate of growth, if any, of our business. Accordingly, our management will have significant discretion in the allocation of the net proceeds we received from this offering. Depending on future events and other changes in the business climate, we may determine at a later time to use the net proceeds for different purposes, including repayment of certain of our outstanding bank borrowings. Pending the use of the net proceeds, we intend to invest the net proceeds in a variety of capital preservation instruments, including short-term, investment-grade, interest-bearing instruments.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

In connection with the preparation of this annual report on Form 20-F, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, which is defined in Rules 13a-15(e) of the Exchange Act, as of the period covered by this annual report.

Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2013, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure."

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, which is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, we used the criteria established within the Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement to our annual or interim financial statements will not be prevented or detected on a timely basis.

Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

Ernst & Young Hua Ming LLP, an independent registered public accounting firm that audited the financial statements included in this annual report, has issued an attestation report on the effectiveness of our internal control over financial reporting.

Attestation Report of the Registered Public Accounting Firm

The attestation report issued by Ernst & Young Hua Ming LLP, an independent registered public accounting firm, on the effectiveness of internal control over financial reporting can be found on page F-3 of this annual report.

Changes in Internal Control over Financial Reporting

As previously reported, we identified the material weakness as of December 31, 2012 related to our financial statement close process with respect to ineffective review of the supporting documents and calculation of adjustments, which was subsequently remedied in 2013.

We implemented a number of changes in our internal control over financial reporting during the year ended December 31, 2013. As of December 31, 2013, we have fully remediated the aforementioned material weakness in our internal control over financial reporting. Our remedial actions included the following:

- Strengthened the financial management and internal control management consciousness by conducting more internal trainings and specifying job division and segregation of duties;
- Updated and revised the internal control procedures over financial statement close process and set up new internal control over new business cycles to confirm that the design of control is complete and effective for implementation;
- Improved the efficiency of internal communication and information transfer between business department and financial department;
- Strengthened the substantive review of the supporting documents and calculation of adjustments of key business control process and the financial statement close process;
- Strengthened the monitoring and assessment of the operating effectiveness of internal control system.

As required by Rule 13a-15(d), under the Exchange Act, our management, including our chief executive officer and chief financial officer, has conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered since last report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on this evaluation, except as described above, it has been determined that there has been no change during the period covered by this annual report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our management will continue to work to strengthen our internal controls over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that we have at least one audit committee financial expert serving on our Audit Committee. Our audit committee financial expert is Mr. Simon Anderson. Each member of our Audit Committee, including Mr. Anderson, satisfies the “independence” requirements of the NASDAQ Marketplace rule and Rule 10A-3 under the Exchange Act.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit our annual report on Form 20-F (file no. 001-32371) filed with the SEC on July 14, 2006, and posted the code on our website at www.sinovac.com. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person’s written request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Ernst & Young LLP audited our financial statements for the year ended December 31, 2012. We changed our independent auditor for the year ended December 31, 2013 from Ernst & Young LLP to Ernst & Young Hua Ming LLP. The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young LLP and Ernst & Young Hua Ming LLP, for the periods indicated below.

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	2012	2013
Audit fees ⁽¹⁾		
- Ernst & Young LLP	\$ 0.9 million	0.2 million
- Ernst & Young Hua Ming LLP	—	0.4 million
Audited-related fees ⁽²⁾	—	—
Tax fees	—	5,000

- (1)“Audit fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements and review of financial statements included in our annual reports on Form 20-F or services that are normally provided by accountants in connection with statutory and regulatory engagements for those fiscal years. \$0.5 million related to the audit of our annual financial statements for 2012 was billed and paid in 2013 which was already included in 2012 audit fee of \$0.9 million as disclosed above. As such this amount is not included in 2013 audit fee of \$0.6 million.
- (2)“Audit-related fees” means the aggregate fees billed in each of the fiscal years listed for assurance and related services rendered by our principal auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit fees.”
- (3)“Tax fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance, tax advice, and tax planning.

Before our independent auditors are engaged to render any services, the engagement is approved by our audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

None.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

On May 14, 2013, Ernst & Young LLP notified us that it would not stand for re-election as our registered independent public accounting firm. We appointed China-based Ernst & Young Hua Ming LLP as our registered independent public accounting firm effective from May 14, 2013. The auditor change was approved by our audit committee, our board of directors and our shareholders.

The audit report of Ernst & Young LLP expressed an unqualified opinion on the consolidated financial statements of our company as of and for the year ended December 31, 2012.

During the two fiscal years ended December 31, 2012, we did not have any “disagreement,” as that term is defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to Item 16F of Form 20-F, with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures that, if not resolved to the satisfaction of Ernst & Young LLP, would have caused them to make reference to the subject matter of the disagreement in connection with its report on our consolidated financial statements for the fiscal year ended December 31, 2012.

During the two fiscal years ended December 31, 2012, there were no “reportable events” (hereinafter defined) requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F.

During the two fiscal years ended December 31, 2012, neither we nor anyone on our behalf consulted Ernst & Young Hua Ming LLP regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, nor has Ernst & Young Hua Ming LLP provided to us a written report or oral advice that Ernst & Young Hua Ming LLP concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a “disagreement” with Ernst & Young LLP, as that term is defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to Item 16F of Form 20-F, or a “reportable event,” as that term is described in Item 16F(a)(1)(v) of Form 20-F.

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We provided a copy of this disclosure to Ernst & Young LLP and requested that Ernst & Young LLP furnish us with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the statements made above, and if not, stating the respects in which it does not agree. A copy of Ernst & Young LLP's letter dated April 16, 2014 is attached as Exhibit 4.20.

ITEM 16G. CORPORATE GOVERNANCE

Our corporate governance practices do not differ in any significant way from those followed by domestic companies under the listing standards of the NASDAQ Global Select Market.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of our company are included at the end of this annual report.

ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	Articles of Incorporation and By-laws, as last amended on March 21, 2006 (incorporated by reference to Exhibit 1.1 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.1	Translation of a Lease between Sinovac Beijing and SinoBioway related to a building of approximately 28,000 square feet, dated August 12, 2004 (incorporated by reference to Exhibit 4.1 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.2	Translation of a Lease between Sinovac Beijing and SinoBioway related to a building of approximately 13,300 square feet, dated August 12, 2004 (incorporated by reference to Exhibit 4.2 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.3	Translation of a Supplement Agreement to the Leases between Sinovac Beijing and SinoBioway (incorporated by reference to Exhibit 4.3 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.4	Stock Option Plan adopted on November 1, 2003 (incorporated by reference to Exhibit 4.4 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.5	Form of Employment Agreement between the Registrant and Weidong Yin, dated July 7, 2006 (incorporated by reference to Exhibit 4.5 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.6	Translation of Form of Employment Agreement between the Registrant or its subsidiary and any other senior executive officers of the Registrant or its subsidiary (incorporated by reference to Exhibit 4.6 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.7	Form of Non-disclosure, Non-competition and Proprietary Information Agreement between the Registrant or its subsidiary and any other senior executive officers of the Registrant or its subsidiary (incorporated by reference to Exhibit 4.7 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.8	Translation of a Lease between Sinovac Beijing and SinoBioway related to buildings of approximately 37,000 square feet, dated June 4, 2007 (incorporated by reference to Exhibit 4.8 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on March 31, 2008)
4.9	Share Purchase Agreement between Sinovac Biotech Ltd. and Sansar Capital Management LLC dated January 22, 2008 (incorporated by reference to Exhibit 4.9 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on March 31, 2008)

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Exhibit Number	Description of Document
4.10	Exclusive Promotion Service Agreement between Sinovac Beijing and GlaxoSmithKline (China) Investment Co., Ltd., dated July 30, 2007 (incorporated by reference to Exhibit 4.10 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on March 31, 2008)
4.11	Equity Joint Venture Contract dated November 22, 2009 between Sinovac Hong Kong and Dalian Jingang (English Translation) (incorporated by reference to Exhibit 99.1 from our current report on Form 6-K (file no. 001-32371) filed with the Securities and Exchange Commission on January 20, 2010)
4.12	Memorandum of Understanding dated November 22, 2009 between Sinovac Hong Kong and Dalian Jingang (English Translation) (incorporated by reference to Exhibit 99.2 from our current report on Form 6-K (file no. 001-32371) filed with the Securities and Exchange Commission on January 20, 2010)
4.13	Equity Interest Transfer Agreement dated December 17, 2009 between Sinovac Hong Kong and Dalian Jingang (English Translation) (incorporated by reference to Exhibit 99.3 from our current report on Form 6-K (file no. 001-32371) filed with the Securities and Exchange Commission on January 20, 2010)
4.14	Asset Acquisition Agreement dated February 10, 2010 between Sinovac Beijing and Beijing Xingchang High-tech Development Co., Ltd. (English Translation) (incorporated by reference to Exhibit 4.10 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on April 16, 2010)
4.15	2012 Share Incentive Plan adopted on August 22, 2012 (incorporated by reference to Exhibit 4.15 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on April 30, 2013)
4.16	Translation of a Supplemental Agreement, dated April 8, 2013, to a Lease Contract between Sinovac Beijing and SinoBioway, dated August 12, 2004 (incorporated by reference to Exhibit 4.16 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on April 30, 2013)
4.17	Translation of a Supplemental Agreement, dated April 8, 2013, to a Lease Contract between Sinovac Beijing and SinoBioway, dated June 4, 2007 (incorporated by reference to Exhibit 4.17 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on April 30, 2013)
4.18	Translation of a Supplemental Agreement, dated August 12, 2010, to a Lease Contract between Sinovac Beijing and SinoBioway, dated August 12, 2004 (incorporated by reference to Exhibit 4.18 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on April 30, 2013)
4.19	Translation of a Supplemental Agreement, dated April 8, 2013, to a Lease Contract between Sinovac Beijing and SinoBioway, dated August 12, 2004, and the Supplemental Agreement between Sinovac Beijing, Sinovac R&D and SinoBioway, dated August 12, 2010 (incorporated by reference to Exhibit 4.19 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on April 30, 2013)
4.20*	Letter dated April 16, 2014 from Ernst & Young LLP
8.1*	List of Subsidiaries
11.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 11.1 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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13.2*	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Ernst & Young Hua Ming LLP
15.2*	Consent of Ernst & Young LLP
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Scheme Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this annual report on Form 20-F

EXHIBIT INDEX

Exhibit Number	Description of Document
1.1	Articles of Incorporation and By-laws, as last amended on March 21, 2006 (incorporated by reference to Exhibit 1.1 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.1	Translation of a Lease between Sinovac Beijing and SinoBioway related to a building of approximately 28,000 square feet, dated August 12, 2004 (incorporated by reference to Exhibit 4.1 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.2	Translation of a Lease between Sinovac Beijing and SinoBioway related to a building of approximately 13,300 square feet, dated August 12, 2004 (incorporated by reference to Exhibit 4.2 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.3	Translation of a Supplement Agreement to the Leases between Sinovac Beijing and SinoBioway (incorporated by reference to Exhibit 4.3 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.4	Stock Option Plan adopted on November 1, 2003 (incorporated by reference to Exhibit 4.4 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.5	Form of Employment Agreement between the Registrant and Weidong Yin, dated July 7, 2006 (incorporated by reference to Exhibit 4.5 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.6	Translation of Form of Employment Agreement between the Registrant or its subsidiary and any other senior executive officers of the Registrant or its subsidiary (incorporated by reference to Exhibit 4.6 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.7	Form of Non-disclosure, Non-competition and Proprietary Information Agreement between the Registrant or its subsidiary and any other senior executive officers of the Registrant or its subsidiary (incorporated by reference to Exhibit 4.7 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on July 14, 2006)
4.8	Translation of a Lease between Sinovac Beijing and SinoBioway related to buildings of approximately 37,000 square feet, dated June 4, 2007 (incorporated by reference to Exhibit 4.8 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on March 31, 2008)
4.9	Share Purchase Agreement between Sinovac Biotech Ltd. and Sansar Capital Management LLC dated January 22, 2008 (incorporated by reference to Exhibit 4.9 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on March 31, 2008)
4.10	Exclusive Promotion Service Agreement between Sinovac Beijing and GlaxoSmithKline (China) Investment Co., Ltd., dated July 30, 2007 (incorporated by reference to Exhibit 4.10 from our annual report on Form 20-F (file no. 001-32371) filed with the Securities and Exchange Commission on March 31, 2008)

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<u>Exhibit Number</u>	<u>Description of Document</u>
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101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this annual report on Form 20-F

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Sinovac Biotech Ltd.

