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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of November, 2004

Commission File Number: 0-29031

SINOVAC BIOTECH LTD.
(Name of Registrant in its charter)

ANTIGUA and BARBUDA
(State or other jurisdiction of incorporation or organization)

39 Shangdi Xi Road
Haidian District, Beijing
China 100085
(Address of principal executive offices and zip code)

Tel: 86-10-82890088
Fax: 86-10-62966910
(Issuer's telephone and fax numbers)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F

Form 20-F X Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

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Item

Item 1. Interim financial statements for the six month period ended June 30, 2004

SINOVAC BIOTECH LTD.

(formerly Net-Force Systems Inc.)

Consolidated Financial Statements
(Unaudited)
(Expressed in U.S. Dollars)

June 30, 2004

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MOORE STEPHENS ELLIS FOSTER LTD.
CHARTERED ACCOUNTANTS

1650 West 1st Avenue
Vancouver, BC Canada V6J 1G1
Telephone: (604) 734-1112 Facsimile: (604) 714-5916
Website: www.ellisfoster.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

SINOVAC BIOTECH LTD.
(formerly Net-Force Systems Inc.)

We have reviewed the accompanying consolidated balance sheet of Sinovac Biotech Ltd. (formerly Net-Force Systems Inc.) ("the Company") as at June 30, 2004, and the related statements of stockholders' equity, operations, and cash flows for the six-month period then ended. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

/s/ Moore Stephens Ellis Foster Ltd.

Vancouver, Canada
September 13, 2004, except as to
Note 11(a) which is as of October 12, 2004 Chartered Accountants

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<TABLE>
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SINOVAC BIOTECH LTD.

(formerly Net-Force Systems Inc.)

Consolidated Balance Sheets
(Expressed in U.S. Dollars)

	June 30 2004	December 31 2003
	(Unaudited)	
ASSETS		
<S>	<C>	<C>
Current assets		
Cash and cash equivalents	$ 3,018,654	$ 1,420,047
Accounts receivable - net (Note 3)	2,419,301	1,470,761
Inventories (Note 4)	1,060,962	1,047,920
Promissory note - related party (Note 9)	2,424,767	-
Deferred financing charge	95,083	-
Prepaid expenses and deposits	32,357	13,723
Total current assets	9,051,124	3,952,451
Property, plant and equipment	9,339,088	7,459,883
Due from related parties (Note 11)	2,246,401	947,267
Licenses and permits	2,441,021	2,538,115
Total assets	$ 23,077,634	$ 14,897,716

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Loans payable (Note 8)	$ 148,550	$ 752,415
Accounts payable and accrued liabilities	1,535,470	1,483,690
Due to related parties (Note 11)	2,261,565	1,170,474
Deferred financing charge	34,148	-
Deferred research grants	1,440,484	-
Total current liabilities	5,420,217	3,406,579
Loans payable (Note 8)	2,121,361	603,865
Total liabilities	7,541,578	4,010,444
Minority interests	4,746,250	4,737,656
STOCKHOLDERS' EQUITY		
Preferred stock		-
- Authorized 50,000,000 shares at par value of $0.001 each Issued and outstanding: nil		
Common stock	34,770	27,091
Authorized: 100,000,000 shares at par value of $0.001 each Issued and outstanding: 34,770,233 (2003 - 27,091,033)		
Subscription received		- 1,031,959
Additional paid in capital	14,351,944	5,798,220
Accumulated other comprehensive income	248	206
Accumulated deficit	(3,597,156)	(707,860)
Total stockholders' equity	10,789,806	6,149,616

Total liabilities and stockholders' equity $ 23,077,634 $ 14,897,716

</TABLE>

The accompanying notes are an integral part of these financial statements.
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<TABLE>
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SINOVAC BIOTECH LTD.

(formerly Net-Force Systems Inc.)

Consolidated Statements of Stockholders' Equity
(Unaudited)
(Expressed in U.S. Dollars)

	Common stock		Additional paid in capital	Accumulated Other Compre-hensive income (loss)	Deficit accumulated	Compre-hensive Income
	Shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Recapitalization as a result of reverse acquisition (Note 1)	-	$ -	$ 8,007,871	$ -	$ (77,408)	$ -
Contribution of drug licenses for shares at transferor's cost	-	-	458,634	-	-	-
Subscriptions receivable received	-	-	-	-	-	-
Component of comprehensive income (loss) - Net (loss) for the period	-	-	-	-	(592,208)	(592,208)
Comprehensive (loss)						$ (592,208)
Balance, December 31, 2002	-	-	8,466,505			

(669,616) -

Debt exchange for shares (Note 10c) - - 2,608,696
- - -

Recapitalization adjustment (Note 1) 10,000,000 10,000 (5,436,848)
- 423,295 -

Recapitalization to effect the acquisition
of Net-Force (Note 1) 17,091,033 17,091 (16,991)
- - -

Balance after recapitalization adjustment 27,091,033 27,091 5,621,362
- (246,321) -

Imputed interest on advances from related
parties - - 57,277
- - -

Stock-based compensation - - 119,581
- - -

Subscriptions received - - -
- - -

Components of comprehensive income (loss)

- Foreign currency translation - - -
206 - 206

- Net (loss) for the period - - -
(461,539) (461,539) -

Comprehensive (loss) $
(461,333)

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Balance, December 31, 2003 27,091,033 $ 27,091 $ 5,798,220
$ (707,860) $ 206
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	Subscript-ions (receivable) and received	Total stockholders' equity

<S>	<C>	<C>
Recapitalization as a result of reverse acquisition (Note 1)	$(1,020,139)	$ 6,910,324
Contribution of drug licenses for shares at transferor's cost	-	458,634
Subscriptions receivable received	1,020,139	1,020,139
Component of comprehensive income (loss) - Net (loss) for the period	-	(592,208)
Comprehensive (loss)		
Balance, December 31, 2002	-	7,796,889
Debt exchange for shares (Note 10c)	-	2,608,696
Recapitalization adjustment (Note 1)	-	(5,003,553)
Recapitalization to effect the acquisition of Net-Force (Note 1)	-	100
Balance after recapitalization adjustment	-	5,402,132
Imputed interest on advances from related parties	-	57,277
Stock-based compensation	-	119,581
Subscriptions received	1,031,959	1,031,959
Components of comprehensive income (loss)		
- Foreign currency translation	-	206
- Net (loss) for the period	-	(461,539)
Comprehensive (loss)		
Balance, December 31, 2003	$ 1,031,959	$ 6,149,616

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

(formerly Net-Force Systems Inc.)

