China Biologic Products, Inc.
Form 10-K
February 23, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2016

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

For the transition period from _____ to _____

Commission File No. 001-34566

**CHINA BIOLOGIC PRODUCTS, INC.**

*(Exact name of registrant as specified in its charter)*

| **Delaware** | **75-2308816** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |

**18th Floor, Jialong International Building, 19 Chaoyang Park Road**

**Chaoyang District, Beijing 100125**

**People's Republic of China**

*(Address of principal executive offices)*

**(+86) 10-6598-3111**

*(Registrant's telephone number, including area code)*

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

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| Common Stock, par value $0.0001 per share | NASDAQ Global Select Market |
| Preferred Share Purchase Rights | NASDAQ Global Select Market |

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x Accelerated Filer ¨

Non-Accelerated Filer ¨

Smaller reporting company ¨

(Do not check if a smaller reporting company)

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of common stock held by non-affiliates of the registrant, based upon the closing sale price on June 30, 2016 as reported on the NASDAQ Global Select Market, was approximately $2,162 million.

There were a total of 27,184,780 shares of the registrant's common stock outstanding as of February 23, 2017.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for its 2017 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the close of the registrant's fiscal year are incorporated by reference into Part III of this annual report on Form 10-K.

**Annual Report on Form 10-K**

**Year Ended December 31, 2016**

**TABLE OF CONTENTS**


PART I

| | | |
|---|---|---|
| Item 1. | Business | 3 |
| Item 1A. | Risk Factors | 24 |
| Item 1B. | Unresolved Staff Comments | 45 |
| Item 2. | Properties | 45 |
| Item 3. | Legal Proceedings | 46 |
| Item 4. | Mine Safety Disclosures | 48 |

**PART II**

| | | |
|---|---|---|
| Item 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 49 |
| Item 6. | Selected Financial Data | 50 |
| Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 51 |
| Item 7A. | Quantitative and Qualitative Disclosures about Market Risk | 66 |
| Item 8. | Financial Statements and Supplementary Data | 68 |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 68 |
| Item 9A. | Controls and Procedures | 68 |
| Item 9B. | Other Information | 71 |

**PART III**

| | | |
|---|---|---|
| Item 10. | Directors, Executive Officers and Corporate Governance | 77 |
| Item 11. | Executive Compensation | 77 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 78 |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | 78 |
| Item 14. | Principal Accounting Fees and Services | 78 |

**PART IV**

| | | |
|---|---|---|
| Item 15. | Exhibits, Financial Statement Schedules | 78 |

Item 16. Form 10-K Summary 78

**Special Note Regarding Forward Looking Statements**

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as "believe," "expect," "anticipate," "project," "target," "plan," "optimistic," "intend," "aim," "will" or sim expressions which are intended to identify forward-looking statements. Such statements include, among others, those concerning market and industry growth and demand and acceptance of new and existing products; expectations regarding governmental approvals of our new products; any projections of sales, earnings, revenue, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding future economic conditions or performance; as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, as well as assumptions, which, if they were to ever materialize or prove incorrect, could cause the results of our company to differ materially from those expressed or implied by such forward-looking statements. Risks and uncertainties that could cause actual results to differ materially from those anticipated include risks related to, among others, our ability to overcome competition from local and international pharmaceutical enterprises; decrease in the availability, or increase in the cost, of plasma; failure to renew plasma collection permits for plasma collection stations; failure to meet the GMP standard or other mandatory requirements for any of our facilities; failure to obtain PRC governmental approval to increase retail prices of certain of our biopharmaceutical products; loss of key members of our senior management; and unexpected changes in the PRC government's regulation of the biopharmaceutical industry in China, or changes in China's economic situation and legal environment. Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this report are discussed in Item 1A "Risk Factors."

Readers are urged to carefully review and consider the various disclosures made by us in this report and our other filings with the SEC. These reports attempt to advise interested parties of the risks and factors that may affect our business, prospects, financial condition and results of operations. The forward-looking statements made in this report speak only as of the date hereof and we disclaim any obligation, except as required by law, to provide updates, revisions or amendments to any forward-looking statements to reflect changes in our expectations or future events.

**Use of Terms**

Except as otherwise indicated by the context and for the purposes of this report only, references in this report to:

- "China Biologic," "we," "us," "our company," or "our" are to China Biologic Products, Inc., a Delaware corporation, and, unless the context requires otherwise, its direct and indirect subsidiaries;

.

"China" or "PRC" are to the People's Republic of China, excluding, for the purposes of this report only, Taiwan and the special administrative regions of Hong Kong and Macau;

- "CFDA" are to China Food and Drug Administration;
- "Exchange Act" are to the Securities Exchange Act of 1934, as amended;
- "GMP" are to good manufacturing practice;
- "Guizhou Taibang" are to Guizhou Taibang Biological Products Co., Ltd., a PRC company indirectly wholly owned by us, formerly known as Guiyang Qianfeng Biological Products Co., Ltd.;
- "Huitian" are to Xi'an Huitian Blood Products Co., Ltd., a PRC company in which we hold an indirect minority equity interest;