By: /s/ Weidong Yin

Name: Weidong Yin
Title: Chairman and Chief Executive Officer

Date: April 16, 2014

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Sinovac Biotech Ltd.

We have audited the accompanying consolidated balance sheet of Sinovac Biotech Ltd. as of December 31, 2013, and the related consolidated statements of comprehensive income (loss), shareholders' equity, and cash flows for the year ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sinovac Biotech Ltd. at December 31, 2013, and the consolidated results of its operations and its cash flows for the year ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sinovac Biotech Ltd.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated April 16, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP
Beijing, People's Republic of China
April 16, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Sinovac Biotech Ltd.

We have audited Sinovac Biotech Ltd.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Sinovac Biotech Ltd.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sinovac Biotech Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of comprehensive income (loss), shareholders' equity and cash flows for the year ended December 31, 2013 of Sinovac Biotech Ltd., and our report dated April 16, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP
Beijing, People's Republic of China

April 16, 2014

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Sinovac Biotech Ltd.

We have audited the accompanying consolidated balance sheet of Sinovac Biotech Ltd. as of December 31, 2012, and the related consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sinovac Biotech Ltd. as of December 31, 2012, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP
Vancouver, Canada

April 29, 2013

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SINOVAC BIOTECH LTD.

Consolidated Balance Sheets

As of December 31, 2012 and 2013

(Expressed in thousands of U.S. dollars, except for number of shares and per share data)

	December 31, 2012	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 91,241	\$ 107,242
Accounts receivable — net (notes 3 and 9)	23,440	31,927
Inventories (note 4)	10,530	14,329
Prepaid expenses and deposits (including prepaid expenses to related party of 2012 - \$156, 2013 - \$161) (note 12 (b))	1,072	1,150
Deferred tax assets (note 10)	—	2,602
Total current assets	126,283	157,250
Property, plant and equipment (notes 6 and 9)	69,171	67,963
Prepaid land lease payments (note 7)	10,912	10,948
Long-term inventories (note 5)	28	2,781
Long-term prepaid expenses (including prepaid expenses to related party of 2012 - \$261, 2013 - \$145) (note 12 (b))	290	154
Prepayments for acquisition of equipment	483	708
Deferred tax assets (note 10)	446	117
Licenses (note 8)	1,150	772
Total assets	\$ 208,763	\$ 240,693
LIABILITIES AND EQUITY		
Current liabilities		
Bank loans and current portion of long-term debt (note 9)	\$ 3,329	\$ 16,217
Current portion of loan from a non-controlling shareholder (note 12(a))	—	3,324
Accounts payable and accrued liabilities (note 13)	24,778	28,037
Income tax payable (note 10)	239	246
Deferred revenue (note 19)	1,378	875
Deferred government grants (note 18)	431	458
Total current liabilities	30,155	49,157
Deferred government grants (note 18)	4,069	4,746
Long-term debt (note 9)	31,181	32,146
Loan from a non-controlling shareholder (note 12(a))	3,230	—
Deferred revenue (note 19)	10,693	11,005
Total long term liabilities	49,173	47,897
Total liabilities	79,328	97,054
Commitments and contingencies (notes 14 and 22)		
EQUITY		
Preferred stock	—	—
Authorized 50,000,000 shares at par value of \$0.001 each Issued and outstanding: nil		
Common stock (note 15)	55	56
Authorized: 100,000,000 shares at par value of \$0.001 each Issued and outstanding: 55,570,361 (2012—55,091,561)		
Additional paid-in capital	106,246	107,393
Accumulated other comprehensive income	11,771	14,141
Statutory surplus reserves (note 17)	11,808	11,808
Accumulated deficit	(12,156)	(4,714)
Total stockholders' equity	117,724	128,684
Non-controlling interests (note 11)	11,711	14,955
Total equity	129,435	143,639
Total liabilities and equity	\$ 208,763	\$ 240,693

The accompanying notes are an integral part of these consolidated financial statements.

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SINOVAC BIOTECH LTD.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2011, 2012 and 2013

(Expressed in thousands of U.S. Dollars, except for number of shares and per share data)

	For the year ended December 31		
	2011	2012	2013
Sales (note 21)	\$ 56,842	\$ 49,216	\$ 72,524
Cost of sales	<u>21,128</u>	<u>19,100</u>	<u>21,273</u>
Gross profit	<u>35,714</u>	<u>30,116</u>	<u>51,251</u>
Selling, general and administrative expenses (including rent expenses incurred to related party of 2011 - \$805, 2012 - \$823, 2013 - \$847) (note 12(b))	23,809	33,280	34,538
Recovery for doubtful accounts	(167)	(874)	(504)
Research and development expenses — (net of 2011- \$686, 2012- \$125, 2013- \$nil in government research grants)	9,007	17,044	8,384
Loss on disposal and impairment of property, plant and equipment (note 6)	455	2,190	88
Government grants recognised in income	<u>(764)</u>	<u>(373)</u>	<u>—</u>
Total operating expenses	<u>32,340</u>	<u>51,267</u>	<u>42,506</u>
Operating income (loss)	<u>3,374</u>	<u>(21,151)</u>	<u>8,745</u>
Interest and financing expenses — (net of 2011-\$596; 2012-\$1,458; 2013-\$65 in interest subsidiaries)	(384)	(775)	(3,031)
Interest income	1,397	2,370	2,168
Other income (expenses)	<u>280</u>	<u>(77)</u>	<u>263</u>
Income (loss) before income taxes and non-controlling interests	4,667	(19,633)	8,145
Income tax benefit (expense) (note 10)	<u>(5,066)</u>	<u>884</u>	<u>2,225</u>
Net income (loss)	(399)	(18,749)	10,370
Less: (income) loss attributable to non-controlling interests	<u>(445)</u>	<u>3,896</u>	<u>(2,928)</u>
Net income (loss) attributable to stockholders of Sinovac	<u>\$ (844)</u>	<u>\$ (14,853)</u>	<u>\$ 7,442</u>
Other comprehensive income (loss), net of tax of nil			
Foreign currency translation adjustments	<u>3,639</u>	<u>2,024</u>	<u>2,686</u>
Total comprehensive income (loss)	3,240	(16,725)	13,056
Less: comprehensive (income) loss attributable to non-controlling interests	<u>(973)</u>	<u>3,665</u>	<u>(3,244)</u>
Comprehensive income (loss) attributable to stockholders of Sinovac	<u>\$ 2,267</u>	<u>\$ (13,060)</u>	<u>\$ 9,812</u>
Basic and diluted earnings (loss) per share (note 20)	\$ (0.02)	(0.27)	\$ 0.13
Weighted average number of shares of common stock outstanding			
— Basic	54,608,919	54,926,440	55,301,276
— Diluted	54,608,919	54,926,440	55,802,338

The accompanying notes are an integral part of these consolidated financial statements.

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SINOVAC BIOTECH LTD.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2011, 2012 and 2013

(Expressed in thousands of U.S. dollars, except for number of shares data)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (foreign currency translation adjustment)	Statutory Surplus reserves	Retained Earnings (acc Umlauted deficits)	Total stockholders' equity	Non-controlling interests	Total equity
	Shares	Amount							
Balance, December 31, 2010	54,305,961	\$ 55	\$ 104,152	\$ 6,884	\$ 11,473	\$ 3,876	\$ 126,440	\$ 21,317	\$ 147,757
Stock-based compensation	—	—	206	—	—	—	206	—	206
Exercise of stock options (note 15)	468,000	—	749	—	—	—	749	—	749
Subscriptions received (note 15)	—	—	3	—	—	—	3	—	3
Equity adjustment on acquisition of an additional 1.53% in Sinovac Beijing	—	—	273	(17)	—	—	256	(256)	—
Other comprehensive income									
- Other comprehensive income attributable to non-controlling interests	—	—	—	—	—	—	—	528	528
- Other comprehensive income attributable to stockholders	—	—	—	3,111	—	—	3,111	—	3,111
Net income for the year									
-Net income attributable to non-controlling interest	—	—	—	—	—	—	—	445	445
- Net loss attributable to stockholders of Sinovac	—	—	—	—	—	(844)	(844)	—	(844)
Transfer to statutory surplus reserves	—	—	—	—	335	(335)	—	—	—
Dividend distributed to non-controlling interest	—	—	—	—	—	—	—	(6,658)	(6,658)
Balance, December 31, 2011	54,773,961	\$ 55	\$ 105,383	\$ 9,978	\$ 11,808	\$ 2,697	\$ 129,921	\$ 15,376	\$ 145,297

The accompanying notes are an integral part of these consolidated financial statements.

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SINOVAC BIOTECH LTD.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2011, 2012 and 2013

(Expressed in thousands of U.S. dollars, except for number of shares data)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (foreign currency translation adjustment)	Statutory Surplus reserves	Retained earnings (accumulated deficit)	Total stockholders' equity	Non-controlling interests	Total equity
	Shares	Amount							
Balance, December 31, 2011	54,773,961	\$ 55	\$ 105,383	\$ 9,978	\$ 11,808	\$ 2,697	\$ 129,921	\$ 15,376	\$ 145,297
Stock-based compensation	—	—	347	—	—	—	347	—	347
Exercise of stock options (note 15)	317,600	—	508	—	—	—	508	—	508
Subscriptions received (note 15)	—	—	8	—	—	—	8	—	8
Other comprehensive income									
- Other comprehensive income attributable to non-controlling interests	—	—	—	—	—	—	—	231	231
- Other comprehensive income attributable to stockholders	—	—	—	1,793	—	—	1,793	—	1,793
Net loss for the year									
-Net loss attributable to non-controlling interests	—	—	—	—	—	—	—	(3,896)	(3,896)
- Net loss attributable to stockholders of Sinovac	—	—	—	—	—	(14,853)	(14,853)	—	(14,853)
Balance, December 31, 2012	55,091,561	\$ 55	\$ 106,246	\$ 11,771	\$ 11,808	\$ (12,156)	\$ 117,724	\$ 11,711	\$ 129,435

The accompanying notes are an integral part of these consolidated financial statements.