Consolidated Statements of Stockholders' Equity
- continued
(Unaudited)
(Expressed in U.S. Dollars)

	Common stock		Additional paid in capital	Deficit accumulated	Accumulated Other compre-hensive income	Compre-hensive income (loss)
	Shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 2003	27,091,033	$ 27,091	$ 5,798,220	$ (707,860)	$ 206	
Imputed interest on advances from related parties	-	-	262	-	-	-
Stock-based compensation	-	-	2,238,098	-	-	-
Common shares issued in connection with acquisition of Tangshan Yian	3,500,000	3,500	1,569,543	-	-	-
Private placement	4,179,200	4,179	4,745,821			
Components of comprehensive income (loss)						
- Foreign currency translation	-	-	-	42	-	42
- Net (loss) for the period	-	-	-	(2,889,296)	(2,889,296)	-
Comprehensive (loss)						$(2,889,254)
Balance, June 30, 2004	34,770,233	$ 34,770	$14,351,944	$(3,597,156)	$ 248	

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(continued)

	Subscript-ions (receivable) and received	Total stockholders' equity
<S>	<C>	<C>
Balance, December 31, 2003	$ 1,031,959	$ 6,149,616
Imputed interest on advances from related parties	-	262
Stock-based compensation	-	2,238,098
Common shares issued in connection with acquisition of Tangshan Yian	-	1,573,043
Private placement	(1,031,959)	3,718,041
Components of comprehensive income (loss)		
- Foreign currency translation	-	42
- Net (loss) for the period	-	(2,889,296)
Comprehensive (loss)		
Balance, June 30, 2004	$ -	$10,789,806

</TABLE>

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

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<TABLE>
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SINOVAC BIOTECH LTD.

(formerly Net-Force Systems Inc.)

Consolidated Statements of Operations
Six Months Ended June 30, 2004 and 2003
(Unaudited)
(Expressed in U.S. Dollars)

	2004	2003
<S>	<C>	<C>
Sales	$ 2,291,558	$ 1,090,856
Cost of sales	761,959	357,386

Gross profit	1,529,599	733,470
Selling, general and administrative expenses	1,861,329	615,615
Stock-based compensation	2,238,098	-
Research and development expenses	137,158	18,099
Interest and financing expenses	172,187	118,690
Depreciation of property, plant and equipment and amortization of licenses and permits	172,461	132,994
Total operation expenses	4,581,233	885,398
Operating loss	(3,051,634)	(151,928)
Interest income	170,935	23,214
Net (loss) before minority interests	(2,880,699)	(128,714)
Minority interests	(8,597)	-
Net (loss) for the period	$ (2,889,296)	$ (128,714)
(Loss) per share - basic and diluted	$ (0.09)	$ (0.02)
Weighted average number of common stocks outstanding - Basic and diluted	31,331,475	8,400,000

</TABLE>

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

<TABLE>
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SINOVAC BIOTECH LTD.

(formerly Net-Force Systems Inc.)

Consolidated Statements of Cash Flows
Six Months Ended June 30, 2004 and 2003
(Unaudited)
(Expressed in U.S. Dollars)

	2004	2003
<S>	<C>	<C>
Cash flows from (used in) operating activities		
Net (loss) for the period	$ (2,889,296)	$ (128,714)
Adjustments to reconcile net (loss) to net cash used by operating activities:		
- stock-based compensation	2,238,098	-
- provision for doubtful debts	243,581	-
- interest accrued on promissory note	(93,260)	
- imputed interest on advances received from related parties	262	-
- depreciation of property, plant and equipment and amortization of licenses and permits	417,640	328,786
- amortization of financing charge	(408)	
- minority interests	8,597	-
Change in other assets and liabilities (net of effect of acquisition of subsidiary):		
- accounts receivable	(1,148,999)	(550,917)
- inventories	55,606	(197,161)
- prepaid expenses and deposits	(18,634)	(6,268)
- accounts payable and accrued liabilities	(600,178)	(183,882)
Net cash used in operating activities	(1,786,991)	(738,156)
Cash flows from (used in) financing activities		
Loan proceeds, net of repayment	(423,016)	1,406,908
Proceeds from issuance of shares	3,718,041	-
Government grant received, net of qualified research and development expenditures	1,440,484	121,850
Advances from (to) related parties	(964,886)	318,578
Net cash provided by financing activities	3,770,623	1,847,336
Cash flows from (used in) investing activities		

Cash acquired in connection with acquisition of subsidiary	42,216	-
Acquisition of property, plant and equipment	(427,241)	(337,720)
Acquisition of drug licenses and related costs	-	(353,904)
Net cash used in investing activities	(385,025)	(691,624)
Increase in cash and cash equivalents	1,598,607	417,556
Cash and cash equivalents, beginning of period	1,420,047	312,594
Cash and cash equivalents, end of period	$ 3,018,654	$ 730,150
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of interest capitalized	$ 44,007	$ 70,801

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

SINOVAC BIOTECH LTD.
(formerly Net-Force Systems Inc.)

Notes to Consolidated Financial Statements
June 30, 2004
(Unaudited)
(Expressed in U.S. Dollars)

1. Nature of Business and Continuation of Operation

These consolidated financial statements presented are those of Sinovac Biotech Ltd., formerly Net-Force Systems Inc., ("parent company"), its 51% owned subsidiary Sinovac Biotech Co., Ltd. ("Sinovac China") and its 100% owned subsidiary Tangshan Yian Bioengineering Co., Ltd. ("Tangshan Yian"). Collectively, they are referred to herein as "the Company".

Sinovac China was incorporated under the laws of China on April 28, 2001.

It is in the business of research and development, production and sales of pharmaceutical products in China.

Tangshan Yian was incorporated under the laws of China on February 9, 1993. It is in the business of research and development, production and sales of pharmaceutical products in China.

On September 24, 2003, Net-Force Systems Inc. ("Net-Force"), a company incorporated on March 1, 1999 under the International Business Corporations Act No. 28 of 1982 of the laws of Antigua and Barbuda, entered into a Share Exchange Agreement ("Agreement") with Sinovac China, whereby Net-Force issued 10,000,000 shares of its common stock in exchange for a 51% interest in Sinovac China. As part of the agreement, Net-Force disposed of its wholly owned subsidiary, Net Force Entertainment, Inc. and all of its assets and liabilities to a company controlled by its president and chief executive officer for $100 and then become a non-operating shell company. Immediately prior to the Agreement, Net-Force had 17,091,033 shares of common stock issued and outstanding. The acquisition was accounted for as recapitalization of Sinovac China because the shareholders of Sinovac China controlled Net-Force after the acquisition. Sinovac China was treated as the acquiring entity for accounting purposes and Net-Force was the surviving entity for legal purposes. The combined company is considered to be a continuation of the operations of Sinovac China. The issued and outstanding common stock of Sinovac China prior to the completion of acquisition was restated to reflect the 10,000,000 common stock issued by Net-Force. Effective on October 21, 2003, Net-Force changed its name to Sinovac Biotech Ltd. The Company has an office in Vancouver, Canada.

Net-Force had no operations between May 1, 2003 and September 23, 2003.

2. Significant Accounting Policies

(a) Base of Presentation

These consolidated financial statements include the accounts of the parent company, its 51% owned subsidiary, Sinovac China and its 100% owned subsidiary, Tangshan Yian. All significant inter-company transactions have been eliminated.

2. Significant Accounting Policies (continued)

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash equivalents usually consist of highly liquid investments that are readily convertible to cash with maturities of three months or less when purchased.

(d) Inventories

Inventories are stated at the lower of cost or market with cost generally determined on a first-in, first-out basis. Cost includes direct material, direct labour and overheads.

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including capitalized interest and internal engineering costs. 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. Depreciation of property, plant and equipment generally is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Land-use rights	49 years
Plant and building	30 years
Machinery and equipment	8 - 10 years
Motor vehicles	5 years
Office equipment and furniture	5 years
Leasehold improvements	Term of lease (5 years)

(f) Licenses and Permits

Licenses and permits, in relation to the production and sales of pharmaceutical products in China, are amortized on a straight-line basis over their useful lives of 10 years. Carrying values of such assets are reviewed at least annually by comparing the carrying amounts to their estimated undiscounted net future cash flows. There were no impairment adjustments to the carrying value of the licenses and permits for the six months ended June 30, 2004 and 2003.