- "NDRC" are to the PRC National Development and Reform Commission;
- "NHFPC" are to the PRC National Health and Family Planning Commission, formerly known as the PRC Ministry of Health;
- "RMB" are to the legal currency of China;
- "PFDA" are to PRC provincial food and drug administration;
- "SEC" are to the Securities and Exchange Commission;
- "Securities Act" are to the Securities Act of 1933, as amended;
- "Shandong Taibang" are to Shandong Taibang Biological Products Co., Ltd., a PRC company indirectly majority owned by us;
- "Taibang Biological" are to Taibang Biological Ltd., a British Virgin Islands company wholly owned by us, formerly known as Logic Express, Ltd.;
- "Taibang Holdings" are to Taibang Holdings (Hong Kong) Limited, a Hong Kong company indirectly wholly owned by us, formerly known as Logic Holdings (Hong Kong) Limited; and
- "U.S. dollars" or "$" are to the legal currency of the United States.

**PART I**

**ITEM 1. BUSINESS.**

**OVERVIEW**

We are a biopharmaceutical company principally engaged in the research, development, manufacturing and sales of human plasma-based biopharmaceutical products, or plasma products, in China. We are among the top three producers of plasma products in China in terms of 2016 sales, based on our industry knowledge. We operate our business through a majority owned subsidiary, Shandong Taibang, a company based in Tai'an, Shandong Province and a wholly owned subsidiary, Guizhou Taibang, a company based in Guiyang, Guizhou Province. We also hold a minority equity interest in Huitian, a plasma products company based in Xi'an, Shaanxi Province.

We have a strong product portfolio with over 20 different dosage forms of plasma products and other biopharmaceutical products across nine categories. All of our products are prescription medicines administered in the form of injections. Our principal products are human albumin and immunoglobulin for intravenous injection, or IVIG. Albumin has been used for almost 50 years to treat critically ill patients by assisting the maintenance of adequate blood volume and pressure. IVIG is used for certain disease prevention and treatment by enhancing specific immunity. These products use human plasma as their principal raw material. Sales of human albumin products represented approximately 39.2%, 37.6% and 39.3% of our total sales for 2016, 2015 and 2014, respectively. Sales of IVIG products represented approximately 34.6%, 42.2% and 40.4% of our total sales for 2016, 2015 and 2014, respectively.

Our sales model focuses on direct sales to hospitals and inoculation centers and is complemented by distributor sales. In 2016, we generated sales of $341.2 million, an increase of 15.1% from 2015, and recorded net income attributable to our company of $104.8 million, an increase of 17.8 % from 2015. In 2015, we generated sales of $296.5 million, an increase of 21.9% from 2014, and recorded net income attributable to our company of $89.0 million, an increase of 25.5% from 2014.

We operate and manage our business as one single segment. We do not account for the results of our operations on a geographic or other basis.

**Corporate History and Structure**

China Biologic Products, Inc. was originally incorporated on December 20, 1989 under the laws of the State of Texas as Shepherd Food Equipment, Inc. On November 20, 2000, Shepherd Food Equipment, Inc. changed its corporate name to Shepherd Food Equipment, Inc. Acquisition Corp., or Shepherd. Shepherd is the survivor of a May 28, 2003 merger between Shepherd and GRC Holdings, Inc., or GRC, a Texas corporation. In the merger, the surviving corporation adopted the articles of incorporation and bylaws of GRC and changed its corporate name to GRC Holdings, Inc. On January 10, 2007, a plan of conversion became effective pursuant to which GRC was converted into a Delaware corporation and changed its name to China Biologic Products, Inc. On July 19, 2006, we completed a reverse acquisition with Logic Express Ltd., or Logic Express, a British Virgin Islands company, as a result of which Logic Express became our wholly owned subsidiary, the former shareholders of Logic Express became our then controlling stockholders, and Logic Express's majority owned PRC subsidiary, Shandong Taibang, became our majority owned indirect subsidiary.

Our common stock was initially quoted on the over-the-counter market maintained by Pink Sheets LLC. On February 29, 2008, our common stock was approved for quotation on the Over-The-Counter Bulletin Board under the trading symbol "CBPO.OB." On November 25, 2009, our common stock was approved for listing on the NASDAQ Global Market under the symbol "CBPO" and subsequently approved for listing on the NASDAQ Global Select Market on December 7, 2010.

The following chart reflects our current corporate structure as of the date of this report:

(1) In April 2016, Guiyang Dalin Biologic Technologies Co., Ltd. increased its equity interest in Guizhou Taibang from 81.81% to 85.27% following a series of capital injections. In November 2016, two former minority shareholders withdrew their respective capital contributions in Guizhou Taibang, and as a result, Guizhou Taibang became a wholly owned subsidiary of Guiyang Dalin Biologic Technologies Co., Ltd. See “Legal Proceedings — Dispute with Jie’an over Certain Capital Injection into Guizhou Taibang” for further details.

(2) Pursuant to an investment entrustment agreement dated September 12, 2008, Shandong Taibang holds the 35.0% equity interest in Huitian as a nominee for the benefit of Taibang Biological. For further details on the investment entrustment agreement, see our Current Report on Form 8-K filed with the SEC on October 16, 2008.

(3) On September 3, 2016, the Company disposed of its 100% equity interest in Shandong Taibang Medical Company for a cash consideration of $128,654. The carrying value of net identifiable assets (including currency translation difference) amounted to $204,545 as at September 3, 2016, resulting in a disposal loss of $75,891.