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SINOVAC BIOTECH LTD.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2011, 2012 and 2013

(Expressed in thousands of U.S. dollars, except number of shares data)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (foreign currency translation adjustment)	Statutory Surplus reserves	Retained earnings (accumulated deficit)	Total stockholders' equity	Non-controlling interests	Total equity
	Shares	Amount							
Balance, December 31, 2012	55,091,561	\$ 55	\$ 106,246	\$ 11,771	\$ 11,808	\$ (12,156)	\$ 117,724	\$ 11,711	\$ 129,435
Stock-based compensation	—	—	281	—	—	—	281	—	281
Exercise of stock options (note 15)	478,800	1	848	—	—	—	849	—	849
Subscriptions received (note 15)	—	—	18	—	—	—	18	—	18
Other comprehensive income									
- Other comprehensive income attributable to non-controlling interests	—	—	—	—	—	—	—	316	316
- Other comprehensive income attributable to stockholders	—	—	—	2,370	—	—	2,370	—	2,370
Net loss for the year									
-Net loss attributable to non-controlling interests	—	—	—	—	—	—	—	2,928	2,928
- Net income attributable to stockholders of Sinovac	—	—	—	—	—	7,442	7,442	—	7,442
Balance, December 31, 2013	55,570,361	\$ 56	\$ 107,393	\$ 14,141	\$ 11,808	\$ (4,714)	\$ 128,684	\$ 14,955	\$ 143,639

The accompanying notes are an integral part of these consolidated financial statements

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SINOVAC BIOTECH LTD.

Consolidated Statements of Cash Flows

For the years ended December 31, 2011, 2012 and 2013

(Expressed in thousands of U.S. dollars)

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Cash flows provided by(used in) operating activities			
Net income (loss)	\$ (400)	\$ (18,749)	\$ 10,370
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
- deferred income taxes	2,845	(17)	(2,225)
- stock-based compensation	206	347	281
- inventory provision	4,034	3,479	1,399
- recovery for doubtful accounts	(167)	(874)	(504)
- impairment of equipment and loss on disposal	455	2,190	88
- research and development expenditures qualified for government grant	(686)	(125)	—
- depreciation of property, plant and equipment and amortization of licenses	4,540	4,189	6,433
- amortization of the prepaid land lease payments	285	299	311
- deferred government grant recognized in income	(434)	(358)	—
- accretion expenses	377	235	100
Changes in:			
- accounts receivable	5,475	(4,286)	(7,256)
- inventories	(1,915)	(426)	(7,547)
- income tax payable	1,340	(3,130)	7
- prepaid expenses and deposits	(531)	913	242
- deferred revenue	(2,696)	1,026	(675)
- accounts payable and accrued liabilities	1,208	(967)	4,552
Net cash provided by (used in) operating activities	<u>13,936</u>	<u>(16,254)</u>	<u>5,576</u>
Cash flows provided by financing activities			
- Loan proceeds	11,392	16,787	16,800
- Loan repayments	(10,659)	(4,755)	(4,089)
- Proceeds from issuance of common stock, net of share issuance costs	749	508	848
- Proceeds from shares subscribed	3	8	18
- Dividends paid to a non-controlling shareholder of Sinovac Beijing	(5,863)	(802)	—
- Government grants received	1,593	2,395	842
- Repayment of loan from a non-controlling shareholder of Sinovac Beijing	3,398	—	—
- Loan from a non-controlling shareholder of Sinovac Dalian	—	3,189	—
Net cash provided by financing activities	<u>613</u>	<u>17,330</u>	<u>14,419</u>
Cash flows used in investing activities			
- Proceeds from disposal of equipment	122	5	—
- Proceeds from redemption of short-term investments	1,545	—	—
- Acquisition of property, plant and equipment	(15,457)	(16,156)	(5,176)
Net cash used in investing activities	<u>(13,790)</u>	<u>(16,151)</u>	<u>(5,176)</u>
Exchange gain on cash and cash equivalents	<u>1,943</u>	<u>2,029</u>	<u>1,182</u>
Increase (decrease) in cash and cash equivalents	<u>2,702</u>	<u>(13,046)</u>	<u>16,001</u>
Cash and cash equivalents, beginning of year	<u>101,585</u>	<u>104,287</u>	<u>91,241</u>
Cash and cash equivalents, end of year	<u>\$ 104,287</u>	<u>\$ 91,241</u>	<u>\$ 107,242</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 456	\$ 750	\$ 2,853
Cash paid for income taxes	<u>\$ 882</u>	<u>\$ 2,265</u>	<u>\$ —</u>
Supplemental schedule of non-cash activities:			
Acquisition of property, plant and equipment included in accounts payable and accrued liabilities	\$ 9,125	\$ 3,788	\$ 2,270

The accompanying notes are an integral part of these consolidated financial statements

SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

1. Basis of Presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”). They include the accounts of Sinovac Biotech Ltd., which is incorporated under the laws of Antigua and Barbuda, and its wholly owned or controlled subsidiaries (collectively, the “Company”). All significant intercompany transactions have been eliminated. Details of the Company’s subsidiaries are as follows:

Name	Date of incorporation or establishment	Place of incorporation (or establishment) /operation	Percentage of ownership as of December 31, 2013	Percentage of ownership as of December 31, 2012	Principal activity
Sinovac Biotech (Hong Kong) Ltd (“Sinovac Hong Kong”)	October 2008	Hong Kong	100%	100%	Investment holding company
Sinovac Biotech Co., Ltd. (“Sinovac Beijing”) (note 11)	April 2001	PRC	73.09%	73.09%	Research and development, production and sales of vaccine products
Tangshan Yian Biological Engineering Co., Ltd (“Tangshan Yian”)	February 1993	PRC	100%	100%	Research and development, production and sales of vaccine products
Sinovac Biological Technology Co., Ltd. (“Sinovac R&D”)	May 2009	PRC	100%	100%	Research and development of vaccine products
Sinovac (Dalian) Vaccine Technology Co., Ltd. (“Sinovac Dalian”) (note 11)	January 2010	PRC	55%	55%	Research and development, production and sales of vaccine products

2. Significant Accounting Policies

(a) Use of Estimates

In preparing the Company’s consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Significant estimates made by management include: provision for product returns, allowance for doubtful accounts, inventory provisions, useful lives of amortizable intangible assets, impairment of long-lived assets, and realizability of deferred tax assets. On an ongoing basis, management reviews its estimates to ensure that these estimates appropriately reflect changes in the Company’s business and new information as it becomes available. If historical experience and other factors used by management to make these estimates do not reasonably reflect future activity, the Company’s consolidated financial statements could be materially impacted.

(b) Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments that are readily convertible to cash with maturities of three months or less when purchased. Cash equivalents as of December 31, 2013 and 2012 are short-term deposits and investments with banks with original maturities of three months or less.

SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

(c) Accounts Receivable

The Company extends unsecured credit to its customers in the ordinary course of business and actively pursues past due accounts. The Company estimates an allowance for doubtful accounts based on historical experience, the age of the accounts receivable balances, credit quality of the Company's customers, current economic conditions, and other factors that may affect customers' ability to pay.

(d) Inventories

Inventories are stated at the lower of cost or replacement cost with respect to raw materials and the lower of cost and net realizable value with respect to finished goods and work in progress. The cost of work in progress and finished goods is generally determined on a weighted-average cost basis and includes direct material, direct labor and overhead costs. Net realizable value represents the anticipated selling price, net of distribution cost, less the cost for finished goods or estimated costs to completion for work in progress.

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Significant additions and improvements are capitalized, while repairs and maintenance are charged to expenses as incurred. Equipment purchased for specific research and development projects with no alternative uses are expensed. Assets under construction are not depreciated until construction is completed and the assets are ready for their intended use. Gains and losses from the disposal of property, plant and equipment are included in the consolidated statements of comprehensive income (loss).

Depreciation of property, plant and equipment is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Plant and building	10 to 24 years
Machinery and equipment	8 to 10 years
Motor vehicles	4 to 5 years
Office equipment and furniture	3 to 5 years
Leasehold improvement	Lesser of useful lives and term of lease

(f) Prepaid land lease payments

Prepaid land lease payments represent amount paid for the rights to use land in the PRC and is recorded at purchase cost less accumulated amortization. Amortization is provided on a straight line basis over the term of the land use rights agreement, which is 28 to 49 years.

(g) Licenses

The Company capitalizes the patent payment and the purchase cost of vaccines if the vaccine has received a new drug certificate from the China Food and Drug Administration ("CFDA") of China. If the vaccine has not received a new drug certificate, the purchase cost is expensed as in-process research and development.

SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

Licenses in relation to the production and sales of pharmaceutical products are amortized on a straight-line basis over their respective useful lives. The useful lives of inactivated hepatitis A and recombinant hepatitis A&B licenses are estimated to be ten years. Before August 15, 2012, the useful life for H5N1 licenses was estimated to be 20 years. On August 15, 2012, the Company entered into amendments agreements with Medimmune to revise the termination date of the license to December 29, 2015, as a result of amendment of the main license agreement to end on December 29, 2015. The other three sublicense agreements have been revised to end on April 5, 2020, July 14, 2020, and May 23, 2021, respectively, (note 22(c)). The weighted-average useful lives of the acquired licenses are 9.16 years.

(h) 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. The Company uses estimates and judgments in its impairment tests and if different estimates or judgment had been utilized, the timing or the amount of any impairment charges could be materially different. The Company recorded impairment charges on long-lived assets for the year ended December 31, 2013 of \$57 (2012- \$2,176, 2011- \$419).

(i) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is provided if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates and laws.

The tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority, based on the technical merits of the position. The tax benefits recognized from such a position are measured based on the amount that is greater than 50% likely of being realized upon settlement. Liabilities associated with uncertain tax positions are classified as long-term unless expected to be paid within one year. Interest and penalties related to uncertain tax positions, if any, are recorded in the provision for income taxes and classified with the related liability on the consolidated balance sheets.

The Company has reviewed the tax positions taken, or to be taken, in its tax return for all tax years currently open to examination by a taxing authority in accordance with the recognition and measurement standards of Accounting Standards Codification (“ASC”) 740-*Accounting for Income Taxes*”. The Company is not under examination by any authority for income tax purposes and has not applied for any income tax filing extension.

SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

The Company is not subject to taxation in the U.S. The Company's taxing jurisdiction is Antigua and Barbuda. Sinovac Hong Kong's taxing jurisdiction is Hong Kong. The taxing jurisdiction of Sinovac Beijing, Tangshan Yian, Sinovac R&D and Sinovac Dalian is China.

(j) Value-added Taxes

Value-added taxes ("VAT") collected from customers relating to product sales and remitted to governmental authorities are presented on a net basis. VAT collected from customers is excluded from revenue. The Company subjects to VAT at a rate of 6%.

(k) Revenue Recognition

Revenue is 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. The Company generally obtains 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. The Company provides certain customers with a right of return.

Revenue for inactivated hepatitis A, combined inactivated hepatitis A&B and seasonal influenza vaccines are recognized when delivery has occurred and the Company estimates return provision for these products. The product return provisions for inactivated hepatitis A vaccine and combined inactivated hepatitis A&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 channels. As of December 31, 2013, the sales return provision for inactivated hepatitis A vaccine and combined inactivated hepatitis A&B vaccine was \$2,240 (December 31, 2012-\$1,700). Percentage of sales return provision for the year of private pay market sales on inactivated hepatitis A and combined inactivated hepatitis A&B represents 5.5% and 5.4% in 2013 and 2012, respectively. The Company does not accept returns for hepatitis products sold under the Expanded Program for Immunization and exports, as such no sales returns are estimated for these sales. The product return provision for seasonal influenza vaccines is estimated based on actual sales returns and expected sales returns up to the end of the flu season because the Company general accepts returns before the end of the flu season. As of December 31, 2013, the sales return provision for seasonal influenza vaccine returns were approximately \$575 (December 31, 2012-\$1,300).

