To the Special Committee of Sinovac Biotech Limited:

Mr. Simon Anderson, Independent Director, Sinovac Biotech Ltd.
Mr. Yuk Lam Lo, Independent Director, Sinovac Biotech Ltd.
Mr. Meng Mei, Independent Director, Sinovac Biotech Ltd.

Cc:

Mr. Weidong Yin, Chairman, Sinovac Biotech Limited
Mr. Andrew Y. Yan, Managing Partner, SAIF Partners, China
Mr. Kenneth Lee, Principal, SAIF Partners, China, and Director of Sinovac Biotech Ltd.

Heng Ren Investments LP is a long-time shareholder of Sinovac Biotech Limited (NASDAQ: SVA). We are disappointed by Chairman Weidong Yin's decision in collaboration with SAIF (Softbank Asia Infrastructure Fund) Partners ("The Insiders") to take the company private at a key moment in its history and at such a low price. The Insiders have essentially cut out shareholders when the company is just on the verge of fulfilling its promise. This betrays shareholders' critical support in financing Sinovac's transformational vaccine, EV71 (*Enterovirus 71*), **a potential $400 million blockbuster.**

Here are the facts:

- In 2008, Sinovac, a NASDAQ-listed company with headquarters in Beijing, China, started Research and Development (R&D) on its EV71 vaccine. EV71 would be the first vaccine to inoculate children from Hand, Foot, and Mouth Disease (HFMD), a contagious disease that has plagued China and Southeast Asia during the past decade and killed thousands of children in outbreaks.

- During EV71's development, Sinovac burned cash at an alarming rate, generating negative Free Cash Flow (Cash Flow from Operations minus Property, Plant and Equipment expenditures) of **negative $43 million.**

- To solve this cash flow problem, **Sinovac turned to investors in the U.S. and raised $66.1 million** in 2010 in a follow-on equity offering. Proceeds funded production expansions and the development of new vaccines – in particular EV71.

- On January 28, 2016, eight years and approximately **$40 million in EV71-related expenses** later, China's Food and Drug Administration (CFDA) approved EV71 for commercialization. After this long wait to reach commercialization three years behind schedule, reassurance finally arrived that Sinovac could fulfill its promise, and belatedly reward its extremely patient shareholders.

- However, **just one business day after this key approval**, The Insiders surprised shareholders when they announced a proposal to buy Sinovac from shareholders at $6.18 per American Depositary Share ("ADS" or "share"), **a mere 6.6% premium** to the previous day's closing price, 17.9% below the stock's high in 2014, and only 57% of Heng Ren's estimated intrinsic value of the stock.

The Insiders' attempt to begin the removal of financial partners only one business day after the go-ahead for the commercialization of the all-important EV71 vaccine, and avoid sharing the upside with loyal shareholders, is a sobering look into this leadership's character and ethics. Trust is essential for a Chinese vaccine company in the public eye, especially after recent scandals in the vaccine sector, and also as it expands in new markets abroad.

Heng Ren has studied the management buyout offers since 2015 that have swept through the universe of U.S.-listed Chinese stocks. The treatment of shareholders with The Insiders' proposed buyout transaction ranks among the worst. Loyal shareholders, who have stood with Sinovac to finance EV71's development to ensure the company's future success, should participate in the upside from the considerable demand for EV71, a first-of-its-kind vaccine, and be fairly compensated by The Insiders.

Sinovac's leadership must be made **acutely aware of how damaging this treatment of loyal shareholders is to its public image and reputation**. The directors chosen by the Board of Directors to be members of the Special Committee to evaluate the bids – Mr. Simon Anderson, Mr. Yuk Lam Lo, and Mr. Meng Mei – must be sensitive to this reputational risk, and also consider their role and potential complicity in this poor treatment of shareholders.

International investment partners, in particular in the U.S., are respected for their due diligence of both the medical and ethical values of a company when considering an investment in the healthcare sector. Indeed, the very notion that U.S. institutional investors have chosen to invest in Sinovac confirms its medical value. However, this current buyout proposal treats shareholders as an irrelevance, which is an ethical problem.