**Corporate Information**

Our principal executive offices are located at 18th Floor, Jialong International Building, 19 Chaoyang Park Road, Chaoyang District, Beijing 100125, People’s Republic of China. Our corporate telephone number is (8610) 6598-3111 and our fax number is (8610) 6598-3222. We maintain a website at *http://www.chinabiologic.com* that contains information about our company, but that information is not part of this report or incorporated by reference herein.

**INDUSTRY**

**Overview**

We operate in the plasma industry in China. We derive certain industry-related data from reports and written analysis prepared by The Marketing Research Bureau, Inc., or MRB, an independent research firm focused on blood and plasma industry data on a global level, including a China-specific report from January 2017.

China is the second largest plasma products market in the world, after the United States. According to MRB, China's plasma products market (excluding recombinant products) grew from $0.80 billion in 2009 to $2.47 billion in 2015 in terms of sales revenue, representing a compound annual growth rate, or CAGR, of 20.7%. MRB expects that by 2018, China's plasma-derived products market will reach over $3.3 billion, representing about a 35% increase from 2015, assuming domestic plasma supply continues to grow at least 8% annually. Based on our industry knowledge, human albumin products dominated China's plasma products market with a market share of 64.7% in terms of sales revenue in 2016, and IVIG products accounted for 25.2% of the market. Other plasma products, including coagulation factors, accounted for the remaining 10.1% of the market in 2016.

Compared to more developed countries, China has a lower per capita usage level of plasma products, and China's plasma products market is significantly different in terms of product composition and range. In more developed countries such as the United States, IVIG products account for a majority of plasma product sales. This difference reflects the maturity levels of the plasma industries in these countries. According to MRB, plasma fractionation came into existence in the 1940s in the United States, whereas in China, plasma processing appeared in the 1960s or 1970s. Until the early 1970s, the U.S. plasma products market was dominated by albumin products, as is the case in China's market presently. The current low per capita consumption of IVIG products in China is primarily attributable to a lack of awareness of the benefits of IVIG therapy, especially in medical conditions such as primary immune deficiency or chronic inflammatory demyelinating polyneuropathy, and lower per capita healthcare spending in China. China's plasma products market is expected to be increasingly driven by IVIG products in the future as IVIG therapy becomes more widespread as a result of the combined efforts of physician education and product promotion, among other factors.

Based on our industry knowledge, China National Biotec Group, or CNBG, Hualan Biological Engineering Inc., or Hualan, and China Biologic, were the top three plasma product manufacturers in terms of sales revenue in 2016.

**Overall Plasma Products Market Trends**

Compared to more developed countries, China's plasma products market has distinctive characteristics and trends, including the following:

*High Entry Barriers*. The PRC State Council has ceased issuing new plasma fractionation licenses since 2001, and there are approximately 30 licensed producers of plasma products in China, of which only approximately 28 are currently in operation. Nearly all of these producers make albumin and IVIG products, but only five of them, including China Biologic, make factor VIII products. Furthermore, foreign investment in domestic producers of plasma products is subject to stringent government approval process. As a result, existing China-based producers with large production capacities face limited competition and are well positioned to gain more market share during the industry consolidation phase.

*Stringent regulation.* China's plasma products market is stringently regulated. Because of the public health crises of contaminated plasma products experienced by China over the past decade, China has implemented, and is expected to continue to maintain, stringent regulations for the plasma products industry in the foreseeable future. The opening of a new plasma collection station in China requires the approval by three levels of government authorities, namely the provincial, municipal and county level authorities, which is a time-consuming and difficult process. To be eligible to open a new collection station, a company must produce no fewer than six types of plasma products, which must include products in three mandatory categories, namely human albumin, immunoglobulin and coagulation factors. From 2010 to 2015, various local governments approved the opening of plasma collection stations by small companies that were not able to produce all the mandatory products. In response, in December 2016, the NHFPC and CFDA jointly released a new guideline on the regulation of plasma collection stations. The guideline aims to strengthen regulatory oversight for existing collection stations and approval requirements for new plasma collection stations, and to tighten safety control at the plasma collection stations to improve the quality of plasma collected. The guideline states that in considering the applications for the opening of new plasma collection stations, the relevant authorities should give priority to companies with strong research and development capabilities, high plasma utilization rate and good management practice. We believe this guideline will benefit large plasma products manufacturers like China Biologic by reducing the chance for smaller manufacturers to open new plasma collection stations.

*Demand outstripping supply.* Due to stringent regulations on the collection of raw plasma from human beings and a lack of plasma donation, China has experienced a shortage of plasma products since the 1980s. There are fewer than 220 plasma collection centers in China, compared to over 530 in the United States. The restriction on approving new collection centers in China, cultural barriers to plasma donation, concerns over plasma donation safety, and low quantity per donation and long intervals between donations contribute to the supply shortage. According to the National Health and Family Planning Committee (NHFPC), the demand for raw plasma materials in China is estimated to be over 10,000 tons per annum. Total plasma collected in 2015 was 5600 tonnes in China, in comparison with over 30,000 tonnes in the United States. As a result, the tendering prices for plasma products by various provincial and regional governments have been slightly increased or stabilized in contrast to price cuts for other drugs.