2. Significant Accounting Policies (continued)

(g) Impairment of Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". Long-lived assets and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable from the future, undiscounted net cash flows expected to be generated by the asset. If the asset is not fully recoverable, an impairment loss would be recognized for the difference between the carrying value of the asset and its estimated fair value based on discounted net future cash flows or quoted market prices. There have been no impairment losses recognized to date.

(h) Income Taxes

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes", which requires the Company to recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns using the liability method. 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.

(i) Revenue Recognition

Sales revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed and final, delivery has occurred and there is 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 possession of the products. The Company provides its customers with a limited right of return. Revenue is recognized upon delivery and a reserve for sales returns is recorded. The Company has demonstrated the ability to make reasonable and reliable estimates of products returns in accordance with SFAS No. 48, Revenue Recognition When Right of Return Exists.

(j) Advertising Expenses

Advertising costs are expensed as incurred and included in selling expenses. Advertising costs were $10,132 for the six months ended June 30, 2004.

2. Significant Accounting Policies (continued)

(k) Research and Development

Research and development costs are charged to operations as incurred. Research and development costs are listed as a separate line item on the Company's statements of operations.

Research grants are taken into income as a reduction of research and development expenses when conditions imposed by the government authorities are fulfilled.

(l) Foreign Currency Transactions

The parent company and its subsidiaries maintain their accounting records in their functional currencies, i.e. U.S. dollars and Renminbi Yuan ("RMB") respectively. The Company translates foreign currency transactions into its functional currency in the following manner:

At the transaction date, each asset, liability, revenue and expense is translated 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-evaluated 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 operations.

(m) Foreign Currency Translations

The assets and liabilities of the foreign subsidiaries, Sinovac China and Tangshan Yian (whose functional currency is Renminbi Yuan), are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rate. Gain and losses from such translations are included in stockholders' equity, as a component of other comprehensive income.

(n) Stock-based Compensation

The Company has adopted the fair value method of accounting for stock-based compensation recommended by of Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-based Compensation". On April 14, 2004 and November 1, 2003, the board of directors approved stock option plans that are described more fully in Note 12. The Company did not grant stock options for the period from April 28, 2001 (inception) to December 31, 2002.

2. Significant Accounting Policies (continued)

(o) Comprehensive Income

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. The Company is disclosing this information on its Statement of Stockholders' Equity. The Company's comprehensive income consists of net earnings (loss) and foreign currency translation adjustments.

(p) Earnings (Loss) Per Share

Basic earning (loss) per share is computed using the weighted average number of shares outstanding during the period. The Company adopted SFAS No. 128, "Earnings per Share". 1,500,000 shares held in escrow and contingently cancelable are excluded in the computation of loss per share until the conditions for their release are satisfied (Note 6). Diluted loss per share is equal to the basic loss per share for the periods presented because common stock equivalents that are outstanding are anti-dilutive. However, they may be dilutive in future.

(q) Financial Instruments and Concentration of Credit Risks

The fair values of financial instruments are estimated at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, accounts receivable, short-term loans payable, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The fair value of long-term debt is based on the discounted value of contractual cash flows and at June 30, 2004, approximates its carrying value. The discount rate is estimated using the rates currently offered for debt with similar remaining maturities.

2. Significant Accounting Policies (continued)

(q) Financial Instruments and Concentration of Credit Risks (continued)

The Company is operating in China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between US dollars and the Chinese currency RMB. Financial instruments that potentially subject the Company to concentration of credit risks consist principally of cash and trade receivables, the balances of which are stated on the consolidated balance sheets. The Company places its cash in high credit quality financial institutions. The Company's customers are primarily pharmaceutical and biotechnology companies. One customer accounted for 29.9% (2003-16.5%) of total sales for the six months ended June 30, 2004. Concentration of credit risks with respect to trade receivables is limited to a degree due to the Company's large number of diverse customers in different locations in China. Ongoing credit evaluations of customers' financial condition are performed and the Company maintains provision for potential credit losses if necessary. The Company does not require collateral or other security to support financial instruments subject to credit risks. The Company is not subject to significant interest risks.

(r) Accounting for Derivative Instruments and Hedging Activities

The Company has adopted the Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities, which requires companies to recognize all derivatives contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

The Company has not entered into derivative contracts either to hedge existing risks or for speculative purposes. The option of this pronouncement does not have an impact on its consolidated financial statements.

2. Significant Accounting Policies (continued)

(s) New Accounting Pronouncements

In January 2003, the Financial Accounting Standard Board released FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 requires that all primary beneficiaries of variable interest entities consolidate that entity. FIN 46 is effective immediately for variable interest entities created after January 31, 2003 and for variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities are required to apply the provisions of the interpretation in financial statements for periods ending after March 14, 2004. The Company did not create a variable interest entity after January 31, 2003 and does not have a variable interest entity as of December 31, 2003. The Company expects that the full adoption of FIN 46R does not have an impact on its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 addresses certain accounting issues related to hedging activity and derivative instruments embedded in other contracts. In general, the amendments require contracts with comparable characteristics to be accounted for similarly. In addition, SFAS No. 149 provides guidance as to when a financing component of a derivative must be given special reporting treatment in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 does not have an impact on the Company's consolidated financial statements.

In May 2003, the Financial Accounting Standards Board (FASB) approved SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 establishes standards for how to classify and measure financial instruments with characteristics of both liabilities and equity. It requires financial instruments that fall within its scope to be classified as liabilities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and, for pre-existing financial instruments, as of July 1, 2003. The Company does not have any financial instruments that fall under the guidance of SFAS No. 150 and, therefore, the adoption does not have any effect on the Company's consolidated financial statements.

(Expressed in U.S. Dollars)

2. Significant Accounting Policies (continued)

(s) New Accounting Pronouncements (continued)

In a December 11, 2003 speech at the American Institute of Certified Public Accountants, the Securities and Exchange Commission ("SEC") expressed that rate-lock commitments represent written put options and, therefore, be valued as a liability. The SEC expressed that they expect registrants to disclose the effect on the financial statement of recognizing the rate-lock commitments as written put options, for quarters commencing after March 15, 2004. Additionally, the SEC recently issued Staff Accounting Bulletin (SAB) No. 105. SAB No. 105 clarifies the SEC's position that the inclusion of cash flows from servicing or ancillary income in the determination of the fair value of interest rate lock commitments is not appropriate. The adoption of SAF No. 105 does not have an impact on the Company's consolidated financial statements.