As a result, future international investors may view due diligence of such investments in China as a waste of time and resources because of a lack of trust. This could cause an indeterminable number of lost opportunities for Chinese companies with ambitions to partner or raise money for valuable medical progress.

Investors interested in companies who count SAIF Partners, a private equity firm once backed by Japan's SoftBank Group Corp. (Tokyo: 9984), as a shareholder also might wish to avoid co-investing with them. Mr. Andrew Yan, the Managing Partner of SAIF Partners China, and Mr. Kenneth Lee, SAIF Partners Principal and Director on Sinovac's board, need to fulfill their public pledge to *"enhancing shareholder value via promotion of good corporate governance and best management practices." (Link: http://www.sbaif.com/about-saif.html).*

It is obvious this proposed transaction falls far short of SAIF's public pledge. The legacy created by SoftBank Group Corp. Chairman Masayoshi Son and his personal commitment to Corporate Social Responsibility (CSR) also is at stake as SAIF inherited Chairman Son's legacy in China.

In this letter Heng Ren will argue that Sinovac's Special Committee members Mr. Simon Anderson, Mr. Yuk Lam Lo, and Mr. Meng Mei must:

1) **Raise the Buyout Offer**: In various valuation methodologies, The Insiders' bid of $6.18 per ADS is significantly undervalued, especially relative to its profitability and earnings growth from the commercialization of EV71. Heng Ren's valuation is $10.84 per ADS, 75% higher than The Insiders' bid.

2) **Show Loyalty to Shareholders**: Without the financial support of shareholders who bought equity offerings from Sinovac over the years, Sinovac would have been unable to bring EV71 to market – which The Insiders are now trying to monopolize and reward only themselves.

3) **<u>Remove the Poison Pill</u>**: The poison pill proposed by Sinovac is for the The Insider's benefit, and bad for all other shareholders.

4) **<u>Avoid Reputational Damage</u>**: Health care companies, especially those like Sinovac that focus on children's vaccines, are held to higher ethical standards and receive the blind trust of families. The Insiders' treatment of shareholders raises questions about leadership's capability to meet this demanding ethical standard.

1) The Insiders' Bid Undervalues Sinovac

In this section, we make the case for why a higher offering price is justified for the proposed "going private" transaction for Sinovac using these three valuation methodologies:

1) Peer Comparison Based on Enterprise Value to Sales (EV/Sales)
2) Discounted Cash Flow (DCF) valuation
3) Leveraged Buyout (LBO) valuation

Using the three methodologies to derive a per share valuation, Heng Ren assigned weightings of 40% to the LBO valuation, 40% to the DCF valuation, and 20% to the Peer Comparison.

Sinovac is unique among the stand-alone public vaccine companies we reviewed because it generates positive EBITDA. Therefore, we believe it is important to value the company based on our projections for its future cash flows. However, the public market values companies similar to Sinovac on their sales and projected growth. Hence, we think it is important to incorporate in our valuation how the market values companies similar to Sinovac.

Method	Weighting	Per Share Value
Peer Comparison	20.0%	$12.20
DCF	40.0%	$11.54
LBO (15% IRR)	40.0%	$9.45
Heng Ren's Valuation of Sinovac:		**$10.84**

By all three measures, the buyout offer price from The Insiders of $6.18 per share is too low.

Peer Comparison Valuation

Result = $12.20; a 97.5% premium to The Insider's offer price.

As a peer group, Heng Ren selected a group of vaccine company peers trading in China's domestic stock markets. These peers most accurately capture the business environment in which Sinovac operates.

In addition, most other management buyouts of US-listed Chinese companies are destined to re-list in China, resulting in higher valuations for those buyout targets upon re-listing.