*Ban on imports.* As a measure to prevent a range of viral risks, China strictly prohibits the import of plasma products, except for human albumin and recombinant factor VIII products. In other market segments, such as IVIG, where import is prohibited, domestic producers are shielded from competition from their multinational peers, and the demand for such products in China has been supplied entirely by domestically-sourced plasma only.

*Low consumption level and huge growth potential.* While China's plasma products market has experienced rapid growth in recent years, China's per capita consumption of plasma products lags substantially behind more developed countries. The following chart sets forth the comparison of per capita consumptions of selected plasma products in China and the United States in 2015:

Source: MRB

(1) Based on 2015 per capita consumption (kilogram per million inhabitants) in the Unites States divided by 2015 per capita consumption in China.

(2) Based on 2015 per capita consumption (international units per capita) in the Unites States divided by 2015 per capita consumption in China.

Based on our industry knowledge, as a result of the growing number of patients seeking treatment of plasma products, an increasing awareness of health benefits of plasma products and the rising affordability of plasma products since the commencement of China's healthcare reform, China's plasma products market is expected to continue to have substantial growth potential.

*Improved fractionation technologies.* In the early years of plasma fractionation in China, technologies used were not as sophisticated as those in the United States, resulting in relatively low yields and a product portfolio limited to only two or three products (albumin, IVIG and hyper-immune globulin products). Technologies used by and yields from leading domestic manufacturers are, however, on par with international standards, and these manufacturers are well positioned to manufacture safer products and have higher production efficiency compared with other domestic companies.

*Increasing market concentration of top players.* China's current landscape of plasma products market is relatively fragmented. However, factors such as stringent regulations, tightened quality control and heavy capital expenditure requirements have contributed to increasing industry consolidation in recent years. For instance, the CFDA issued new GMP requirements to re-certify all the fractionation plants by the end of 2013, which has resulted in the shutdown of smaller fractionation plants that were unable to upgrade their production lines by the deadline. China's plasma industry has also witnessed multiple merger and acquisition transactions in recent years. Market leaders with stable plasma supplies complemented by further collection expansion potentials, strong product portfolios and robust research and development capabilities are expected to be able to continue to solidify their positions and further gain development advantages.

**Albumin Market Trends**

According to MRB, human albumin products achieved sales revenue of $1.57 billion in 2015, accounting for 63.8% of China's plasma products market (excluding recombinant factors) in 2015 and representing a CAGR of approximately 25.3% from 2009.

The robust demand for albumin products in China continues to grow as a result of the high incidence of hypo-albuminemia from liver cirrhosis, cancer and in cardiac surgeries. Unlike many other plasma products, albumin products may be imported from other countries due to the acute shortage of albumin products from domestic manufacturers, and as a result, many multinational plasma product manufacturers are expected to continue to divert a large portion of their albumin products to China's market in the future so long as the price in China remains competitive. Based on our industry knowledge, imported albumin products accounted for approximately 56.2% of China's albumin products market in 2016. CNBG, Hualan, and China Biologic were the three largest domestic albumin product manufacturers with a combined market share close to 19.9%, and China Biologic ranked the third with a market share of approximately 6.5%, in terms of sales revenue in 2016.

**IVIG Market Trends**

According to MRB, China's IVIG products achieved sales revenue of $671.0 million in 2015, representing a CAGR of approximately 14.5% from 2009. Based on our industry knowledge, CNBG, Hualan, and China Biologic were the three largest domestic albumin product manufacturers with a combined market share close to 48.5%, and China Biologic ranked the third with a market share of approximately 14.7%, in terms of sales revenue in 2016.

In more developed countries, major applications of IVIG therapy are for chronic diseases such as primary immune deficiency and chronic inflammatory demyelinating polyneuropathy, which require treatment for a number of years or even lifetime. In contrast, IVIG therapy is only used to treat acute diseases and infections in China. The substantial growth in China's IVIG products market in recent years was mainly due to increasing awareness by doctors of the benefits of IVIG therapy. Compared with the markets in more developed countries, China's IVIG products market is far from mature. In 2015, for instance, the per capita consumption of IVIG products in China was 15.0 grams per 1,000 inhabitants, as compared to over 200 grams per 1,000 inhabitants in the United States, according to MRB, and therefore there is tremendous growth potential as China's IVIG per capita consumption draws closer to that of the United States. Developing this market requires significant efforts from IVIG manufacturers to educate physicians, the public and the health authorities on the benefits of IVIG therapy for a number of medical conditions. In countries with higher per capita consumption of IVIG products, the efficacy of IVIG therapy in a number of medical conditions has been promoted over the years by clinical trials, anecdotal reports, scientific articles, educational activities for physicians and medical students, medical conferences and seminars, and promotional campaigns such as advertisements in medical journals. The role of a specialized sales force was also instrumental in the rapid acceptance

of IVIG therapy in North America and Europe. In addition, patient organizations, which are largely supported by IVIG manufacturers, have also become increasingly important in recent years, as they are able to draw physicians' attention to antibody deficiency tests. All of these factors may be replicated in China as a result of IVIG manufacturers' educational and promotional efforts as well as economic development and healthcare spending growth in China.