3. Accounts Receivable

	June 30 2004	December 31 2003
Trade receivables	$ 2,747,603	$ 1,609,209
Allowance for doubtful accounts	(392,132)	(148,551)
	2,355,471	1,460,658
Other receivables	63,830	10,103
Total	$ 2,419,301	$ 1,470,761

4. Inventories

	June 30 2004	December 31 2003
Raw materials	$ 244,707	$ 237,974
Finished goods	710,484	692,673

(Expressed in U.S. Dollars)

Work in progress	105,771	117,273
Total	$1,060,962	$1,047,920

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5. Property, Plant and Equipment

<TABLE>
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	June 30, 2004		
	Cost	Accumulated Amortization	Net book Value
<S>	<C>	<C>	<C>
Land-use rights	$ 592,087	$ 49,246	$ 542,841
Plant and building	5,818,672	356,876	5,461,796
Machinery and equipment	3,648,061	761,490	2,886,571
Motor vehicles	290,122	114,166	175,956
Office equipment and furniture	222,957	84,852	138,105
Leasehold improvements	167,274	33,455	133,819
Total	$ 10,739,173	$ 1,400,085	$ 9,339,088

</TABLE>

<TABLE>
<CAPTION>

	December 31, 2003		
	Cost	Accumulated Amortization	Net book Value
<S>	<C>	<C>	<C>
Land-use rights	$ 365,510	$ 19,892	$ 345,618
Plant and building	4,191,009	189,342	4,001,667
Machinery and equipment	3,134,007	412,862	2,721,145
Motor vehicles	166,219	48,834	117,385
Office equipment and furniture	174,847	51,326	123,521

(Expressed in U.S. Dollars)

Leasehold improvements	167,274	16,727	150,547
	$ 8,198,866	$ 738,983	$ 7,459,883

</TABLE>

Depreciation expense for the six months ended June 30, 2004 and 2003 was $320,546 and $231,692, respectively.

6. Acquisition of Tangshan Yian

On January 26, 2004, Sinovac acquired 100% of the shares of Tangshan Yian from a director (the "Vendor") of the Company by issuing 3,500,000 common shares and paying $2,200,000 cash in the form of a promissory note. The $2,200,000 promissory note is non-interest bearing and payable on or before January 26, 2005. In connection with the acquisition, the Vendor has agreed to assume and pay off a $1 million debt owed by Tangshan Yian on or before January 31, 2006. 1,500,000 of 3,500,000 shares are placed in escrow and contingently cancellable if the debt is not paid within the given time frame. Accordingly, these escrow shares are excluded from the calculation of the weighted average number of shares for purposes of loss per share. The total consideration, not including the 1.5 million escrow shares, is valued at $3.6 million.

<PAGE>

6. Acquisition of Tangshan Yian (continued)

The acquisition has been accounted for by the purchase method with the fair value of the consideration paid being allocated to the fair value of the identifiable assets and liabilities acquired as follows:

Cash and cash equivalents	$ 42,216
Other tangible assets	4,672,712
Property, plant and equipment	1,772,510
Liabilities	(2,877,395)
Net assets acquired	$ 3,610,043

Tangshan Yian is in the business of research and development, production and sales of certain pharmaceutical products in China. The operating results of the Tangshan Yian from January 26, 2004 to June 30, 2004 are

(Expressed in U.S. Dollars)

included in the consolidated statements of operations.

7. Licenses and Permits

	June 30 2004	December 31 2003
Inactive Hepatitis A	$ 1,941,879	$ 1,941,879
Recombinant Hepatitis A&B	506,460	506,460
Influenza Virus HA Vaccine	381,058	381,058
	2,829,397	2,829,397
Less: accumulated amortization	(388,377)	(291,282)
Total	$ 2,441,020	$ 2,538,115

(a) In March 2003, Sinovac China acquired the Influenza Virus HA Vaccine drug license from Tangshan Yian at the vendor's cost. In January 2004, Sinovac China completed the acquisition of 100% of the shares of Tangshan Yian (Note 6) and has continued to carry the license at the original cost to Tangshan Yian. Sinovac China is applying for a production permit for this pharmaceutical product. The cost of the license will be amortized based on an estimated useful life of 10 years commencing with the production of the drug, which is expected to be in early 2005.

7. Licenses and Permits (continued)

(b) In April 2002, Sinovac China acquired the Recombinant Hepatitis A&B drug license from a company called Beijing Keding Investment Co., Ltd. ("Beijing Keding") by issuing shares equal to a 10.71% interest in Sinovac China and paying $18,116 (RMB150,000) in cash. Beijing Keding is owned by a director, president and three other senior officers of Sinovac China. As at December 31, 2003, $10,487 remained unpaid and was recorded in due to related parties (see Note 10a). Sinovac China is applying for a production permit for this pharmaceutical product. The cost of the license will be amortized based on an estimated useful life of 10 years commencing with the production of the drug, which is expected to be in early 2005. The drug license was recorded at the

(Expressed in U.S. Dollars)

vendor's cost.

(c) Amortization expense for the licenses and permits was $97,094 for both the six months ended June 30, 2004 and the comparative period in 2003.

The estimated amortization expenses for each of the five succeeding fiscal years ended December 31 are as follows:

2005	$283,000
2006	$283,000
2007	$283,000
2008	$283,000
2009	$283,000

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 intangible assets, accelerated amortization of licenses and permits, and other events.

8. Loans Payable

<TABLE>
<CAPTION>

	June 30 2004	December 31 2003
<S>	<C>	<C>
Bank loan: RMB 5,000,000, bearing interest at 5.84% per annum and due on June 26, 2004. The loan is secured by certain machinery and equipment.	$ -	$ 603,865
Employees loan: RMB 1,230,000 (2003 - RMB 1,230,000) bearing interest at 15% per annum and due on demand.	148,550	148,550
Total loans payable - current	$ 148,550	$ 752,415

Bank loan: RMB5,000,000, bearing interest at 5.49% per annum, interest is payable quarterly and the

(Expressed in U.S. Dollars)

principal is repayable on December 19, 2005	$ 603,865	$ 603,865
Bank loan: RMB1,764,867, bearing interest at 5.04% per annum payable with the monthly blended payment of 2,284 due on May 25, 2014	213,148	-
Loan from China High Tech Investment Co. Ltd.: RMB10,800,000, $652,174 (RMB5.4 million) of which due on September 30, 2005 with the balance due on December 31, 2005	1,304,348	-
Total loans payable - long-term	$ 2,121,361	$ 603,865

</TABLE>

The weighted average interest rate was 7.03% and 8.52% for the six months ended June 30, 2004 and the year ended December 31, 2003 respectively.

9. Promissory Note Receivable

	June 30 2004	December 31 2003
Promissory note	$ 2,331,507	$ -
Interest accrued	193,260	-
Total	$ 2,424,767	$ -

The promissory note is due from a company controlled by a former director. The note is payable on or before January 26, 2005 and bears interest at 8% per annum.

10. Income Taxes

Sinovac China is subject to income taxes in China on its taxable income as reported in its statutory accounts at a tax rate in accordance with the

(Expressed in U.S. Dollars)

relevant income tax laws applicable to Sino-foreign investment enterprises. Pursuant to the same income tax laws, it is exempt from income tax for two years starting from its first profit-making year followed by a 15% corporation income tax rate for the next three years. No income taxes were charged to Sinovac China for each of the six-month periods ended June 30, 2004 and 2003. The parent company is not subject to income taxes.

The tax effects of temporary differences that give rise to the Company's deferred tax asset (liability) are as follow:

	June 30 2004	December 31 2003
Tax losses carried forward	$ 161,000	$ 139,000
Excess of tax cost over the net book value of the certain long-lived assets	693,000	711,000
Less: valuation allowance	(854,000)	(850,000)
Total deferred tax asset (liability)	$ -	$ -

The potential tax benefits arising from the losses have not been recorded in the financial statements. The Company evaluates its valuation allowance requirements on an annual basis based on projected future operations. When circumstances change and this 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 current income.