					LTM	FY1
Company	**Ticker**	**Share Price**	**M-cap ($m)**	**EV ($m)**	**EV/Sales (x)**	**EV/Sales (x)**
Chongqing Zhifei	300122 CH	¥18.92	4,230	4,117	38.1x	35.1x
Changsheng Bio	002680 CH	¥45.22	3,233	2,899	18.4x	NMF
Beijing Tian	600161 CH	¥31.90	2,536	2,877	10.7x	10.9x
Mean					22.4x	23.0x
Median					18.4x	23.0x
Sinovac Biotech	**SVA US**	**$5.95**	**339**	**327**	**5.1x**	**4.8x**

Source: Bloomberg (As of 20-Jul-16)

None of these peers had positive EBITDA in the past twelve months. Instead of comparing profitability and cash flow, the public market places a value on companies such as these based on their sales and the expected future success of their products. As a result, Heng Ren used a blended average of the median EV/Sales of peers to calculate Sinovac's fair value. Due to domestic Chinese investor funds being largely restricted to local markets, we recognize there is a scarcity premium in domestic Chinese stocks. To be conservative, we applied a 50% discount to their valuation when calculating fair value for Sinovac.

This methodology resulted in an implied enterprise value for Sinovac of $708 million. Given Heng Ren's expectation that Sinovac will have net cash of $26 million at the end of 2016 and 56.9 million shares outstanding, this approach to valuing Sinovac results in a per share value of $12.20. While this is a significant premium to the current share price and offer price, we believe if Sinovac were to be valued similar to peer companies and properly incorporate the opportunity afforded by EV71, this type of valuation would be justified.

It is worth noting that US vaccine makers with similar market cap size to Sinovac trade at even higher multiples to sales than Sinovac's Chinese peers. Thus it is possible for one to make an argument for an even higher valuation for Sinovac.

					LTM	FY1
Company	**Ticker**	**Share Price**	**M-cap ($m)**	**EV ($m)**	**EV/Sales (x)**	**EV/Sales (x)**
Novavax	NVAX US	$7.43	2,012	1,894	41.8x	72.2x
Dynavax	DVAX US	$15.04	579	412	131.5x	57.0x
Ziopharm	ZIOP US	$4.68	617	492	141.5x	70.6x
Inovio	INO US	$9.22	674	527	11.1x	23.3x
Mean					81.5x	55.8x
Median					86.6x	63.8x
Sinovac Biotech	**SVA US**	**$5.95**	**339**	**327**	**5.1x**	**4.8x**

Source: Bloomberg (As of 20-Jul-16)

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Discounted Cash Flow Valuation

Result = $11.54 per share, an 87% premium to The Insiders' offer price.

Heng Ren has also utilized a discounted cash flow (DCF) model to value Sinovac. A DCF model assesses a company's value based on all of the cash that the company could make available to investors. Our assumptions utilize conservative growth rates for existing drugs and the successful launch of EV71. Despite our conservatism, the launch of EV71 is so transformative to the company that we forecast sales will grow at a CAGR of 35% through 2021.

Heng Ren again preferred to make conservative assumptions when it came to the company's profitability over this period, as launching new products can lead to unexpected costs. We assumed that the company's EBITDA margins would rise only to 19.1% in 2021, despite having been as high as 22.8% in 2013.

In deriving a per share value from our DCF analysis, Heng Ren utilized a terminal value based upon Enterprise Value to EBITDA (EV/EBITDA). These multiples ranged from 10x to 14x. Heng Ren utilized this methodology based on the fact that the EV/EBITDA is a standard means for buyout firms to gauge the value of a company's cash flows.

Additionally, all cash flows were discounted at a Weighted Average Cost of Capital (WACC). Heng Ren utilized a WACC range from 8%-12%, despite some sources suggesting the company deserves a lower WACC. The listed peers in China have a calculated WACC range from 12%-14%. Given the relatively more volatile and riskier nature of investing in domestic stock markets in China, we believe that our lower WACC range is appropriate.

The DCF method results in a per share price value ranging from $9.02 to $14.45. Heng Ren used the midpoint of the WACC and exit multiples to determine a valuation of $11.54, or an enterprise value of $631 million. This is 87% higher than The Insiders bid.

Discounted to 6/30/16	Exit Multiple	Assuming Discount Rate of 8.0%	9.0%	10.0%	11.0%	12.0%
Implied Price Per Share	10.0x	$ 10.59	$ 10.16	$ 9.76	$ 9.38	$ 9.02
	11.0	11.55	11.09	10.65	10.24	9.84
	12.0	12.52	12.02	11.54	11.09	10.66
	13.0	13.49	12.95	12.43	11.95	11.48
	14.0	14.45	13.87	13.32	12.80	12.30

Leveraged Buyout Valuation

Result = $9.45 per share; a 53% premium to The Insider's offer price.