**Factor VIII Market Trends**

According to MRB, China's market size for plasma-derived factor VIII was $36.2 million in terms of sales revenue in 2015, representing a CAGR of approximately 22.7% from 2009. Based on our industry knowledge, only five domestic plasma product manufacturers offered plasma-derived factor VIII in 2016. Hualan, Green Cross (China) Biological Products Co., Ltd., and China Biologic were the largest three domestic manufacturers of plasma-derived factor VIII with a combined market share close to 84.9%, and China Biologic ranked the third with a market share of approximately 21.8%, in terms of sales revenue in 2016.

There were over 15,000 registered hemophilia patients in China as of December 31, 2016, according to China Hemophilia Association, which underpins a significant market demand for factor VIII products. Due to an acute shortage of plasma-derived coagulation factor concentrates available in China as a result of limited coagulation factor manufacturers, recombinant factor VIII products have taken a growing role in hemophilia care in China. However, since recombinant products are approximately twice more expensive than plasma-derived factor VIII products and not covered by national health insurance for full reimbursement in China, they are used only in the absence of suitable plasma-derived products. As an increasing number of China-based manufacturers, including China Biologic, commercially launched factor VIII products, the supply is expected to increase and lead to overall market growth. It is unlikely, however, that plasma-derived factor VIII will be able to fully meet the market demand if hemophilia care continues to improve in China. China's market for factor VIII products is expected to experience a continued shortage of plasma-derived factor VIII products in the foreseeable future.

**BUSINESS**

**Our Competitive Strengths**

We believe that the following competitive strengths enable us to compete effectively in and capitalize on the growth of the plasma products market:

***Leading producer of plasma products in China with strong growth potential***

We are one of the top three producers of plasma products in terms of 2016 sales revenue based on our industry knowledge. In the albumin segment, which accounts for a majority of the plasma products market in China, we are the third largest domestic producer with a market share of approximately 6.5% in terms of 2016 sales revenue, based on our industry knowledge. In the IVIG segment, which is the second largest segment of the plasma products market in China, we are also the third largest producer overall in China with a market share of approximately 14.7% in terms of 2016 sales revenue, based on our industry knowledge.

We have a strong product portfolio with over 20 different dosage forms of plasma products and other biopharmaceutical products across nine categories and a robust near-term product pipeline of seven products. We believe that we are one of the only four plasma products manufacturers in China with the product portfolio comprising at least eight categories of plasma products. Since different types of plasma products utilize different protein components of plasma, different types of plasma products can be produced from the same raw plasma supply with minimal incremental increase in raw material cost. Our broad product portfolio, supported by our strong research and development capabilities, therefore, provides us with the benefit of more comprehensive plasma utilization, which in

turn contributes to higher profit margins.

We believe that product safety and supply stability are the most critical considerations for hospitals and inoculation centers in making purchase decisions on plasma products. We implement stringent quality control measures throughout our production process, and have not historically experienced failure to receive pre-sale approval or had a recall with respect to any of our plasma products. We currently have a manufacturing facility in Guizhou Province and expect to launch a new manufacturing facility in Shandong Province by the end of 2017 to replace our old facility in Shandong Province, which together will reach a production capacity of 1,600 tonnes. As a leading producer of plasma products, we have been able to maintain a steady plasma supply volume and sales volume over the years. Our safety record and the stability of our supply, we believe, have strengthened our business relationship with existing customers and enhanced our ability to acquire new customers.

China's plasma products market is, and will continue to be, subject to stringent government regulation. In recent years, however, PRC regulators have also taken initiatives to increase plasma collection volume by approving more new plasma collection stations and expanding plasma collection coverage for existing plasma collection stations. We are well positioned to benefit from these favorable regulatory trends as we are able to meet the associated quality control and technology investment requirements.

***Stable and growing supply of plasma with strategically located collection stations***

Our ability to secure and expand our supply of plasma, a critical raw material for our operations, is one of our key strengths. Our plasma collection network consists of 14 captive plasma collection stations (including one branch collection facility). In addition, Huitian, a company in which we hold a minority equity interest, operates three plasma collection stations. In 2016, we were among the top five plasma collectors in China in terms of collection volume with approximately 12.4% of the total national supply, based on our industry knowledge.

We operate nine plasma collection stations (including one branch collection facility) in Shandong Province, two in Guangxi Province, two in Guizhou Province, and one in Hebei Province, covering 33 cities and counties with an aggregate population of approximately 42.6 million. Shandong Province has one of the largest population, and Guangxi Province and Guizhou Province are among the least economically developed regions in China — both favorable characteristics underpinning a strong and stable plasma supply. Hebei Province is an underdeveloped province for plasma collection that provides convenient and economic transportation to our manufacturing facilities in adjacent Shandong Province.

We continue to seek innovative ways to identify and attract potential plasma donors. We regularly organize a variety of community events to deliver our messages that focus on the life-saving and other social contribution aspects of plasma donation. We also regularly review our donor compensation to ensure that it remains competitive. In addition, we actively seek to expand the geographic coverage of our existing collection stations to gain access to additional donor populations. As a result of our collection efforts, our average plasma collection volume is greater than the national average by approximately 78.0% in 2016 based on our industry knowledge. Our total plasma collection volume increased by approximately 16.9% from 2015 to 2016.