11. Related Party Transactions

Related party transactions not disclosed elsewhere in the consolidated financial statements are as follows:

(a) Due from related parties consist of the following (Notes 6 & 7):

<TABLE>
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	June 30 2004	December 31 2003
<S>	<C>	<C>
o Advances to Tangshan Yian, a company related		

by a common director, bearing interest at 5% per annum (secured by the floating charge on the property, plant and equipment of Tangshan Yian)	$ -	$ 786,300
o Due from Shenzhen Biological Investment Co., Ltd. ("Shenzhen Co."), a non-controlling shareholder of the Company, bearing interest at 5% per annum	-	32,178
o Due from Beijing Xinfu, a non-controlling shareholder of the Company, bearing interest at 5% per annum	-	128,789
o Due from Sino Pharma, a company controlled by a former director, bearing interest at 5% and due on June 30, 2004	389,493	-
o Promissory note from a director (see below)	1,849,000	-
o Due from a former shareholder	7,908	-
Total	$ 2,246,401	$ 947,267

The $1,849,000 promissory note is due from a director of the Company and due on September 24, 2004. On October 12, 2004, the Company entered into a Pledge, Escrow and Promissory Note Agreement ("Escrow Agreement") with this director to extend the repayment date. Pursuant to the Escrow Agreement, the promissory note shall be paid in installments of $200,000 commencing November 15, 2004 and the like amount each three months thereafter ("Installment") with any remaining sum due on November 15, 2006. The note bears interest at 5% per annum payable with each Installment. This director placed 3,000,000 shares of the Company in escrow as security for the amounts owing under the term of the Escrow Agreement.

11. Related Party Transactions (continued)

(b) Amounts due to related parties are unsecured, interest free and have no stated term of repayment (Notes 6 & 7):

<TABLE>
<CAPTION>

	June 30	December 31

	2004	2003
<S>	<C>	<C>
o Due to Beijing Weiming, a non-controlling shareholder of the Company	$ -	$1,135,045
o Due to Beijing Keding, a non-controlling shareholder of the Company	10,481	10,487
o Due to Beijing Xinfu, a non-controlling shareholder of the Company	5,611	-
o Due to a director	45,473	24,942
o Due to a director and shareholder (Note 6)	2,200,000	-
Total	$ 2,261,565	$1,170,474

</TABLE>

(c) The Company entered into the following transactions with related parties:

<TABLE>
<CAPTION>

	Six Months Ended June 30 2004	Six Months Ended June 30 2003
<S>	<C>	<C>
Interest income earned on the advances to related parties	$ 161,585	$ 22,386
Interest expenses incurred on the advances from related parties (including interest imputed at the rate of 5% per annum on the interest-free advances received):	$ 68,179	$ 57,962

</TABLE>

(d) On June 30, 2003, Sinovac China completed two debt settlements, totaling $2,608,696, with corporations controlled by a director of Sinovac China by issuing shares equal to approximately a 16% interest in Sinovac China.

12. Stock Option Plan

The board of directors has approved a stock option plan (the "Plan") effective on 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. Options granted under the plan have a maximum life of 10 years and the plan expires on November 1, 2023. A maximum of 5,000,000 common stocks have been reserved under the plan. Each stock option entitles its holder to purchase one common share of the Company. Options may be granted for a term not exceeding 10 years from the date of grant. The Plan is administered by the board of directors.

(Expressed in U.S. Dollars)

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12. Stock Option Plan (continued)

In 2003, 3,000,000 stock options under the Plan were granted to its directors, officers, employees and consultants with an exercise price of $1.31 per share, being the market price at the time of the grant. These options vest from April 1, 2004 to July 1, 2006 and expire on November 12, 2008.

In April 2004, 2,000,000 stock options under the Plan were granted to its directors, officers, employees and consultants with an exercise price of $4.55 per share, being the market price at the time of the grant. These options vest from April 14, 2004 to July 14, 2006 and expire on April 13, 2009.

A summary of the Company's stock options activities is presented below:

<TABLE>
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	Number of Common Shares	Weighted Average Exercise Price
<S>	<C>	<C>
Options outstanding at December 31, 2002	-	-
Granted in 2003	3,000,000	$ 1.31
Options outstanding as at December 31, 2003	3,000,000	1.31
Granted in 2004	2,000,000	4.55
Options outstanding as at June 30, 2004	5,000,000	$ 2.61
Options exercisable as at June 30, 2004	1,428,740	$ 2.63

</TABLE>

The Company charged $2,238,098 and $nil stock-based compensation to operations in the six months ended June 30, 2004 and six months ended June 30, 2003 respectively by applying the fair value method in accordance with

(Expressed in U.S. Dollars)

SFAS No.123.

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

<TABLE>
<CAPTION>

	June 30 2004	December 31 2003
<S>	<C>	<C>
Expected volatility	74.0%	74.0%
Risk-free interest rate	3.44%	3.42%
Expected life (years)	5.0	4.0
Dividend yield	Nil	Nil
Number of stock options granted	2,000,000	3,000,000
Weighted average fair value of options granted	$2.85	$0.74

</TABLE>

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13. Capital Stock

(a) Share Capital

In 2004, the Company completed a private placement by issuing 3,800,000 units at a price of $1.25 per unit for gross proceeds of $4,750,000, of which $1,031,959 was received by December 31, 2003. Each unit consists of one share of common stock of the Company and one share purchase warrant. The terms of the warrants are described below. The Company also issued 379,200 units as a finder's fee.

(b) Share Purchase Warrants

As at June 30, 2004, there are warrants outstanding to purchase up to 8,358,400 shares of common stock of the Company. In particular there are 4,179,200 share purchase warrants outstanding; each warrant entitles the holder to purchase one common share of the Company at $1.50 per share and a "piggyback" right to purchase one additional share of the Company at $3.00

per share until November 14, 2005 only if the holder exercises the share purchase warrant. There were no share purchase warrants outstanding at December 31, 2003.

14. Segmented Information

The Company operates exclusively in the biotech sector. The Company's business is considered as operating in one segment based upon the Company's organizational structure, the way in which the operation is managed and evaluated, the availability of separate financial results and materiality considerations. All the revenues are generated in China. The Company's assets by geographical location are as follows:

	June30 2004	December 31 2003
Assets		
North America	$ 570.472	$ 342,268
China	22,507,162	14,555,448
Total	$ 23,077,634	$ 14,897,716

15. Non Cash Transactions

(a) In January 2004, the Company issued 3,500,000 common shares and $2,200,000 promissory note for the acquisition of Tangshan Yian (Note 6).

(b) For the six months ended June 30, 2003, Sinovac China issued its shares for debt settlement in the amount of $2,608,696 (Note 11d).

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Item 2. Management discussion and analysis for the six month period ended June 30, 2004

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

Certain statements in this management discussion and analysis, to the extent that they are not based on historical events, are forward-looking statements that rely on certain assumptions and reflect Sinovac Biotech Ltd.'s (the

"Company") current expectations. Forward-looking statements include, without limitation, statements evaluating market and general economic conditions in the preceding sections, and statements regarding growth strategy and future-oriented project expenditures. Actual results could differ materially from those projected and should not be relied upon as a prediction of future events.