Heng Ren also utilized a Leveraged Buyout (LBO) valuation model. An LBO valuation is calculated when a sponsor plans to take a company private using a large amount of debt. Heng Ren's LBO model assumes that in order to purchase Sinovac using this approach, the sponsor will utilize a combination of the company's current cash, debt, and their own capital.

Heng Ren's LBO model assumes the sponsor would utilize all of Sinovac's current cash on hand, except for $25 million to continue operations. The model then assumes that the sponsor would use their own cash of $365 million toward the purchase. The sponsor would then need to obtain debt in the amount of $71 million to complete the transaction.

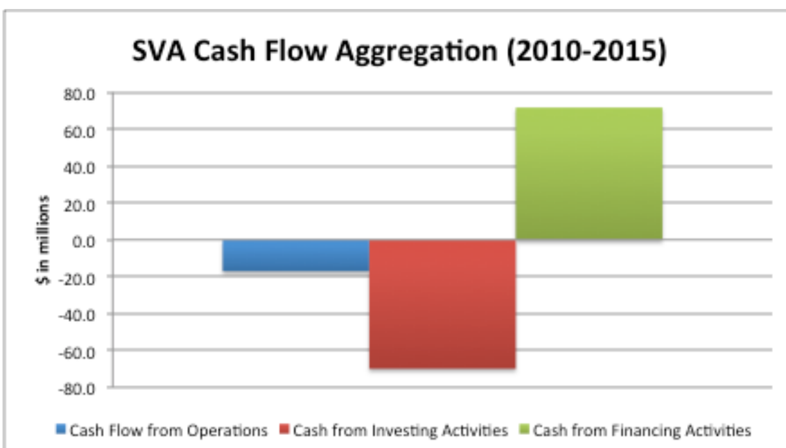
Heng Ren's LBO model projects Sinovac producing $78 million in EBITDA by 2021. Unlike the DCF model, via an LBO the sponsor is able to save costs by no longer being a public company. Heng Ren's LBO model further assumes that the sponsor would sell Sinovac in 2021 at a multiple of EBITDA. These multiples range from 10x to 14x, similar to the DCF valuation.

Heng Ren's LBO valuation for Sinovac also assumes an IRR of 15% for the sponsor on this investment and a 12x EV/EBITDA multiple. This implies a current per share price value of $9.45, a 53% premium to The Insiders' offer price.

Internal Rate of Returns - Sensitivity Analysis						
		Purchase Price ($)				
		7.0	8.0	9.0	10.0	11.0
Exit Mult.	10.00x	19.2%	15.1%	11.7%	8.9%	6.4%
	11.00x	21.8%	17.6%	14.1%	11.2%	8.6%
	12.00x	24.2%	19.9%	16.4%	13.4%	10.8%
	13.00x	26.4%	22.1%	18.5%	15.4%	12.7%
	14.00x	28.5%	24.1%	20.5%	17.3%	14.6%

2) <u>Shareholders Made EV71 Possible</u>

Our analysis shows Sinovac would have been unable to produce EV71 without the financial support of shareholders. Below is an aggregation of Sinovac's cash flow since 2010, when investors bought the company's $66.1 million equity offering to help fund EV71's Research and Development (R&D). It's a vivid illustration of Sinovac's funding gap for EV71, and how shareholders arose to fill this gap:



Over the six-year period following the equity offering in January 2010, the company burned $17 million in cash from its normal business operations and spent a whopping $70 million more on asset investments, including land rights, buildings, and utility facilities for new production lines.

This graphic clearly demonstrates that Sinovac would not be in business today without the trust and generosity of its public shareholders.

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Specifically during EV71's development, based on financial reports, we estimate at least one-third of Sinovac's spending on R&D – approximately $20 million – was specifically spent on EV71. The capital allocated by management to this groundbreaking vaccine reveals its importance to Sinovac's future.