Revenue for animal and mumps vaccines without a right of return provided to customers is recognized when delivery has occurred. Revenue for animal and mumps vaccines with a right of return provided to customers is recognized when payments are collected from customers as the Company currently does not have sufficient historical data to estimate returns for these products.

Deferred revenue is generally relating to government stockpiling programs and advances received from customers. For government stockpiling programs of H1N1 and H5N1 vaccines, the Company generally obtains purchase authorizations from the government for a specified amount of products at a specified price and no rights of return are provided. Revenue is recognized when the government takes delivery of the products. If the products expire prior to delivery, these expired products are recognized as revenue once cash is received and the products have expired and passed government inspection.

SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

(l) Shipping and Handling

Shipping and handling fees billed to customers are included in sales. Costs related to shipping and handlings are recognized in selling, general and administrative expenses in the consolidated statements of comprehensive income (loss). For the year ended December 31, 2013, \$1,235 (2012 - \$1,118; 2011 - \$1,197) of shipping and handling costs were included in selling, general and administrative expenses.

(m) Advertising Expenses

Advertising costs are expensed as incurred and included in selling, general and administrative expenses. Advertising costs were \$474 for the year ended December 31, 2013 (2012 - \$29; 2011 - \$12).

(n) Research and Development

Research and development (“R&D”) costs are expensed as incurred and are disclosed as a separate line item on the Company’s consolidated statements of comprehensive income(loss). R&D costs consist primarily of the remuneration of R&D staff, depreciation, material, clinical trial costs as well as amortization of acquired technology and know-how used in R&D with alternative future uses. R&D costs also include costs associated with collaborative R&D and in-licensing arrangements, including upfront fees paid to collaboration partners in connection with technologies which have not reached technological feasibility and did not have an alternative future use. Reimbursement of R&D costs for arrangements with collaboration partners is recognized when the obligations are incurred.

Under certain R&D arrangements with third parties, the Company may be required to make payments that are contingent on the achievement of specific development, regulatory and/or commercial milestones. Before a product receives regulatory approval, license fees and milestone payments made to third parties are expensed as incurred. License fees and milestone payments made to third parties after regulatory approval is received are capitalized and amortized over the remaining life of the agreement with third parties.

(o) Government Grants

Government grants received from the PRC government by the operating subsidiaries of the Company are recognized when there is reasonable assurance that the amount is receivable and all the conditions specified in the grant have been met. Government grants for research and development are recognized as a reduction to R&D expenses when the expenses are incurred in the same period when the conditions attached to the grants are met, or recognized as income in the period when the conditions are met after the expenses are incurred. Government grants for property, plant and equipment are deferred and recognized as a reduction to the related depreciation and amortization expenses in the same manner as the production facilities are amortized. Interest subsidies are recorded as a reduction to interest and financing expense in the consolidated statements of comprehensive income (loss), or recorded as a reduction to interest capitalized if the subsidies granted are related to a specific borrowing associated with building a qualifying asset. For government loan received at below market interest rate, the difference between the face value of the loan and fair value using the effective interest rate method is recorded as deferred government grants. Accretion expense is recorded in interest and financing expense and the government grant will be recognized as “government grants recognized in income” in the consolidated statement of comprehensive income when the government loan is fully repaid.

(p) Retirement and other post-retirement benefits

Full time employees of the Company in the PRC participate in a government mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Company makes contributions to the government for these benefits based on certain percentages of the employees’ salaries. The Company has no legal obligation for the benefits beyond the contributions. The total amounts for such employee benefits, which were expensed as incurred, were \$2,580, \$2,771 and \$3,138 for the years ended December 31, 2011, 2012 and 2013, respectively.

SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

(q) Foreign Currency Translation and Transactions

The Company maintains their accounting records in their functional currencies, U.S. dollars (“US\$”) for the Company and Sinovac Hong Kong, and Renminbi Yuan (“RMB”) for the PRC subsidiaries. The Company uses the US\$ as its reporting currency.

At the transaction date, each asset, liability, revenue and expense is re-measured into the functional currency by the use of the exchange rate in effect at that date. At the period end, foreign currency monetary assets, and liabilities are re-measured into the functional currency by using the exchange rate in effect at the balance sheet date. The resulting foreign exchange gains and losses are included in selling, general and administrative expenses in the consolidated statements of comprehensive income (loss). The Company recognized foreign exchange gains (losses) of \$(89), \$207 and \$650 for the year ended December 31, 2011, 2012 and 2013, respectively.

The assets and liabilities of the PRC subsidiaries, Sinovac Beijing, Tangshan Yian, Sinovac R&D and Sinovac Dalian are translated into US\$ at the exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rates. Gain and losses from such translations are recorded in accumulated other comprehensive income, a component of stockholders’ equity.

Gains on intra-entity foreign currency transactions that are of a long-term-investment nature were \$247, \$199 and \$235 for the years ended December 31, 2011, 2012 and 2013, respectively.

(r) Stock-based Compensation

Compensation expense for costs related to all share-based payments, including grants of stock options, is recognized through a fair-value based method. The Company uses the Black-Scholes option-pricing model to determine the grant date fair value for the awards. The Company has elected to recognize share-based compensation costs using the straight-line method over the requisite service period with a graded vesting schedule, provided that the amount of compensation costs recognized at any date is at least equal to the portion of the grant date value of the awards that are vested at that date. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Share based compensation costs are recorded net of estimated forfeitures such that expense is recorded only for those awards that are expected to vest.

(s) Comprehensive Income (loss)

The Company’s comprehensive income (loss) consists of net income (loss) and foreign currency translation adjustments.

SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

(t) Earnings (loss) Per Share

Earnings (loss) per share is calculated in accordance with ASC 260, Earnings per Share. Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to stockholders of Sinovac by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common shares and dilutive common share equivalents of options. If the Company records a net loss, the basic and diluted loss per share is the same because the exercise of options would have an anti-dilutive effect.

(u) Operating Lease

Leases are classified as capital and operating depending on the terms and conditions of the lease agreement. Leases that transfer substantially all the benefits and risks incidental to ownership of assets are accounted for as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for operating leases where rental payments are expensed as incurred. There are no capital leases for the periods presented.

(v) Fair Value Measurements

Assets and liabilities subject to fair value measurements are required to be disclosed within a specified fair value hierarchy. The fair value hierarchy ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following categories based on the lowest level input used that is significant to a particular fair value measurement:

- Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets and liabilities in markets that are not active.
- Level 3 — Unobservable inputs for the asset or liability.

As of December 31, 2012 and 2013, the Company did not have any financial assets or liabilities measured at fair value on a recurring basis.

The carrying values of cash and cash equivalents, accounts receivable, current portion of loans payable, and accounts payable and accrued liabilities approximate their fair value because of their short-term nature. The fair values of long-term loans payable are estimated based on the discounted value of future contractual cash flows which approximates their carrying value due to the fact they are predominately stated at variable rates based on the People's Bank of China. For the long-term loan with carrying value of \$1,730 and loan from a non-controlling shareholder of \$3,324 with fixed interest rates as at December 31, 2013, the carrying values approximate fair value as the interest rates offered by financial institutions for debt instruments of comparable maturities approximate the interest rates of these loans.

SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

The Company measures property, plant and equipment at fair value on a nonrecurring basis only if an impairment charge were to be recognized. As at December 31, 2012, the Company's property, plant and equipment at Tangshan Yian and certain equipment and leasehold improvements at Sinovac Beijing are measured at fair value on a nonrecurring basis. The Company determined the fair value of Tangshan Yian's land use rights, plant and buildings using the market approach by obtaining quoted prices for similar assets in the principal resale market. The Company determined the fair value of Tangshan Yian's machinery and equipment using the cost approach by estimating the amount that currently would be required to construct or purchase substitute machinery and equipment of comparable utility. The estimate considers the condition of the assets which include the physical deterioration and economic obsolescence. It was determined the fair value of Tangshan Yian's property, plant and equipment was \$2,923 compared to the carrying value of \$4,420. The Company determined the fair value of certain equipment and leasehold improvement at Sinovac Beijing using the market approach by obtaining quoted prices for similar assets in the principal resale market, and determined the fair value was \$89 compared to the carrying value of \$740.

Description	Total Fair Value	Fair value measurement at December 31, 2012 using			Total Losses
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant unobservable Inputs (Level 3)	
<i>Nonrecurring</i>					
Land use right	\$ 1,226	\$ —	\$ 1,226	—	—
Plant, building and equipment	\$ 1,786	\$ —	\$ 1,786	—	\$ 2,171
Total nonrecurring	\$ 3,012	\$ —	\$ 3,012	—	\$ 2,171

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SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

(w) Concentration of Risks

Exchange Rate Risks

The Company operates in China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between the US\$ and the Chinese RMB. Foreign exchange gains (losses) of \$(89), \$207 and \$650 are included in selling, general and administrative expenses for the years ended December 31, 2011, 2012 and 2013; respectively. As at December 31, 2012 and 2013, cash and cash equivalents of \$70,173 (RMB 437 million) and \$92,861 (RMB 563 million), respectively, are denominated in RMB and are held in PRC and Hong Kong.

Currency Convertibility Risks

Substantially all of the Company's operating activities are transacted in Chinese RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a payment application form together with other information such as suppliers' invoices, shipping documents and signed contracts.

Concentration of Credit Risks

Financial instruments that potentially subject the Company to concentration of credit risks consist primarily of cash and cash equivalents and accounts receivable, the balances of which are stated on the consolidated balance sheets which represent the Company's maximum exposure. The Company places its cash and cash equivalents in good credit quality financial institutions in Hong Kong and China. Concentration of credit risks with respect to accounts receivables is linked to the concentration of revenue. The Company's customers are mainly various government agencies in China. No single customer accounted for more than 10% of total sales for the years ended December 31, 2013, 2012 and 2011 except for government stockpile purchases. To manage credit risk, the Company performs ongoing credit evaluations of customers' financial condition.

Interest Rate Risks

The Company is subject to interest rate risk. Other than a long-term loan with carrying value of \$1,730 and loan from a non-controlling shareholder of \$3,324 with fixed interest rates as at December 31, 2013, other interest-bearing loans are stated at variable rates based on the People's Bank of China (note 9).

(x) Comparative information

Certain comparative figures of prior year have been reclassified to conform to the current year's presentation.

(y) Recently Adopted Accounting Standards

Effective January 1, 2013, the Company adopted Accounting Standard Update ("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 the Company's consolidated financial statements.

(z) Recently Issued Accounting Standards

In March 2013, the FASB issued ASU No. 2013-05 ("ASU 2013-05"), Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, which specifies that foreign currency translation adjustments should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of CTA attributable to the investment would be recognized in earnings when the investment is sold. When an entity sells either a part or all of its investment in a consolidated foreign entity, CTA would be recognized in earnings only if the sale results in the parent no longer having a controlling financial interest in the foreign entity. In addition, CTA should be recognized in earnings in a business combination achieved in stages. For public entities, ASU 2013-05 is effective for reporting periods beginning after December 15, 2013, with early adoption permitted. The Company will adopt ASU 2013-05 on January 1, 2014 and does not expect the adoption to have a material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11 ("ASU 2013-11"), Income Taxes (Topic 740) to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carry forward, similar tax loss, or tax credit carry forward exists. This ASU requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry forward, a similar tax loss, or a tax credit carry forward, with certain exceptions. The modifications to ASC 740 resulting from the issuance of ASU 2013-11 are effective for fiscal years beginning after December 15, 2013 and interim periods within those years. Early adoption is permitted. The Company will adopt ASU 2013-11 on January 1, 2014 and does not

expect the adoption to have a material impact on its consolidated financial statements..

SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

3. Accounts Receivable - net

	December 31, 2012	December 31, 2013
Trade receivables (note 9)	\$ 25,606	\$ 33,743
Allowance for doubtful accounts	(2,936)	(2,429)
	22,670	31,314
Other receivables	770	613
Total accounts receivable	<u>\$ 23,440</u>	<u>\$ 31,927</u>

As at December 31, 2012, accounts receivable with a carrying value of \$5,600 (RMB 35 million) were pledged as collateral for a bank loan which was repaid in full in 2013. (note 9).

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. The Company estimates the allowance based on known troubled accounts, historical experience, the age of the accounts receivable balances, credit quality of the Company's customers, current economic conditions, and other factors that may affect customers' ability to pay. The Company records its allowance for doubtful accounts based upon its assessment of various factors. 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 \$801 and \$616, respectively. In addition, basic and diluted earnings per share increased by \$0.02 and \$0.01, respectively.

The Company's maximum exposure to credit risk at the balance sheets date relating to trade receivables is summarized as follows:

	December 31, 2012	December 31, 2013
Aging within one year, net of allowance for doubtful accounts	\$ 22,065	\$ 29,565
Aging greater than one year, net of allowance for doubtful accounts	605	1,749
Total trade receivables	<u>\$ 22,670</u>	<u>\$ 31,314</u>

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SINOVAC BIOTECH LTD.

Notes to Consolidated Financial Statements

(Expressed in thousands of U.S. dollars, unless otherwise stated)

4. Inventories

	December 31, 2012	December 31, 2013
Raw materials	\$ 1,299	\$ 3,832
Work in progress	971	448
Finished goods	8,260	10,049
Inventories	\$ 10,530	\$ 14,329

For the year ended December 31, 2013, the Company charged \$2,217 (2012- \$3,140, 2011- \$1,205) of excessive fixed production overhead to cost of sales as such costs were incurred.

For the years ended December 31, 2013, the cost of sales includes \$1,399 (2012- \$3,479, 2011 - \$4,034) of inventory provision for products that are likely to be expired before being sold.

5. Long-term Inventories

	December 31 2012	December 31, 2013
Work in progress	\$ —	\$ 666
Finished goods	28	2,115
Long-term Inventories	\$ 28	\$ 2,781

Long-term inventories represent H5N1 vaccines with remaining shelf lives over one year and not expected to be sold within one year. These vaccines are for government stockpiling purposes. The amount of H1N1 vaccine with expired shelf lives was \$1,099 as at December 31, 2012. Since government inspection has not been completed, a full provision of \$1,099 (2011- \$nil) was recognized as cost of sales in 2012.

6. Property, Plant and Equipment

	December 31, 2012	December 31, 2013
Cost		
Construction in progress	1,646	424
Plant and buildings	34,230	35,259
Machinery and equipment	39,359	42,851
Motor vehicles	1,831	1,884
Equipment and furniture	2,480	2,620
Leasehold improvements	9,692	12,386
Total cost	\$ 89,238	\$ 95,424
Less: Accumulated depreciation		
Construction in progress	—	—
Plant and buildings	4,603	6,455
Machinery and equipment	11,922	15,658
Motor vehicles	1,423	1,653
Equipment and furniture	1,253	1,546
Leasehold improvements	866	2,149
Total accumulated depreciation	\$ 20,067	\$ 27,461
Property, plant and equipment net	\$ 69,171	\$ 67,963

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The land use rights and buildings of the Changping facilities of Sinovac Beijing with a net book value of \$7,760 (RMB 47 million) were pledged as collateral (note 9) for a bank loan from China Construction Bank.

The land use rights and building of Sinovac Beijing with a net book value of \$20,893 (RMB 126.5 million) were pledged as collateral (note 9) for a bank loan from Bank of Beijing.

The land use rights and building of Sinovac Dalian with a net book value of \$9,911 (RMB 60 million) were pledged as collateral (note 9) for a bank loan from Bank of China. The loan was partially drawn down in March 2013.

Depreciation expense for the years ended December 31, 2011, 2012, and 2013 was \$4,272, \$3,961 and \$5,998, respectively.

Loss on disposal of equipment in 2011, 2012 and 2013 were \$36, \$14 and \$31, respectively.

In 2012, Sinovac Beijing decided to move the packaging line from its Shangdi site to the Changping site. The equipment not being relocated to Changping and the leasehold improvements for the packaging line production area at Shangdi site were impaired as a consequence. The Company recorded an impairment charge of \$679 (RMB 4.1 million) and \$57 (RMB 0.3 million) in the year ended December 31, 2012, and 2013, respectively.

Tangshan Yian incurred a loss in 2012 and was expected to continue to incur losses in the future. The Company performed a recoverability test of Tangshan Yian's property, plant and equipment by comparing the forecasted undiscounted cash flow to be generated from continuous use of the property, plant and equipment to their carrying value. As the discounted cash flows over the remaining useful life of the assets were negative, the Company measured the impairment amount by estimating the fair value of the property, plant and equipment. The Company determined the fair value of Tangshan Yian's land use rights and plant and buildings using the market approach by obtaining quoted prices for similar assets in the principal resale market. The Company determined the fair value of Tangshan Yian's machinery and equipment using the cost approach by estimating the amount that currently would be required to construct or purchase substitute machinery and equipment of comparable utility. The estimate considered the condition of the assets which include the physical deterioration and economic obsolescence.

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It was determined the fair value of Tangshan Yian's property, plant and equipment and land use rights was \$2,923 compared to the carrying value of \$4,420 as at December 31, 2012. The impairment of \$1,497 was allocated on a pro-rata basis to the land use rights, plant and buildings, and machinery and equipment based on their relative carrying value. As the fair value of the land use rights exceeded their carrying value, the impairment amount of \$1,497 was allocated to plant and buildings and machinery and equipment based on their relative carrying values.

7. Prepaid land lease payments

	<u>December 31, 2012</u>	<u>December 31, 2013</u>
Prepaid land lease payments	\$ 11,891	\$ 12,238
Less: accumulated amortization	979	1,290
Net carrying value	<u>\$ 10,912</u>	<u>\$ 10,948</u>

Amortization expenses for prepaid land lease payments for the years ended December 2011, 2012 and 2013 were \$285, \$299 and \$311, respectively.

8. Licenses

	<u>December 31, 2013</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Inactivated hepatitis A	3,490	3,490	—
Combined inactivated hepatitis A&B	502	452	50
H5N1 licenses (note 22)	1,519	797	722
Total	<u>\$ 5,511</u>	<u>\$ 4,739</u>	<u>\$ 772</u>

	<u>December 31, 2012</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Inactivated hepatitis A	3,391	3,391	—
Combined inactivated hepatitis A&B	488	390	98
H5N1 licenses (note 22)	1,476	424	1,052
Total	<u>\$ 5,355</u>	<u>\$ 4,205</u>	<u>\$ 1,150</u>

- (a) On August 15, 2011, the Company entered into a non-exclusive main license agreement together with three sublicense agreements with Medimmune, LLC ("Medimmune") to use patented reverse genetics technology pertaining to virus strain production for vaccines, including the H5N1 influenza virus strain. The Company amortized the patent fee on a straight-line method basis over the estimated useful life of 20 years. On August 15, 2012, the Company entered into amendment agreements with Medimmune which amended the term of the license agreements. As for the main license agreement, the estimated useful life of the patent was revised to end on December 29, 2015. The other three sublicense agreements have been revised to end on April 5, 2020, July 14, 2020, and May 23, 2021, respectively. According, the estimated useful life of the patent was revised to end on December 29, 2015 (note 22) which is the termination date of the main license agreement.
- (b) Amortization expense for the licenses was \$268, \$228 and \$435 for 2011, 2012 and 2013, respectively.
- (c) Estimated amortization expense for the existing licenses over their remaining useful lives as of December 31, 2013 is as follows:

Within 1 year	\$ 411
Between 1 and 2 years	361
Between 2 and 3 years	—
Total	<u>\$ 772</u>

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The above amortization expense forecast is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, changes in foreign currency exchange rates, impairment of licenses and other events.

9. Bank Loans and Other Debt

	December 31, 2012	December 31, 2013
Bank loan (China Merchants Bank): \$1,652 (RMB 10 million), bearing interest at 10% above the prime rate of a one-year term loan published by the People's Bank of China. Interest is payable quarterly. The loan was drawn on January 31, 2013 and is repayable on January 30, 2014.	\$ —	\$ 1,652
Bank loan (Bank of China) On December 17, 2012, Sinovac Dalian entered into a bank loan agreement with Bank of China with a credit line of \$3,304 (RMB 20 million). The first \$826 (RMB 5 million) was drawn down on March 13, 2013 and the second \$826 (RMB 5 million) was drawn down on September 24, 2013, bearing interest at 7.4% and the interest is payable monthly. The first \$826 (RMB 5 million) is repayable on March 12, 2014 and the second \$826 (RMB 5 million) is repayable on September 23, 2014. Land use right and buildings of Sinovac Dalian with a net book value of \$9,911 (RMB 60 million) were pledged as collateral.	—	1,652
Bank loans	—	3,304
Bank loan (Industrial and Commercial Bank of China Limited): \$3,211 (RMB 20 million) (December 31, 2012- RMB 20 million), bearing interest at 10% above Bank of China's prime bank loan rate of a one-year term loan plus 1.456% of financing fee per year, at 8.672% per year before it was repaid on December 10, 2012. \$3,211 (RMB 20 million), was drawn down on December 13, 2012 under a new loan agreement with same interest rate calculation basis with financing fee of 1.2% per year (interest rate at 7.8%). Trade receivables of Sinovac Beijing with a carrying value of \$5.6 million (RMB 35 million) were pledged as collateral (note 3). The loan was repaid in full on December 12, 2013.	3,211	—
Bank loan (China Construction Bank): The total amount of the loan facility is \$8,259 (RMB 50 million) for a three-year period from December 13, 2012 to December 12, 2015. The amount drawn is \$5,121 (RMB 31 million) as at December 31, 2013 \$458 was repaid in 2013 and \$3,938 was drawn in 2013. The interest is set at the bank's prime lending rate at 6.15% per year. The loan is to be used exclusively for the operation and production costs of Sinovac Beijing. Interest is payable monthly. The loan is unsecured and 10% of the principal amount is repayable in 2013, 10% of the principal amount is repayable in 2014 with the remaining principal repayable in 2015. Pursuant to the covenants set out in the agreement, the debt to total assets ratio must not be higher than 85%, the current ratio must not be lower than 1, contingent liabilities must not be higher than \$15,032 (RMB 91 million) and contingent liabilities as a percentage of total stockholders' equity must not be higher than 10%. The Company is in compliance with such covenants as of December 31, 2012 and 2013.	118	518
Bank loan (Bank of Beijing): \$24,130 (RMB 146 million) (December 31, 2012- \$14,892) bearing interest at the bank's prime lending rate and adjusted every 12 months, currently at 6.4% per year (2012 — 6.4%). Interest is payable quarterly. The loan is for construction of the Changping facility and has a maximum credit facility amount of \$33,038 (RMB 200 million). \$9,238 was drawn in 2013. The loan is repayable in four equal installments on May 13, 2014, November 13, 2014, May 13, 2015 and November 13, 2015. The Company also obtained a credit line with a maximum quota for issuing letter of credits of \$13,215 (RMB 80 million) with the same bank. No letters of credit were issued by the Company as at December 31, 2012 and 2013. Land use right and buildings of Sinovac Beijing with a net book value of \$20,893 (RMB 126.5 million) were pledged as collateral.	—	12,065
Bank loan (China Construction Bank): \$14,536 (RMB 88 million) (December 31, 2012- \$14,446), bearing interest at the bank's prime lending rate and adjusted every 12 months, at 6.4% per year (2012 — 6.9%). The loan is exclusively for the purchase of the Changping facility. Interest is payable monthly. Land and building of the Changping facility of Sinovac Beijing with a net book value of \$7,760 (RMB 47 million) were pledged as collateral. \$165 (RMB 1 million) was repaid on June 20, 2013 and \$165 (RMB 1 million) was repaid on December 20, 2013. \$330 (RMB 2 million) is repayable in 2014.	—	330
Current portion of long-term debt	\$ 3,329	\$ 12,913
Bank loans and current portion of long term debt	\$ 3,329	\$ 16,217