A variety of inherent risks, uncertainties and factors, many of which are beyond the Company's control, affect the operations, performance and results of the Company and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. Some of these risks, uncertainties and factors include the impact or unanticipated impact of: current, pending and proposed legislative or regulatory developments in the jurisdictions where the Company operates, in particular in China; change in tax laws; political conditions and developments; changes in Chinese government support or restrictions on foreign investment; general economic conditions worldwide, as well as in China. The Company is also subject to risks common to biopharmaceutical companies, including risks inherent in the research and development efforts and clinical trials, enforcement of patent and proprietary rights, the need for future capital, potential competition and uncertainty of regulatory approvals. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results otherwise. Readers are cautioned not to put undue reliance on forward-looking statements.

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Management Discussion and Analysis

I. Overview

Vaccines and Markets: Global and Chinese

The global vaccine market in 2001 was valued at US$ 5.4 billion and is forecast to reach US$17 billion by 2010 (Datamonitor). This predicted year-on-year growth of 10-12% makes vaccines the fastest growing pharmaceutical sector, eclipsing even prescription drugs. A key driver of this growth is the threat of the emergence of new, more powerful super viruses, such as SARS and avian influenza.

The efficacy of vaccines in preventing viral infections is underscored by the prevalence of prevention programs worldwide; some 116 countries have initiated childhood vaccination regimes. World health authorities concur that vaccination is the most cost effective way to deal with viral threats.

But issues of quality and cost have created a shortage of effective, affordable vaccines to prevent hepatitis A, hepatitis B, and influenza. The undersupply of influenza vaccines in China is especially acute, with an estimated annual shortfall of some 15 to 20 million doses. Hepatitis A is endemic in China, with 2.4 million cases of acute hepatitis every year. Up to 80% of the population is

estimated to likely be infected at some point in their lives. Two billion people around the world are infected with hepatitis B, with between 10 to 30 million new infections annually. More than 350 million will suffer lifelong infection, and some 500,000 die from liver disease caused by this viral disease every year. With an aging Chinese population and a growing health-conscious middle class, the demand for influenza vaccines is expected to grow as much as ten-fold within the next few years in China. No approved vaccines exist yet for SARS and avian influenza.

The Chinese Vaccine Market

China population's of 1.3 billion is the world's largest. With between 15 to 20 million newborns a year and an increasing elderly population of more than 135 million, there is growing need for safe, highly effective, low-cost vaccines to protect these most vulnerable segments of the population, as well as the general public, from infectious diseases caused by viruses. Between 1992 and 2002 demand for vaccines rose 21.8% a year and consistently exceeded output, despite large gains in production.

There are several factors driving China's commitment to develop and deploy vaccines for viral diseases. They include its still-rapidly growing economy, increased awareness of the need for health management, the launch of a US$145 million nationwide disease prevention program, and a government focus on disease prevention as a key element in the development of the country's pharmaceutical industry.

During the first half of 2004, the Company generated sales revenue of $2.29million, exceeding the first half of 2003 sales by 110%, or $1.2million. In addition to favorable economic factors, the Company attributes this revenue growth to its strong sales network and increasing recognition of the Company's accomplishments as a world-class biotechnology firm and leadership in the development of SARS vaccine.

Early in 2004, the Company acquired 100% of the issued and outstanding shares of Tangshan Yian Biological Engineering Co., Ltd. ("Tangshan Yian"). Since this acquisition, the financial results of Tangshan Yian have been consolidated in the Company's financial statements. The strategic acquisition of Tangshan Yian, founded in 1993, is a logical step to enhance the Company's R&D capacity. The Company's majority-owned subsidiary, Sinovac Biotech Co., Ltd. ("Sinovac") now owns a state-of-the-art P3 vaccine research laboratory for SARS vaccine research in China, which is located at the Tangshan Yian facility and will be the main research center of the Company.

II. Objectives

The Company's objective is to continuously increase the sales of its inactivated hepatitis A vaccine, HealiveTM, in the Chinese market and to develop overseas markets for its existing products as well as those in development, including BiliveTM vaccine for hepatitis A&B, and vaccines for influenza, SARS and avian influenza. To this end, the Company will continue expanding its domestic Chinese sales network nationwide that dovetails with the Chinese vaccine distribution system administered by the China Center for Disease Control. Sinovac is also

expanding its international marketing program to increase the sales of its affordable world-class vaccines. To date, Sinovac has contracted with two experienced marketing and sales organizations: Innopath of South Korea and China National Medicine and Health Products Import/Export Corporation, known as MEHECO.

Innopath has an extensive network of international vaccine market experience and a well organized international sales network. Innopath is helping Sinovac with the development of a marketing strategy, registration in some of its 32 targeted countries, and establishing distribution channels. MEHECO has a reputation for nurturing relationships with a wide range of customers from more than 100 countries worldwide.

Sinovac is also actively looking for and evaluating synergistic acquisition targets both in China and internationally. The objective is to dramatically increase corporate revenues in the short term and to leverage the acquisitions' existing market share to allow faster penetration of Sinovac's current vaccines.

Approvals and Trials

The Company expects to receive the China State Food & Drug Administration ("SFDA") approval of its hepatitis A&B vaccine, BiliveTM by late 2004. The SFDA accepted the application for BiliveTM in June 2004. The approval process has reached the final stage, waiting for the approval signature by the Director of SFDA. A marketing plan for BiliveTM has been prepared. The sales of BiliveTM in China are expected to commence shortly after it is approved. The product may be distributed through the same channels as HealiveTM, a hepatitis A vaccine that is already available in the Chinese market.

The Company expects to gain approval for its influenza vaccine in 2005. The new drug application has been submitted to SFDA after the clinical trials of the Company's influenza vaccine were completed earlier this year. Currently, the production process is undergoing optimization. The construction of manufacturing facilities for influenza vaccine with a 2 million-dose production capacity is expected to be completed in early 2005.

The Company further expects to complete the Phase I clinical trial reporting for its proprietary SARS vaccine by next spring. As of the 1st September 2004, all 36 subjects have been vaccinated with two doses of either SARS vaccine or placebo. The immunization schedule for the trial was completed at that time. The 56-day observation period for all 36 volunteers was completed as of the 29th September 2004. No adverse reactions had been observed up to that date.

The clinical trial is expected to end after every volunteer has been observed for 210 days after inoculation. During this period, the level of the neutralized antibody in the blood serum of each volunteer is going to be tested. An evaluation of the safety profile and immunogenicity effect of the vaccine will also be released.

III. Description of Business

Sinovac Biotech Ltd. specializes in the research, development, commercialization, and sale of vaccines to prevent infectious diseases such as hepatitis A and hepatitis B, influenza, SARS, and avian influenza, or bird flu. One of China's leading emerging bio-pharmaceutical firms, the Company focuses on manufacturing and marketing human use vaccines and related products and works closely with Chinese public health officials and institutions. Having successfully developed and launched the first inactivated hepatitis A vaccine

developed in China for the Chinese market, Sinovac is the first company to have commenced human clinical trials for a vaccine to prevent SARS. Sinovac's existing products and those in development include:

o HealiveTM is a high-quality vaccine developed to prevent hepatitis A. Highly stable and very safe, it comes in both adult and child doses, providing reliable and long-lasting immune effectiveness. The first inactivated hepatitis A vaccine developed by Chinese scientists, Healive received the Chinese State Certificate for new drugs in 1999 and is fully endorsed by China's National Institute for the Control of Pharmaceutical and Biological Products (NICPBP).

o BiliveTM is a high quality vaccine developed to prevent hepatitis A&B. Like Healive, it is very safe, highly stable, available in both adult and child doses, and provides reliable and long-lasting immunity.