To further illustrate the importance of public shareholder support to the development of EV71, in a 2010 statement Chairman Yin linked the development of EV71 with the funds raised from the stock sale – six years before the vaccine's commercialization:

"The new production lines will have a combined annual capacity of approximately 40 million doses and will be utilized to manufacture our currently marketed flu vaccines ***and pipeline EV71 vaccine."***

Of the $66.1 million raised from shareholders, $30 million was targeted for expansion of production lines for existing and new vaccines, and $15 million was for R&D of new product candidates, primarily EV71. Indeed, in 2012, Sinovac reportedly spent $10.9 million on R&D for EV71 alone.

This need for shareholder money was not new for Sinovac or its shareholders. As far back as 2004, Sinovac had warned investors in SEC filings that its cash and cash equivalents was "not sufficient to fund the company's business and expansion plans."

At Heng Ren, we understand that young, growing companies need to raise capital from shareholders and investors, especially in biotech. However, what makes Sinovac atypical is Chairman Yin and SAIF's attempt to cut out investors just when the return on their investment is in reach.

Our high expectations for EV71 are reasonable. As Heng Ren has stated in the past, EV71 should have significant pricing power and demand because it is a first-of-its-kind vaccine. According to a 2013 Form 20-F filing that Sinovac submitted to the U.S. Securities and Exchange Commission (SEC), Sinovac stated it plans annual production capacity of 20 million doses (p. 37).

Global medical experts[1] have asserted that EV71 inoculation, because of its high efficacy[2], would be cost effective at $50-$75. Our due diligence on the first days of EV71's launch in August in China shows approximate pricing of $27 per dose at a Beijing Center for Disease Control (CDC)[3], with two doses recommended per patient, or at current exchange rates a total of $54 for inoculation.

<u>Being realistic about the limitations of Sinovac's pace of marketing, future competition, and lack of awareness in the China market, based on our assumption of $20 per dose for EV71, this vaccine alone is worth $197 million to Sinovac according to our valuation of its projected sales – 31% of the company's entire enterprise value according to our DCF. The current proposed bid prevents current shareholders from realizing this significant value.</u>

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[1] "Forecasting the Economic Value of an Enterovirus 71 Vaccine." *Vaccine, November 16, 2010, volume 28, issue 49, pp. 7731- 7736).*

[2] The New England Journal of Medicine, February 27, 2014, 370, pp. 818-828

[3] Links to news on EV71 launch and pricing: *http://news.xinhuanet.com/health/2016-08/02/c_129197307.htm*
http://finance.sina.com.cn/consume/puguangtai/2016-07-01/doc-ifxtsatn7921636.shtml?cre=financepagepc&mod=f&loc=4&r=9&doct=0&rfunc=100

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Discounted Cash Flow of EV71

	2016E	2017E	2018E	2019E	2020E	2021E
EV71 Revenues	$0.0	$40.0	$160.0	$240.0	$280.0	$280.0
EBITDA margin	*16.2%*	*13.6%*	*12.6%*	*14.3%*	*16.5%*	*19.1%*
EV71 EBITDA	$0.0	$5.5	$20.2	$34.2	$46.3	$53.6
Net Working Capital investment (5% of sales)	$0.0	$2.0	$8.0	$12.0	$14.0	$14.0
Capital expenditures (2% of sales)	$0.0	$0.8	$3.2	$4.8	$5.6	$5.6
Taxes (25% rate)	$0.0	$1.4	$5.1	$8.6	$11.6	$13.4
Free Cash Flow	**$0.0**	**$1.3**	**$4.0**	**$8.9**	**$15.1**	**$20.6**
WACC	10.0%					
Present Value of FCF	$0.0	$1.2	$3.3	$6.7	$10.3	$12.8
Net Present Value of Projected FCFs	**$34.2**					
Perpetual growth rate	2.0%					
Free cash flow in 2021E	$20.6					
Terminal value in 2021E	$262.2					
Present value of terminal value	**$162.8**					
Implied enterprise value of EV71	**$197.0**					

3) The Poison Pill is Bad for Shareholders

Sinovac launched a “poison-pill” defense after an outside group of six Chinese companies announced an offer to buy out shareholders for $7.00/ADS, or 13.3% more than The Insiders’ bid.