In addition to increasing our collection volume at existing plasma collection stations, we also seek to build new plasma collection stations to expand our donor base. For example, in October 2014, we received regulatory approval to build two new plasma collection stations in Xinglong and Daming Counties, respectively, in Hebei Province. In June 2016, we received the operating permit for and commenced operations at our new plasma collection station in Xinglong County. The Daming station is still under construction as of the date of this report and is expected to open in 2017. In December 2016, we received the regulatory approvals to build a new plasma collection station in Ju County in Shandong Province and to build a branch collection facility in Feicheng County to operate under our Ningyang

plasma collection station in Shandong Province.

10

***Robust near-term product pipeline to capture full plasma value chain backed by strong research and development capabilities***

We currently have six new products under development, with one of them in registration stage and expected to be commercially launched in the second half of 2017. We expect our expanding product portfolio to further increase our comprehensive plasma utilization, which will in turn lead to higher profit margins. With our current and pipeline products, we believe that by 2018, our product offerings will be able to capture substantially all of the value along the plasma products value chain.

Benefiting, in part, from our direct sales to hospitals and inoculation centers, our ability to bring new products to market reflects a research and development process that is demand-driven and highly responsive to physician feedback and the latest market trends in medicine. To complement our research and development efforts, we also work closely with a number of leading research institutes in China specializing in plasma products. As of December 31, 2016, we held 55 patents for plasma products.

***Leading position in China's fast-growing IVIG products market***

We are the third largest producer of IVIG products in China in terms of 2016 sales revenue based on our industry knowledge. Our IVIG sales, accounting for approximately 34.6% of our total sales, increased to $117.9 million in 2016 from $98.4 million in 2014, representing a CAGR of 9.5% between 2014 and 2016. We attribute our rapid growth and leading position in the IVIG products market, in part, to our continued efforts to promote IVIG therapy to physicians in tier one cities.

Compared with markets in more developed countries, China's IVIG products market is far from mature. In more developed countries, major applications of IVIG therapy are for chronic diseases, which require treatment for a number of years or even lifetime, while in China, IVIG therapy is only used to treat acute diseases and infections. Also, the per capita consumption of IVIG products in China is significantly lower than that in the more developed countries, and therefore there is significant growth potential as China's IVIG consumption draws closer to that of the more developed countries as a result of growing awareness of IVIG therapy and favorable government reimbursement policies. For details of the IVIG products market comparison, see "Industry — IVIG Market Trends." As a leading player in China's IVIG products market, we are uniquely positioned to benefit from the anticipated increase in demand from the popularization of IVIG therapy.

***Flexible and effective sales and distribution model aimed to maximize penetration***

We have a flexible sales model that focuses on direct sales to hospitals and inoculation centers and is complemented by distributor sales. Under this sales model, our products reach 30 provinces, municipalities and autonomous regions in China.

In 2016, 55.3% of our product sales were generated from direct sales, and in 2016, our direct sales network covered approximately 605 hospitals and inoculation centers. Our sales and marketing team, consisting of 114 employees as of December 31, 2016, is responsible for the sales and marketing efforts to our end customers and provide product educational programs and other sales support directly to doctors and nurses. These efforts are designed to ensure effective and seamless communications with our end customers, particularly with respect to clinical education, which provides us with first-hand intelligence on the latest industry trends and market demands and enables us to provide better after-sale services and support. For example, our sales and marketing team actively promotes new IVIG indications that are widely accepted in more developed countries but less known among Chinese physicians.

Our direct sales network is complemented by sales through distributors, which accounted for 38.9% of our plasma sales in 2016. We select our distributors through a rigorous process, which focuses on market leadership in the covered region, the degree of control we have over to which hospitals our products are sold (i.e., larger and higher tiered hospitals are preferred), and the level of access we have to our customers (i.e., greater access enables us to better track the sales of our products).

We believe that our flexible sales model of focusing on direct sales is cost-effective and has helped us to achieve strong financial performance. Our selling expenses as a percentage of sales were 3.4%, 3.4% and 4.4% in 2016, 2015 and 2014, respectively; and our operating margin was 42.1%, 44.7% and 45.7% during these periods, respectively.

***Experienced and committed management team***

We have an experienced, dedicated and visionary management team with an in-depth understanding of the pharmaceutical industry in China. Our Chairman and Chief Executive Officer, Mr. David (Xiaoying) Gao, with more than 14 years of experience in the pharmaceutical industry, was instrumental in the development and implementation of our business strategy. Before joining our company, Mr. Gao was the chief executive officer of BMP Sunstone Corporation before that company was acquired by Sanofi. Our Chief Financial Officer, Ming Yang, has more than 19 years of financial management and accounting experience. Mr. Guangli Pang and Mr. Gang Yang, the general manager of Shandong Taibang and Guizhou Taibang, respectively, have more than 30 and 20 years of experience in the plasma products industry in China, respectively. Since our current senior management team was put in place in 2012, we have been committed to improving corporate governance and enhancing shareholder value. We believe our management team, with their extensive industry background and strong management talent, provides a strong foundation for the execution of our growth strategy and achievement of our goals.