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o SPLIT FLU: Vaccine for influenza. Sinovac is developing a Split Flu influenza vaccine in response to Chinese CDC estimates that the supply shortfall of influenza vaccine is as much as 15 to 20 million doses in China. Sinovac is working to establish itself as the market leader for the production of a Split Flu vaccine. Split vaccine is the most widely used influenza vaccine because of its safety. Whole particle vaccines are prohibited for children under 12 because of severe adverse reactions.

o Vaccine for Severe Acute Respiratory Syndrome (SARS). In 2004, Sinovac received permission to undertake human clinical trials of a SARS vaccine, becoming the first company authorized to conduct such trials. Working closely with the Chinese FDA (SFDA) and world health authorities, Sinovac developed clinical protocols in accordance with worldwide protocols for conducting SARS vaccine clinical trials. In May 2004, Sinovac began Phase I clinical trials to determine if the vaccine is safe for human use.o Vaccine for Avian Influenza: Sinovac began working on an avian flu virus with its New Human Influenza (H5N1) Vaccine and Development Project in 2004. Collaborating with the China Center for Disease Control, Sinovac has completed the research protocol and is moving ahead with the development of an avian flu vaccine.

R&D and Production Facilities

Sinovac's corporate headquarters and primary research and development facilities are located in the Beijing University Biological Industry Park at a 4,113 square meter, state-of-the-art plant. The Company's new flu production line is situated at a new manufacturing facility being built next to its existing Beijing headquarters. The 2,600 square-meter facility, built to global Good Manufacturing Practice (GMP) standards, is expected to have a production capacity of 2 million doses of flu vaccine per year.

The Company's Tangshan Yian plant (formerly the Tangshan Yian Biological Engineering Co. Ltd.) conducts research and pilot-production for the company's other in-development vaccine biotechnologies. The plant includes a world class P3 lab (BL3). The Tangshan Yian facility is located in the New Hi-tech Development Zone of Tangshan City 160 km from Beijing.

All of Sinovac's facilities conform to the World Health Organization's recommended bio-safety standards and the primary manufacturing plant has been certified as meeting the GMP standard of both the China State Pharmaceutical Administration and the US Food and Drug Administration.

Management

The Company has a highly experienced management team that is well qualified to guide the timely development of the Company's proprietary, cost-effective vaccines. The success of these vaccines is expected to accelerate the Company to the forefront of China's fast-emerging biopharmaceutical industry. Furthermore, the Company expects to be able to offer other developing Southeast Asian nations low-cost alternatives to expensive Western vaccines. Moreover, management is focusing on vaccines that have significant commercial viability in developing nations around the world.

President: Dr. Wei Dong Yin, M.D.

Dr. Yin has been dedicated to hepatitis research for more than 20 years. He is credited with developing the intellectual property that led to the development of Sinovac's hepatitis A vaccine. Dr. Yin has also been instrumental in shaping the Ministry of Public Health's policy for prioritizing hepatitis as one of the major diseases that the Chinese healthcare system is trying to combat over the next five years. Dr. Yin has a MBA from the National University of Singapore.

Chairman of the Sinovac subsidiary in Beijing: Professor Aihua Pan, PhD., M.D.

The American Biographical Institute listed Dr. Pan, an award-winning luminary in biochemistry at Beijing University, as one of the world's 500 most influential leaders in 1997. He is currently Chairman of China Bioway Biotech Group Co., Ltd., Senior Consultant of Shenzhen Municipal Science and Technology Consultancy Commission and Hong Kong Biotech Unions, Executive Director of China National Bio-engineering, Deputy Director Committeeman of Industry Promotion Committee of China Biotech Academy, Vice Director-General of China Medicine Biological Technology Association and Assessment Expert in the biological field of China's 863 Hi-tech Plan.

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Vice General Manager: Mr. Jiansan Zhang

Mr. Zhang has long experience in vaccine development and production. Trained in biological product manufacturing management and quality control in the Netherlands, he is fully conversant with European GMP standards, which were used in the manufacturing workshop construction of inactivated hepatitis A vaccine and split flu vaccines. His experience helps ensures that the production management and quality control of Sinovac meets international standards. Mr. Zhang has an EMBA from Tsinghua University and received a Bachelor in Medical Treatment from Sun Yat-sen University of Medical Sciences.

Vice General Manager: Dr. Changju Fu

Dr. Fu is a qualified medical doctor with many years experience in vaccine marketing. He has held a number of leading positions in government and industry

involved with expanding sales of vaccine and allied products. Dr. Fu was the first to sell a Chinese made hepatitis vaccine to the Chinese market and has a deep understanding of the issues involved when selling into Asian markets. He will lead the Sinovac sales team as it expands further into the Chinese and foreign markets.

IV. Operating Results

A. Sales

Sales revenue is attributed to HealiveTM, the only product of the Company that is currently available in the market. The sales of this product increased from $1,090,856 for the first half of 2003 to $2,291,558 of the corresponding period of this year, equivalent to a 110% increase.

B. Gross Profit

Gross profit margin remains high at 66.75% in the first half of 2004, which is approximately equal to 67.24% for the corresponding period of 2003.

C. Selling, General and Administrative Expenses

The consolidated selling, general and administrative expenses ("SG&A expenses") increased from $615,615 to $1,861,329. This resulted from the exploration of the new markets, improving sales network, and refining sales strategy. The higher SG&A expenses have also been a result of the acquisition of Tangshan Yian, which administrative expenses have been included in the consolidated financial statements since the date of acquisition. As a new player in the biopharmaceutical industry, the first essential step is to build a strong brand image. The building of a vibrant brand has required the need for larger investment in advertisement, skilled employees, promotional activities, commercial and academic events, etc. The total marketing expenses for the six-month period ended June 30, 2004 was $523,108 compared to $371,606 for the corresponding period of 2003.

D. Stock-Based Compensation

The Company incurred stock-based compensation of $2,238,098 in the first six months of 2004. During the six months ended June 30, 2004, the Company granted 2,000 000 stock options to its directors, employees and consultants at an exercise price of $4.55 per share. The stock options granted in 2004 have an estimated fair value of $2.85 per share and have different vesting schedules and, as a result, the Company has unearned compensation cost of about $3.96 million. This unearned component will be recognized over the remaining vesting period. There was no stock-based compensation expense in the comparative period in 2003. This item does not reduce the cash balance of the company but reflects the fair value of the above-mentioned stock options.

E. Research and Development Expenses

Research and development expenses increased from $18,099 to $137,158, which is an increase of six and half times over the same period for the previous year. This increase in research expenses is related to the influenza vaccine. Research expenses on the SARS vaccine are financed by a Chinese government grant and have been netted against the grant received by the Company. For the six months ended June 30, 2004, the Chinese government grants received was $1,639,879, with SARS

R&D expenditures of $199,395 for a net amount of $1,440,484. The corresponding figures for the six months ended June 30, 2003 are $265,700 from the Chinese

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government grants, $143,850 for SARS R&D expenditures for a net amount of $121,850.