The poison pill defense – which allows Sinovac to distribute rights to purchase preferred shares that would make the stock too expensive for an uninvited bid to succeed - is yet another attempt by The Insiders to curtail shareholder value for only their benefit. It also is another example of questionable ethics. The same directors who are evaluating the bids for shareholders, including the competing bid, have also authorized the poison pill defense to thwart a higher offer to shareholders.

Basically, an acquirer of 15% of more of Sinovac’s stock will only be able to acquire additional shares at twice the price of other shareholders. The poison pill prevents such an acquirer from exercising the same rights to purchase preferred shares as other shareholders. Currently the poison pill is written such that most shareholders can purchase preferred shares for $30, whereas the acquirer would have to purchase them for $60.

Sinovac tried to reassure investors in its press release that the poison pill doesn’t preclude more bids, but rather “will help ensure that the special committee and the board of directors have sufficient time to consider and pursue any strategic alternatives of the Company that are in the best interests of the Company and its shareholders.”

This is difficult to justify under these circumstances. Sinovac is presumed to be “on the block” and for sale because of a bid from The Insiders to buy out shareholders. Their bid of $6.18/share is too low. A higher, competing bid of $7.00/share was announced, which lifted the stock price above the higher offer. The next month, Sinovac’s Board of Directors threw cold water on current and new bidders by introducing a poison pill plan. Since then Sinovac’s stock has fallen approximately 18% and has been languishing near its 2016 low.

The poison pill only deepens the negative perception of Sinovac because of The Insiders' poor treatment of shareholders and Sinovac's deteriorating image among investors and the public. The poison pill is a disproportionate response that ruined price discovery that was clearly benefitting long-suffering shareholders. Instead of letting the market work for shareholders, Sinovac's board appears to be limiting competitive bidding so The Insiders can monopolize the benefits of EV71 at the lowest price possible, and at the expense of shareholder value. It is clear to us Sinovac's board has chosen to protect and serve only The Insiders and not all shareholders, which is a significant breach of their fiduciary responsibility.

It also is startling that Sinovac's board, in justifying the poison pill plan, wants to buy time to consider its options. When it is in The Insider's interest the board acts swiftly. For example, it created a Special Committee the very same day The Insiders announced his buyout offer. However, when a competing bidder vaults above The Insiders' bid, then the board needs to slow things down. It is clear who holds the whip in hand.

For shareholders, the eight years of investing in EV71, and waiting for its commercialization, has been long enough. Now is the time for shareholders to receive returns – the higher the better. The poison pill prevents this return. By removing it Sinovac's Board will resoundingly deliver the message that they care first and foremost about creating optimal value for all shareholders, which should be their primary focus, as well as Chairman Yin's.

Conclusion – Meet the Ethical Standard

The events that have unfolded since the approval of EV71 point to a pattern of self-serving Insiders, allied by a Board that is too willing to acquiesce to their every wish. It is now time for the Special Committee to bring a much-needed rebalancing of priorities to protect Sinovac's shareholders, and critically, the company's reputation and public image.

The Special Committee must now allow for the views and wishes of shareholders to be weighed on an equal basis. Let the facts show shareholders have borne the financial burden of Sinovac and funded EV71 for years, and now rightly expect a substantial return from this potential blockbuster's great potential. Instead, just when EV71 and Sinovac's promise is fulfilled, and the rewards of its success are to be shared, The Insiders are seeking to cut out shareholders and disperse them with totally inadequate compensation.

To avoid *'Sinovac'* becoming a term that is a cautionary tale for global investors about the pitfalls of investing in Chinese companies and trusting their managements as partners, it is incumbent upon the Special Committee to now assert its influence and do the right thing for shareholders. Otherwise, if this poor treatment is rewarded, it is certain to be repeated.

Sincerely,

Peter Halesworth, Managing Partner

Thomas D. Grant, CFA, Director of Research

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Boston, Massachusetts
August 16, 2016