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9. Bank Loans and Other Debt

	<u>December 31, 2012</u>	<u>December 31, 2013</u>
Bank loan (China Construction Bank): \$14,536 (RMB 88 million) (December 31, 2012- \$14,446), bearing interest at the bank's prime lending rate and adjusted every 12 months, at 6.4% per year (2012 — 6.9%). The loan is exclusively for the purchase of the Changping facility. Interest is payable monthly. Land use right and buildings of the Changping facility of Sinovac Beijing with a net book value of \$7,760 (RMB 47 million) were pledged as collateral. \$165 (RMB 1 million) was repaid on June 20, 2013 and \$165 (RMB 1 million) was repaid on December 20, 2013. \$330 (RMB 2 million) is repayable in 2014. The remainder is payable on February 9, 2015.	\$ 14,446	\$ 14,206
Bank loan (China Construction Bank): The total amount of the loan facility is \$8,259 (RMB 50 million) for a three-year period from December 13, 2012 to December 12, 2015. The amount drawn is \$5,121 (RMB 31 million) as at December 31, 2013 \$458 was repaid in 2013 and \$3,938 was drawn in 2013. The interest is set at the bank's prime lending rate at 6.15% per year. The loan is to be used exclusively for the operation and production costs of Sinovac Beijing. Interest is payable monthly. The loan is unsecured and 10% of the principal amount is repayable in 2013, 10% of the principal amount is repayable in 2014 with the remainder principal repayable in 2015. Pursuant to the covenants set out in the agreement, the debt to total assets ratio must not be higher than 85%, current ratio must not be lower than 1, contingent liabilities must not be higher than \$15,032 (RMB — 91 million) and contingent liabilities as a percentage of total stockholders' equity must not be higher than 10%. The Company is in compliance with such covenants as of December 31, 2012 and 2013.	1,065	4,145
Bank loan (Bank of Beijing): \$24,130 (RMB 146 million) (December 31, 2012- \$14,892) bearing interest at the bank's prime lending rate and adjusted every 12 months, currently at 6.4% per year (2012 — 6.4%). Interest is payable quarterly. The loan is for construction of the Changping facility and has a maximum credit facility amount of \$33,038 (RMB 200 million). \$9,238 was drawn in 2013. The loan is repayable in four equal installments on May 13, 2014, November 13, 2014, May 13, 2015 and November 13, 2015. The Company also obtained a credit line with a maximum quota for issuing letter of credits of \$13.2 million (RMB 80 million) with the same bank. No letters of credit were issued by the Company as at December 31, 2012 and 2013. Land use right and buildings of Sinovac Beijing with a net book value of \$20,893 (RMB 126.5 million) were pledged as collateral.	14,892	12,065
Loan (Beijing Zhongguancun Development Group): \$1,982 (RMB 12million) bearing interest currently at 0.36% per year to fund EV71 vaccine research project of Sinovac Beijing. The total loan is \$1,982 (RMB 12 million) of which RMB 6 million was received in 2012 and the second RMB 6 million was received on February 25, 2013. The loan is unsecured and repayable on February 24, 2016. The Beijing Zhongguancun Development Group is entitled to 10.62% ownership of the profits, if any, generated from the intellectual property developed during the loan period. No profit sharing payment are required to be paid as no profits have been generated to date as of December 31, 2013. The Company can repay the loan at any time during the loan period. The fair value differential of \$383 (between the face value and the fair value using the effective interest rate method at the Company's borrowing rate of 6.9%) is recorded as non-current deferred government grant (2012- \$216) (see note 18).	778	1,730
Long - term debt — non-current portion	<u>\$ 31,181</u>	<u>\$ 32,146</u>

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9. Bank Loans and Other Debt

Aggregate annual principal payments of the loans payable as of December 31, 2013 are as follows:

Within 1 year	\$	16,217
Between 1 and 2 years	\$	30,416
Between 2 and 3 years	\$	1,730
Total	\$	<u>48,363</u>

The weighted average effective interest rate was 6.71%, 7% and 6.6% in 2011, 2012 and 2013 respectively. The Company incurred \$1,440, \$1,955 and \$2,942, respectively, in interest and financing expense for the years ending December 31, 2011, 2012 and 2013, respectively, of which \$252 (net of \$712 loan interest subsidies received), \$1,306 (net of \$1,458 loan interest subsidies received), and \$116 for the years ending December 31, 2011, 2012 and 2013, respectively, was capitalized in property, plant and equipment.

10. Income Taxes

Antigua and Barbuda

Under the current laws of Antigua and Barbuda, the Company is not subject to tax on income or capital gains. Additionally, upon payments of dividends by the Company to its shareholders, no Antigua and Barbuda withholding tax will be imposed.

Hong Kong

Under the Hong Kong tax laws, Sinovac Hong Kong is exempted from income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

China

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 the Company 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 years since 2010.

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On January 1, 2008, “The Law of the People’s Republic of China on Enterprise Income Tax” (the “Enterprise Income Tax Law”) became effective. This Enterprise Income Tax Law eliminated the previous preferential tax treatment that was available to the foreign invested enterprises (“FIEs”) but provided grandfathering of the preferential tax treatment currently enjoyed by the FIEs. Under the Enterprise Income Tax 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 Enterprise Income Tax 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 Enterprises Income Tax 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, the Company and its 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 the Company receives from its PRC subsidiaries would be exempt from PRC withholding tax but be subject to income tax at 25% if the Company is 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 the capital of the company which pays the dividends.

According to Guoshuihan [2009] No. 601 (“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 judgement and discretion.

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In addition, whether the favourable 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 dividend 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 \$867 for the year ended December 31, 2012. Basic and diluted loss per common share would have been increased 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 \$865 was paid.

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

The Company's income (loss) before income tax consists of:

	For the year ended December 31,		
	2011	2012	2013
Non - PRC	\$ (301)	\$ (527)	\$ (65)
PRC	4,968	(19,106)	8,210
Total	<u>\$ 4,667</u>	<u>\$ (19,633)</u>	<u>\$ 8,145</u>

Income taxes are attributed to the operations in China and consist of:

	For the year ended December 31,		
	2011	2012	2013
Current	\$ (2,221)	\$ 867	\$ —
Deferred	(2,845)	17	2,225
Total income tax benefit (expense)	<u>\$ (5,066)</u>	<u>\$ 884</u>	<u>\$ 2,225</u>

The following is a reconciliation of total income tax benefit (expense) to the amount computed by applying the PRC income tax rate of 25% for the year ended December 31, 2011, 2012 and 2013:

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	For the year ended December 31,		
	2011	2012	2013
Income (loss) before income tax expense and non-controlling interests	4,667	(19,633)	8,145
Income tax expense at PRC statutory rate	(1,167)	4,909	(2,036)
International tax rate differential	(300)	(40)	(16)
Other adjustments	(290)	59	228
Permanent differences	(207)	1051	387
Effect of preferential tax treatment	1,225	(648)	1,573
Change in valuation allowance	(4,327)	(5,314)	2,089
Effect of withholding tax at 5% on the distributable profits of the Company's PRC subsidiaries	—	867	—
Income tax benefit (expense)	<u>\$ (5,066)</u>	<u>\$ 884</u>	<u>\$ 2,225</u>

The tax effects of temporary differences that give rise to the Company's deferred tax assets are as follow:

	December 31, 2012	December 31, 2013
Accrued expenses	\$ 1,744	\$ 1,982
Inventories	649	729
Tax losses carried forward	\$ 10,315	\$ 10,545
Less: valuation allowance	(12,708)	(10,654)
Deferred tax assets, current portion	<u>—</u>	<u>2,602</u>
Fixed assets	940	576
Less: valuation allowance	(494)	(459)
Deferred tax assets, non-current portion	<u>\$ 446</u>	<u>\$ 117</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible or utilized. The Company considers projected future taxable income and tax planning strategies in making this assessment. Based upon an assessment of the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible or can be utilized, the Company provided valuation allowances of \$13,202 and \$11,113 as of December 31, 2012 and 2013, respectively.

The Company determines deferred taxes for each tax-paying entity in each tax jurisdiction. It is more likely than not that the excess of the tax base of the land use rights and licences over the carrying value, certain accruals as well as tax loss carried forward by Sinovac Beijing will be realized in the future and the tax benefits on this temporary difference of \$2,719 (2012 - \$446) has been recorded.

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 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 consolidated financial statements.

The tax losses of its PRC subsidiaries in the amount of \$43,483 (RMB 263 million) can be carried forward for five consecutive years against its profits starting from 2014 and will expire ranging from 2015 to 2018.

As none of the Company's foreign subsidiaries had retained earnings at 31 December 2013, no provision for withholding income taxes has been made thereon. Upon repatriation of any earnings in the future, in the form of dividends or otherwise, the Company would be subject to PRC withholding income taxes. Determination of the amount of unrecognized deferred income tax liability is not practicable.

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The changes in unrecognized tax benefit are as follows:

	For the year ended December 31,	
	2012	2013
Balance at January 1	198	345
Additions based on tax positions related to the current year	147	25
Balance at December 31	<u>\$ 345</u>	<u>\$ 370</u>

The Company recognizes interest and penalties related to unrecognized tax benefits as part of its income tax expenses. The Company recorded interest and penalties of \$nil for the years ended December 31, 2011, 2012 and 2013. The PRC tax law provides 3-5 years statute of limitation and the Company's income tax returns are subject to examination by tax authorities during that period.

As of December 31, 2011, 2012 and 2013, the Company had approximately \$198, \$345 and \$370 of unrecognized tax benefits related to uncertain tax positions. All of the unrecognized tax benefits would affect the effective tax rate if recognised. The Company does not anticipate any material changes to its uncertain tax positions in the next 12 months.