After the SARS outbreak in 2003, the Company commenced the study and research of a SARS vaccine. The Company is the first to be approved to commence human clinical trial on SARS vaccine in the world. In the first half of 2004, after receiving the phase I clinical trial certificate from SFDA, the Company started working on the preparation for the trial. On May 22, 2004, the Company announced the commencement of the Phase I clinical trial when the first clinical trial volunteer received his first shot of either SARS vaccine or a placebo. The Chinese government has demonstrated its support to the R&D on SARS vaccine. China's Ministry of Science and Technology and some other central government agencies have given an R&D grant to the Company for the SARS vaccine study. This has provided sufficient funding for the phase I clinical trial.

F. Provision For Income Taxes

The Company mainly operates in China. Therefore, it is subject to income taxes in China on its taxable income as reported in its statutory income declaration at a tax rate in accordance with the relevant income tax laws and regulations applicable to Sino-foreign joint ventures. Pursuant to the income tax laws and regulations, the Company is exempted from income tax for two years starting from its first profit-making year followed by a 15% corporation income tax rate for the next three years.

G. Interest and Financing Expenses

Interest and financing expenses for the first half of 2004 were 45% higher than that of the corresponding period in 2003. During this period, the Company acquired 100% of Tangshan Yian. The financial expenses incurred by Tangshan Yian is $3,478. The financing expenses included $67,917 of amortization of the deferred financing fee with respect to the $2,200,000 debt owed to Mr. Heping Wang, one the Company's directors, as part of the consideration for the acquisition of 100% of Tangshan Yian.

H. Net Loss

Net loss for the first half of 2004 was $2,889,296 compared to $128,714 for the same period of 2003. The increase in net loss was primarily due to stock-based compensation expenses and the increased SG&A expenses.

I. Cash Flow and Liquidity

Our capital requirements have generally been funded by cash flow from borrowings from commercial banks and issuance of common stock. Our cash and cash equivalents totaled $3,018,654 at June 30, 2004, which is not sufficient to fund

the Company's business plan over the next 12 months as the Company intends to make several investments to expand its business:

- The Company plans to spend $4 million constructing an influenza vaccine production line.
- It is the Company's intention to acquire a further 21% of Sinovac (Beijing), giving it a 72% interest in that company, and is budgeting $3.5 million for that purpose.
- Product promotion campaigns are estimated to require $1.5 million in the next 12 months.

The Company plans to raise the necessary capital from the sale of equity securities. There can be no assurance that any that such financing will be available, if at all, on terms acceptable to the Company. If additional funds are raised by the issuance of equity securities, stockholders may experience dilution of their ownership interest.

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Financial ratio

	June 30, 2004	June 30, 2003
Current ratio*	1.67	1.16
Working capital	$3,630,907	$545,872
Other loan payable	$2,121,361	$603,865
Equity	$10,789,806	$6,149,616
Debt to equity **	19.7%	9.8%

* Current ratio = Current Assets / Current Liabilities
** Debt to equity = Total Debt / Equity

In the first half of 2004, the Company generated net cash of $1,598,607. Net cash flow used in operations was $1,786,991, which is $1,048,835 more than the corresponding period for 2003. The increase in cash used by operations was primarily due to cash applied to working capital; the Company's accounts receivable increased as a result of increased sales and the Company repaid accounts payable.

Cash flow from financing activities was $3,770,623 which is $1,923,287 more than the corresponding period for 2003, and which consisted of $3,718,041 of newly raised share capital and $1,440,484 from government funding (net of qualified R&D expenditures).

Cash flow used in investing activities was $385,025, which is $306,599 less than the corresponding period for 2003. In the prior period, the Company had spent $353,904 on acquiring drug licenses and related costs and there were no such expenditures in the current period.

J. Factors That May Affect Future Results

As an emerging biopharmaceutical company, the Company is engaged in a competitive and rapidly evolving business environment.

Success in pre-clinical or early clinical trials (which generally focus on safety issues) may not translate into success in large-scale clinical trials

(which are designed to show efficacy). Further, success in clinical trials will likely lead to increased investment, adversely affecting short-term profitability, to bring such products to market. Even after a product is approved and launched, general usage or post-marketing studies may identify safety or other previously unknown problems with the product which may result in regulatory approvals being suspended, limited to narrow indications or revoked, or which may otherwise prevent successful commercialization.

The Company must obtain and maintain regulatory approval in order to market our products. Generally, these approvals are on a product-by-product and country-by-country basis. Regulations may be amended from time to time. Revised regulations may require the Company to obtain additional regulatory approvals. There is no guarantee that the Company will be able to satisfy these new regulatory requirements and may suffer a loss of revenue as a result.

The success of the Company is very much dependent on the talents and commitment of a core management team. The loss of the services of any key management figure such as Sinovac's President, Dr. Yin, could negatively impact the Company's progress.

The Company is waiting approval from the SFDA to start marketing Bilive. The Company has no control over this procedure and may not be able to meet its anticipated schedule because of the delay of government approval. The influenza vaccine project is also subject to the same regulatory risk.

Financing difficulty may adversely affect the Company's growth since the construction of the manufacturing facilities for the production of the influenza vaccine is dependent on further financing from the financial market.

There can be no assurance that all of the clinical trials pertaining to the Company's in-development vaccines will be completed within the anticipated time frame. Furthermore, such trials may be delayed or suspended at any time by regulatory agencies if unforeseen health risks become an issue with the participants of clinical trials.

K. Employees

At June 30, 2004, the total number of employees was 123. The Company incurred employee compensation expenses of $328,733.

L. Forecast for the second half of 2004

The trend of sales in 2003 illustrated the seasonality of the typical sales pattern in China.

First of all, Chinese traditional New Year is usually in January and February. At that time, the population is celebrating this festival. Therefore, there are not many orders coming in during that period. At the beginning of October, planning and budgeting for the coming year is usually conducted by each company. This is the same for China's Center for Disease Control, which places orders for

vaccines. From the end of March, sales generally increase rapidly and then slow down in May and June.

Secondly, student examination periods and summer holidays are other important factors. One of the main end user groups for Sinovac's vaccines are students. Usually the schools organize vaccination for the students. In July and August, students take exams and then break for summer holidays. Large-scale vaccination does not take place during this period. Accordingly, sales are relatively low in July and August. In September, new students come to register in their schools. New students are required to receive vaccination during registration and this vaccination requirement thus drives up sales in September.

Finally in December, as Chinese New Year approaches, the Center for Disease Control usually purchases an inventory of vaccines for the coming year. Hence, there are usually many larger orders at the end of the year. Historically in 2003, sales in the month of December increased by about three times the monthly average.

From the sales trend of the Company's first six months of 2004 operations, each month's sales has been higher than the same month in 2003. The Company expects that the seasonality effect described above will result in sales growth for the second half of this year and that sales will reach approximately $6 million to $8 million for this entire year.

Item 3. Quantitative and qualitative disclosures about market risk
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The carrying value of cash and cash equivalents, accounts receivable, short-term loans payable, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The fair value of long-term debt is based on the discounted value of contractual cash flows and at June 30, 2004, approximates its carrying value. The discount rate is estimated using the rates currently offered for debt with similar remaining maturities.

The Company is operating in China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between US dollars and the Chinese currency RMB. Financial instruments that potentially subject the Company to concentration of credit risks consist principally of cash and trade receivables, the balances of which are stated on the consolidated balance sheets. The Company places its cash in high credit quality financial institutions.

The Company has not entered into derivative contracts either to hedge existing risks or for speculative purposes.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SINOVAC BIOTECH LTD.

Date: November 10, 2004

By: /s/ Lily Wang

Lily Wang, CFO and a Director

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