**Our Business Strategy**

Our mission is to become a first-class biopharmaceutical enterprise in China. To achieve this objective, we have implemented a business strategy with the following key components:

***Securing the supply of plasma***

Due to the shortage of plasma, we plan to build new plasma collection stations in regions not covered by our existing collection network as well as to expand collection territories of existing plasma collection stations in order to secure our plasma supply. We currently have a total of 14 plasma collection stations (including one branch collection facility) in operation, of which nine are in Shandong Province, two in Guangxi Province, two in Guizhou Province and one in Hebei Province. In October 2014, we received the regulatory approval to build two new plasma collection stations in Xinglong and Daming Counties, respectively, in Hebei Province. In June 2016, we received the operating permit for and commenced operations at our new plasma collection station in Xinglong County. The Daming station is still under construction as of the date of this report and is expected to open in 2017. In December 2016, we received the regulatory approvals to build a new plasma collection station in Ju County in Shandong Province and to build a branch collection facility in Feicheng County to operate under our Ningyang plasma collection station in Shandong Province.

Meanwhile, we are carrying out various promotional activities to stabilize and expand our donor base for our existing plasma collection stations. A majority of our plasma collection stations recorded increases in plasma collection volume in 2016 as compared to 2015.

***Further strengthening of research and development capability***

We believe that, unlike other more developed countries such as the United States, China's plasma products are at an early stage of development. There are many other plasma products that are being used in the United States, which are not currently manufactured or used widely in China. We intend to strengthen our research and development capabilities through in-house development and partnership with leading international players to expand our product line to include plasma products that have higher margins and are technologically more advanced. We also intend to continue to improve the yield for our products. As a result of our research and development efforts, we currently have six products under development, with one of them in registration stage and expected to be commercially launched in the second half of 2017. For further details of our pipeline products, see "— Our Research and Development Efforts" below. We believe that our increased focus on research and development will give us a competitive advantage in China over our competitors.

***Market development and network expansion***

Leveraging on the high quality and steady supply of our products, we intend to expand our geographic coverage in China to include markets where we envision significant growth potential. In particular, we plan to further strengthen our direct sales by growing our sales and marketing team and expanding our coverage among hospitals and inoculation centers. We also plan to strengthen our relationships with major distributors in tier-one cities to deepen our penetration in those markets and to obtain higher market share.

***Organic growth complemented by acquisition of competitors and/or other biologic-related companies***

We have expanded organically by securing sufficient plasma supply and strengthening in-house development efforts. In addition to organic growth, acquisition is an important part of our expansion strategy. Although there are approximately 30 approved plasma-based biopharmaceutical manufacturers in the market, we believe that there are approximately 28 manufactures currently in operation in China, only about half of which are competitive. We estimate that the top five manufacturers in China accounted for more than 70.5% market share (excluding imports) in terms of sales revenue in 2016. Furthermore, we believe that the regulatory authorities are considering further industry reform and those smaller, less competitive manufacturers will face possible revocation of their manufacturing permits by the regulators due to the compliance cost, making them potential targets for acquisition. If we are presented with appropriate opportunities, we may acquire additional companies, products or technologies in the biologic-related sectors (e.g., medical, pharmaceutical and biopharmaceutical) to complement our current business operations.

**Our Products**

Our principal products are our approved human albumin and IVIG products. Human albumin is principally used to treat critically ill patients by replacing lost fluid and maintaining adequate blood volume and pressure. IVIG products are primarily used to enhance specific immunity, a defense mechanism by which the human body generates certain immunoglobulin, or antibodies, against invasion by potentially dangerous substances. In a situation where the human body cannot effectively react to these foreign substances, injection of IVIG products can provide sufficient antibodies to neutralize such substances. We are currently approved to produce over 20 different dosage forms of plasma products, which are listed in the table below.

| **Approved Products**[1][2] | **Treatment/Use** |
|---|---|
| Human albumin – 20%/10ml, 20%/25ml, 20%/50ml, 10%/100ml, 10%/20ml, 10%/50ml, 25%/50ml and 20%/50ml (10g, from factor IV) | Shock caused by blood loss trauma or burn; raised intracranial pressure caused by hydrocephalus or trauma; oedema or ascites caused by hepatocirrhosis and nephropathy; prevention and treatment of low-density-lipoproteinemia; and neonatal hyperbilirubinemia. |
| Human immunoglobulin – 10%/3ml and 10%/1.5ml | Original immunoglobulin deficiency, such as X chain low immunoglobulin, familiar variable immune deficiency, immunoglobulin G secondary deficiency; secondary immunoglobulin deficiency, such as severe infection, newborn sepsis; and auto-immune deficiency diseases, such as original thrombocytopenia purpura or Kawasaki disease. |
| IVIG – 5%/25ml, 5%/50ml, 5%/100ml and 5%/200ml | Same as above. |
| Human hepatitis B immunoglobulin – 100 IU, 200IU and 400IU | Prevention of measles and contagious hepatitis. When applied together with antibiotics, its curative effect on certain severe bacteria or virus infection may be improved. |
| Human rabies immunoglobulin – 100IU, 200IU and 500IU | Mainly for passive immunity from bites or claws by rabies or other infected animals. All patients suspected of being exposed to rabies are treated with a combined dose of rabies vaccine and human rabies immunoglobulin. |
| Human tetanus immunoglobulin – 250IU | Mainly used for the prevention and therapy of tetanus. Particularly applied to patients who have allergic reactions to tetanus antitoxin. [3] |
| Placenta polypeptide – 4ml/vial | Treatment for cell immunity deficiency diseases, viral infection and leucopenia caused by various reasons, and assist in postoperative healing. |
| Factor VIII – 200IU and 300IU | Treatment for coagulopathies such as hemophilia A and increased concentration of coagulation factor VIII. |
| Human prothrombin complex concentrate (or PCC) – 300IU | Treatment for congenital and acquired clotting factor II, VII, IX, X deficiency, such as Hemophilia B, excessive anticoagulant, and vitamin K deficiency, etc. |