11. Non-controlling Interests

Non-controlling interests represent the interest of non-controlling shareholders in Sinovac Beijing and Sinovac Dalian based on their proportionate interests in the equity of that company adjusted for its proportionate share of income or losses from operations. On October 1, 2011, the Company increased its ownership in Sinovac Beijing by an additional 1.53% by contributing the dividends declared to Sinovac Hong Kong but unpaid in the amount of \$3,073 (RMB 18.6 million). An adjustment of \$271 (RMB 1.6 million) resulted from the difference between the adjustment to the carrying amount of the non-controlling interest in Sinovac Beijing and the consideration that was charged to additional paid-in capital. The non-controlling interest in Sinovac Beijing was 28.44% prior to October 1, 2011 and was 26.91% after October 1, 2011. On April 8, 2013, SinoBioway Biotech Group Co., Ltd ("Sino Bioway"), the non-controlling shareholder of Sinovac Beijing, transferred its 26.91% equity interests in Sinovac Beijing to Xiamen Bioway Biotech Co., Ltd. ("Xiamen Bioway"), a company owned by Sino Bioway. There will be no change to the composition of the board of directors of Sinovac Beijing after the completion of the transaction. The non-controlling interest in Sinovac Dalian was 45% as of December 31, 2013 and December 31, 2012.

12. Related Party Transactions and Balances

(a) Loan from a non-controlling shareholder

	December 31, 2012	December 31, 2013
Loan — current	\$ —	\$ 3,324
Loan — long-term	3,230	—
Total	<u>\$ 3,230</u>	<u>\$ 3,324</u>

The loan of \$3,324 (RMB 20 million) is due to Dalian Jin Gang Group, the non-controlling shareholder of Sinovac Dalian, which is unsecured, bearing interest at 7.2% per year. Interest is payable monthly. The loan is repayable on March 14, 2014.

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On May 21, 2012, Sinovac Dalian lent RMB 15 million to Dalian Jin Gang Group and the loan was repaid on June 1, 2012. The interest rate is 6%. The loan was unsecured.

- (b) The Company entered into the following transactions in the normal course of operations at the exchange amount with related parties:

	2011	2012	2013
Rent expenses incurred to SinoBioway Biotech Group Co., Ltd (“Sino Bioway”).	\$ 805	\$ 823	\$ 847

In 2004, the Company 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 \$231 (RMB 1.4 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 increasing from \$75 (RMB 0.5 million) to \$224 (RMB 1.4 million) per year.

In June 2007, the Company 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 \$338 (RMB2.0 million). The lease commenced in June 2007 and has a term of 20 years.

In September 2010, the Company entered into another operating lease agreement with Sino Bioway with respect to expansion of Sinovac R&D’s business on research and development for an annual lease payment of \$142 (RMB 0.9 million). The lease commenced on September 30, 2010 and has a term of five years. On April 8, 2013, the Company 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. Included in current and long-term prepaid expenses and deposits as at December 31, 2013, is \$306 (RMB 1.9 million) (December 31, 2012, \$417(RMB 2.7 million)), representing prepaid lease payments made to this related party.

13. Accounts Payable and Accrued Liabilities

	<u>December 31, 2012</u>	<u>December 31, 2013</u>
Trade payables	\$ 2,170	\$ 6,063
Machinery and equipment payables	3,788	2,270
Accrued expenses	7,514	8,669
Value added tax payable	167	208
Other tax payable	617	576
Withholding personal income tax	1,240	1,511
Bonus and benefit payables	6,776	5,244
Other payables	2,506	3,496
Total	<u>\$ 24,778</u>	<u>\$ 28,037</u>

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14. Commitments and Contingencies

(a) Operating Lease Commitments

The Company leases production plant and laboratory under operating leases from its related parties (note 12 (b)). Rental expense amounted to \$805, \$823, and \$847 for the years ended December 31, 2011, 2012 and 2013, respectively.

Minimum future rental payments under operating leases to related parties for the years ending December 31 are as follows:

2014	847
2015	847
2016	847
2017	847
2018	847
Thereafter	4,468
Total minimum future payments	<u>\$ 8,703</u>

(b) Other Commitments

In addition to commitments disclosed in note 22, commitments related to R&D expenditures are \$181 as at December 31, 2013.

Commitments related to capital expenditures are approximately \$1,400 as at December 31, 2013.

15. Common Stock

Share Capital

Each share of common stock is entitled to one vote per share and are entitled to dividends when declared by the Company's board of directors. As of December 31, 2012 and 2013, there were 55,091,561 and 55,570,361 shares of common stock outstanding, respectively. As of December 31, 2011, 2012 and 2013, there was no preferred stock issued and outstanding.

In 2011, the Company issued 468,000 shares of common stock on the exercise of employee stock options with exercise price of \$1.60 per share, for total proceeds of \$749. In 2011, the Company received further cash proceeds of \$3 on the exercise of stock options for which the shares were issued subsequent to December 31, 2011.

In 2012, the Company issued 317,600 shares of common stock on the exercise of employee stock options with exercise price of \$1.60 per share, for total proceeds of \$508. The Company received further cash proceeds of \$8 on the exercise of stock option for which the shares were issued subsequent to December 31, 2012.

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In 2013, the Company issued 360,600 shares of common stock on the exercise of employee stock options with exercise price of \$1.60 per share and 118,200 shares of common stock on the exercise of employee stock options with exercise price of \$2.37 per share, for total proceeds of \$848. The Company received further cash proceeds of \$18 on the exercise of stock option for which the shares were issued subsequent to December 31, 2013.

16. Stock Options

(a) Stock Option Plan

The board of directors approved a stock option plan (the “2003 Plan”) effective November 1, 2003, pursuant to which directors, officers, employees and consultants of the Company are eligible to receive grants of options for the Company’s common stock. The 2003 Plan expires on November 1, 2023. Up to 10% of the Company’s then outstanding common stocks were reserved for issuance under the 2003 Plan. As of December 31, 2012, 42,800 shares of common stock under the 2003 Plan remain available for issuance. Each stock option entitles its holder to purchase one share of common stock of the Company. Options may be granted for a term not exceeding 10 years from the date of grant. The 2003 Plan is administered by the board of directors.

In December 2011, the Company granted 767,000 options to employees with an exercise price of \$2.37, being the quoted market price of the Company’s shares at the time of grant. 10% of the options vest every three months from December 26, 2012 to March 26, 2015 and expire on December 25, 2017.

On May 1, 2012, the Company granted 50,000 options to an officer with an exercise price of \$2.05, being the quoted market price of the Company’s shares at the time of grant. The options were granted on May 1, 2012 and expire on April 30, 2017. 10% of the options will vest on May 1, 2013 (the “Initial Vesting Date”) and the remaining options will vest at 10% in equal quarterly proportions over a period of 27 months from the Initial Vesting Date. The officer has left the Company at the end of May, 2013 and forfeited the unvested options in June 2013.

On August 22, 2012, the board of directors approved a new stock option plan (the “2012 Plan”), which allowed the Company to issue up to 4,000,000 options for common shares of the Company to directors, officers, employees and consultants of the Company. Each stock option entitles its holder to purchase one share of common stock of the Company. Options may be granted for a term not exceeding 10 years from the date of grant. The 2012 Plan is administered by the board of directors. No stock options were granted under the 2012 Plan as of December 31, 2013. The 2012 Plan will expire on August 22, 2022. Any awards that are outstanding on August 22, 2022 will remain in force according to the terms of the 2012 Plan and the applicable award agreement.

(b) Valuation Assumptions

The following assumptions were used in determining stock based compensation costs under the Black-Scholes option-pricing model:

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Expected volatility	86.91%	82.89%	—
Risk-free interest rate	0.36%	0.39%	—
Expected life (years)	3.24	2.95	—
Dividend yield	Nil	Nil	—
Estimated forfeiture rate	10%	10%	—

The weighted average fair value of options granted for the years ended December 31, 2011, 2012 and 2013 were \$1.35 \$1.08 and \$nil per option, respectively.

Expected volatility is estimated based on the Company's historical stock prices. Computation of expected life was estimated after considering the contractual terms of the stock-based award, vesting schedules and expectations of future employee behaviour. The risk-free interest rate for period within the contractual life of the award is based on the U.S. Treasury yield in effect at the time of grant.

(c) Stock-based Payment Award Activity

A summary of the Company's stock options activity for the 2003 Plan is presented below:

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	Number of Options	Weighted Average Exercise Price (\$/option)	Aggregate Intrinsic Value (\$)
Outstanding as at December 31, 2012	1,448,200	\$ 2.02	1,617,138
Granted	—	—	—
Exercised	(478,800)	1.79	—
Forfeited	(65,000)	2.15	—
Outstanding as at December 31, 2013	<u>904,400</u>	<u>\$ 2.14</u>	<u>\$ 3,603,712</u>
Vested and expected to vest as at December 31, 2013	<u>841,520</u>	<u>\$ 2.12</u>	<u>\$ 3,367,912</u>
Exercisable as at December 31, 2013	<u>520,900</u>	<u>\$ 1.96</u>	<u>\$ 2,165,587</u>

As at December 31, 2013

Exercise Prices (\$/option)	Number of Options Outstanding	Remaining Contractual Life (years)	Average Exercise Price (\$/option)	Number of Options Exercisable	Remaining Contractual Life (years)	Average Exercise Price (\$/option)
\$ 1.60	275,600	0.05	\$ 1.60	275,600	0.05	\$ 1.60
\$ 2.37	628,800	2.99	\$ 2.37	245,300	2.99	\$ 2.37
	<u>904,400</u>	<u>2.09</u>	<u>\$ 2.14</u>	<u>520,900</u>	<u>1.44</u>	<u>\$ 1.96</u>

Stock-based compensation expense, included in selling, general and administrative expenses, is charged to operations over the vesting period of the options using the straight-line amortization method. The amount is \$206, \$347 and \$281 respectively in 2011, 2012 and 2013 which are recorded in selling, general and administrative expenses. As of December 31, 2013, there was \$462 of unrecognized compensation cost related to non-vested stock options and granted under the 2003 Plan and this cost will be recognized over a period of 15 months.

The aggregate intrinsic value of the Company's stock options is calculated as the difference between the exercise price of the options and the quoted price of the common shares that were in the money. The aggregate intrinsic value of the Company's stock options exercised under the 2003 Plan was \$995, \$127 and \$1,344 for years ended December 31, 2011, 2012 and 2013 respectively, determined as of the date of option exercise.

The estimated fair value of stock options vested during the years ended December 31, 2011, 2012 and 2013 was \$416, \$631 and \$420 respectively.

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17. Statutory surplus reserves

Pursuant to Chinese company law applicable to foreign investment companies, the Company's PRC subsidiaries are required to maintain statutory surplus reserves. The statutory surplus reserves are to be appropriated from net income after taxes, and should be at least 10% of the after tax net income determined in accordance with accounting principles and relevant financial regulations applicable to PRC enterprises ("PRC GAAP"). The Company has an option of not appropriating the general reserve after the general reserve is equal to 50% of the subsidiary's registered capital. Statutory surplus reserves are recorded as a component of shareholders' equity and are not distributable other than upon liquidation. The statutory surplus reserves as at December 31, 2013 is \$11,808 (2012 - \$11,808).

For the year ended December 31, 2013, Sinovac Beijing appropriated 0% (2012—0%; 2011-10%) and 0% (2012-0%; 2011-0%) of its after-tax profit, determined under the relevant Chinese accounting regulations, to the general reserve and the enterprise expansion reserve, respectively. For the year ended December 31, 2013, the general reserve and the enterprise expansion reserve appropriated are \$nil (2012- \$nil, 2011 - \$335 (RMB 2million)) and \$nil (2012— \$nil, 2011 — \$nil) respectively.

Pursuant to the same Chinese company law, the Company's subsidiaries, Sinovac Beijing, Tangshan Yian, Sinovac R&D and Sinovac Dalian can transfer, at the discretion of their respective boards of directors, a certain amount of their annual net income after taxes as determined under the relevant PRC GAAP to a staff welfare and bonus fund. For the year ended December 31, 2013, the amount is \$nil (2012- nil, 2011 - \$168 (RMB 1million)) for contribution to such fund which shall be utilized for collective staff benefits. The amounts appropriated to the staff welfare and bonus fund were charged against income and the related provisions were reflected as accrued liabilities in the consolidated balance sheets.

Tangshan Yian recorded a net loss for each of the three years in the period ended December 31, 2013, so no appropriation to the statutory surplus reserves and staff welfare and bonus fund was made.

Sinovac R&D and Sinovac Dalian have not made any profit since inception, so no appropriation to the statutory surplus reserves and staff welfare and bonus was made.

Dividends declared by the Company's PRC subsidiaries are based on the distributable profits as reported in their statutory financial statements reported in accordance with PRC GAAP, which differ from the results of operations reflected in the consolidated financial statements prepared in accordance with US GAAP. The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its PRC subsidiaries. No dividends were declared in 2013 (2012-\$802 (RMB5 million), 2011-\$5,863 (RMB 39million)) to the non-controlling shareholder of Sinovac Beijing. As of December 31, 2013, the Company has \$nil dividend payable (December 31, 2012- nil).

Under PRC laws and regulations, statutory surplus reserves are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. Staff welfare and bonus funds are restricted to capital expenditures for the collective welfare of employees. The reserve is not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor are they allowed for distribution except under liquidation. Amounts restricted include the PRC subsidiaries' paid-in capital and statutory surplus reserves of the Company's PRC subsidiaries totalling \$74,923(RMB 467 million) and\$81,249 (RMB492million) as of December 31, 2012 and 2013, respectively. Further, foreign exchange and other regulations in the PRC further restrict the Company's PRC subsidiaries from transferring funds to the Company in the form of loans, advances or cash dividends. As of December 31, 2012 and 2013, amounts restricted include the net assets of the Company's PRC subsidiaries, which amounted to \$27,373 and \$34,860, respectively.

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18. Deferred 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 at year end is net of research and development expenditures or depreciation incurred. The Company received \$891 (RMB 5.8 million), \$936 (RMB 5.9 million) and \$842 (RMB 5.2 million) in 2011, 2012 and 2013, respectively.

Deferred government grants included \$1,800 (RMB 10.9 million) (December 31, 2012- \$2,037(RMB 12.7 million)) represents the unamortized portion of the amount that the Company received in 2007 for construction of a pandemic influenza vaccine production facility of RMB 20 million. \$297 (RMB 1.8 million) which will be amortized in 2014 was included in the current portion and \$1,503 (RMB 9.1 million) which will be amortized after 2014 was included in the non-current portion of the government grants. The production facility grant requires the Company to have the entire facility available to manufacture pandemic influenza vaccines at any given moment upon request by the Chinese government. The Company has fulfilled the conditions attached to the government grant. Government grant relating to this production facility of \$278, \$285 and \$237 for the years ended December 31, 2011, 2012 and 2013, respectively, were recorded as a reduction to depreciation expense.

Deferred government grants also included \$793 (RMB 4.8 million) being the unamortized portion of the amount that the Company received in 2009 for purchasing equipment for H1N1 vaccine production with a total amount of RMB 6.2 million. The amount of \$146 (RMB 0.9 million) which will be recognized in 2014 was included in the current portion and the amount of \$647 (RMB 3.9 million) which will be recognized after 2014 was included in the non-current portion of government grants. The Company has fulfilled the conditions attached to the government grant. \$82 and \$119 of the government grant in 2012 and 2013, respectively, were recorded as a reduction to the related depreciation expense.

Deferred government grants also included \$99 (RMB 0.6 million) being the unamortized portion of the amount that the Company received in 2013 for purchasing equipments for H5N1 vaccine production. The amount of \$14 (RMB 0.1 million) which will be amortized in 2014 was included in the current portion and the amount of \$85 (RMB 0.5 million) which will be amortized after 2014 was included in the non-current portion of government grants. The grant will be recorded as a reduction to depreciation expense when the conditions attached to the grant are met.

Deferred government grants also include \$2,129 (RMB 12.9 million) in relation to other research projects. As of December 31, 2013, the Company has not fulfilled the conditions attached to the government grants. As the Company does not expect to fulfill the conditions within one year, the grants are recorded as long-term deferred government grants.

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The Company received a loan of \$1,982 (RMB 12 million) bearing an interest rate of 0.36% per year from Beijing Zhongguancun Development Group. The fair value differential (between the face value and the fair value using the effective interest rate method at the Company's borrowing rate of 6.9%) is recorded as a government grant of \$383 (2012 - \$216). (see note 9).

19. Deferred Revenue

Current deferred revenue included \$102 (December 31, 2012 - \$100) received from the Chinese government for stockpiling of H5N1 vaccines that expire within one year and \$773 (December 31, 2012- \$1,278) of advances from customers.

Long-term deferred revenue included \$11,005 (December 31, 2012 - \$10,693) received from the Chinese government for stockpiling of H5N1 vaccines.

20. Earnings (loss) per Share

Earnings (loss) per share were calculated as follows:

	For the year ended December 31		
	2011	2012	2013
Net income (loss) attributable to stockholders	\$ (844)	\$ (14,853)	\$ 7,442
Basic weighted average number of common shares outstanding	54,608,919	54,926,440	55,301,276
Effect of dilutive securities:			
Stock options	—	—	501,062
Diluted weighted average number of common shares outstanding	54,608,919	54,926,440	55,802,338
Basic earnings (loss) per share	\$ (0.02)	\$ (0.27)	\$ 0.13
Diluted earnings (loss) per share	\$ (0.02)	\$ (0.27)	\$ 0.13

Anti-dilutive options were not included in the diluted EPS calculation for the year ended December 31, 2011 and 2012.

21. Segmented Information

The Company operates exclusively in the biotechnology sector. The Company's business is considered as operating in one segment. The Company's Chief Executive Officer is the chief operating decision maker and reviews the consolidated results of operations when making decisions about resources allocation and assessing performance of the Company as a whole. All revenues are generated from the subsidiaries located in China. Total long-lived assets of \$79,683 (December 31, 2012 - \$81,233) including land use rights, property, plant and equipment and licenses are all located in mainland China. The Company's total assets by geographic location are as follows:

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	<u>December 31, 2012</u>	<u>December 31, 2013</u>
Assets		
Mainland China	\$ 164,174	\$ 199,703
Hong Kong	44,589	40,990
Total	<u>\$ 208,763</u>	<u>\$ 240,693</u>

The Company's revenues by product are as follows:

	<u>For the year ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Sales			
Inactivated hepatitis vaccines	\$ 26,939	\$ 39,951	\$ 47,202
Influenza vaccines	8,113	9,191	12,156
H5N1	7,782	—	10,736
H1N1	14,008	—	—
Mumps	—	24	1,680
Rabend	—	50	750
Total	<u>\$ 56,842</u>	<u>\$ 49,216</u>	<u>\$ 72,524</u>

The H5N1 and H1N1 vaccines were all sold to the Chinese government. The Company's sales of H5N1 and H1N1 vaccines are dependent on government stockpiling purchases. Loss of such government stockpiling purchases would have a material adverse effect on the Company's total sales.

The Company's revenues are attributed to geographic locations as follows:

	<u>For the year ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Sales			
Mainland China	\$ 56,407	\$ 48,199	\$ 71,397
Foreign countries	435	1,017	1,127
Total	<u>\$ 56,842</u>	<u>\$ 49,216</u>	<u>\$ 72,524</u>

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22. Collaboration Agreements

- (a) On March 12, 2009, the Company entered into a technology transfer agreement (with an amendment agreement entered on December 14, 2011) with Tianjin CanSino Biotechnology Inc. (“Tianjin CanSino”). According to the agreement, the Tianjin CanSino will transfer the technology of a pneumococcal vaccine to the Company and jointly develop the technology with the Company. The collaboration term under the technology transfer agreement is from March 12, 2009 to eight years after the first sale of the vaccine developed under the technology transfer agreement in Chinese market.

Under the terms of the technology transfer agreement, the Company will make milestone payments of up to \$3,000 and royalty payments ranging from 6% to 10% for the net sales in Chinese market. Both parties will work together to develop international markets for the products.

On December 14, 2011, an amendment agreement was signed for the payment of \$300 for the transfer of an additional six serotypes and related technology. As of December 31, 2013, the Company made total milestone payments of \$1,200 (\$1,000 under the March 12, 2009 agreement and \$200 under the December 14, 2011 amendment). The remaining milestone payment will be paid when the Company achieves each specific milestone, including obtains clinical trials approval, completes clinical trials and achieves desired results, and achievement of commercial sales. The Company recorded \$nil, \$200 and \$nil in research and development expenses for the years ended December 31, 2011, 2012, and 2013, respectively.

- (b) On August 18, 2009, the Company entered into a patent license agreement with the National Institutes of Health (“NIH”), an agency of the United States Public Health Services within the Department of Health and Human Services. NIH has granted the Company a non-exclusive license to make and use certain of its products. NIH has also granted the Company the right to use certain associated information for development of its licensed products. The collaboration term under the patent license agreement is from August 18, 2009 to the later of (a) the expiration of all royalty obligations under the licensed rights where such rights exist and (b) eight years after the first commercial sale by the Company, unless the agreement is terminated earlier per the provisions included therein.

The Company has agreed to pay NIH a license issue royalty of \$80 upon execution of the agreement and a non-refundable minimum annual royalty of \$8, and royalty payments on net sales ranging from 1.5% to 4% depending on the sales territory and the customers. The Company has also agreed to pay NIH benchmark royalties of \$330 upon achieving each benchmark as specified in the patent license agreement, including completion of clinical trials, obtains regulatory approval for marketing, and achievement of commercial sales. The Company recorded a license issue royalty of \$8, \$8 and \$21 for the years ended December 31, 2011, 2012 and 2013 as research and development expenses, respectively.

- (c) The Company licensed from Medimmune, LLC, a US based pharmaceutical company, certain non-exclusive rights to use patented reverse genetics technology pertaining to H5N1 influenza virus strain production for vaccines. The Company has agreed to pay an upfront license fee and milestone payments of up to an aggregate of \$9.9 million based upon achievement 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). License fee and royalties of \$3,400 were paid in the year ended December 31, 2012. In 2013, the Company obtained a new stockpile order of 3 million doses H5N1 vaccines from the Chinese government. As of December 31, 2013, royalties of \$1,036 was capitalized as inventory costs and included in the accounts payable and accrued liabilities. No additional milestone payments have been paid as the Company has not met the cumulative net sales threshold.

On August 15, 2012, the Company entered into amendment agreements with Medimmune to revise the termination date of the license to December 29, 2015, as a result of amendment of the main license agreement to end on December 29, 2015. The other three sublicense agreements have been revised to end on April 5, 2020, July 14, 2020, and May 23, 2021, respectively.

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23 Subsequent Events

On January 30, 2014, Sinovac Beijing repaid \$1,652 (RMB 10 million) of the loan from China Merchants Bank.

On March 3, 2014, Sinovac Beijing entered into a bank loan agreement with the China Merchants Bank with a credit limit of \$4,956 (RMB 30 million). The loan is unsecured, repayable on March 2, 2015 with an interest rate of 6.9%.

On March 12, 2014, Sinovac Dalian repaid a bank loan of \$826 (RMB 5 million) to the Bank of China.