(1) "%" represents the degree of dosage concentration for the product and each product has its own dosage requirement. For example, human albumin 20%/10ml means 2g of human albumin is contained in each 10ml packaging and human immunoglobulin 10%/3ml means 300mg of human immunoglobulin is contained in each 3ml packaging. Under PRC law, each variation in the packaging, dosage and concentration of medical products requires separate registration and approval by CFDA before it may be commercially available for sale. For example, among our human albumin products, only human albumin 20%/10ml, 20%/25ml, 20%/50ml, 10%/100ml, 10%/20ml, 10%/50ml, 25%/50ml and 20%/50ml (10g, from factor IV) products are currently approved and are commercially

available.

(2) "IU" means International Units. IU is a unit used to measure the activity of many vitamins, hormones, enzymes, and drugs. An IU is the amount of a substance that has a certain biological effect. For each substance there is an international agreement on the biological effect that is expected for 1 IU. In the case of immunoglobulin, it means the number of effective units of antibodies in each package.

(3) Tetanus antitoxin is a cheaper injection treatment for tetanus. However, it is not widely used because most people are allergic to it.

Our approved human albumin, immunoglobulin (including IVIG), factor VIII and PCC products all use human plasma as the primary raw material. All of our approved products are prescription medicines administered in the form of injections.

We have two product liability insurance policies covering Shandong Taibang's and Guizhou Taibang's products in the amount of RMB20 million (approximately $2.9 million) each. Since our establishment in 2002, we have been subject to four lawsuits filed by patients who were treated with our products and received blood and/or plasma transfusions. See "Risk Factors — Risks Relating to Our Business — Product liability claims or product recalls involving our products could have a material adverse effect on our business" for further details. We do not expect these four claims to have a material adverse effect on our company.

**Raw Materials**

***Plasma from in-house collection***

Plasma is the principal raw material for our biopharmaceutical products. We currently operate 12 plasma collection stations (including one branch collection facility) through Shandong Taibang and two plasma collection stations through Guizhou Taibang. We plan to build new plasma collection stations throughout China as well as to expand collection territories of existing plasma collection stations. In October 2014, we received the regulatory approval to build two new plasma collection stations in Xinglong and Daming Counties, respectively, in Hebei Province. In June 2016, we received the operating permit for and commenced operations at our new plasma collection station in Xinglong County. The new station in Daming County is under construction as of the date of this report and is expected to open in 2017. In December 2016, we received the regulatory approvals to build a new plasma collection station in Ju County in Shandong Province and to build a branch collection facility in Feicheng County to operate under our Ningyang plasma collection station in Shandong Province. We believe that our plasma collection stations give us a stable source of plasma supply and control over product quality. Also, we believe that we have enjoyed benefits of economies of scale, including sharing certain administration and management expenses across our several plasma collection stations. A majority of our plasma collection stations recorded increases in plasma collection volume in 2016 as compared to 2015.

***Plasma sourced from Xinjiang Deyuan***

We purchased approximately 143 tonnes of source plasma and plasma pastes from Xinjiang Deyuan Bioengineering Co., Ltd., or Xinjiang Deyuan, for a total consideration of approximately RMB139 million (approximately US$20.0 million) in 2015. The final products made from such raw materials were fully released into the market by the first half of 2016.

We entered into a cooperation agreement with Xinjiang Deyuan and its controlling shareholder in August 2015, pursuant to which Xinjiang Deyuan agreed to sell to us no less than 500 tonnes of source plasma in batches from August 2015 to August 2018. As required and approved by the local regulator, all plasma used for production must be able to be traced to plasma collection stations, and therefore, we monitor the quality of the plasma collection process at Xinjiang Deyuan. We purchased approximately 210.7 tonnes of source plasma from Xinjiang Deyuan in 2016, which was 17.8% more than the expected volume according to the agreement as of December 31, 2016. The final products made from this plasma began to be released to the market from the fourth quarter of 2016. Our transactions with Xinjiang Deyuan will provide us a significant volume of additional raw material over the contracted period and enable us to efficiently enhance our production capacity utilization and supply more plasma products to satisfy growing market demand.

***Other raw materials and packaging materials***

Other raw materials used in the production of our biopharmaceutical products include reagents and consumables such as filters and alcohol. The principal packaging materials we use include glass bottles for our injection products as well as external packaging and printed instructions for our biopharmaceutical products. We acquire our raw materials and packaging materials from our approved suppliers in China and overseas. We select our suppliers based on quality, consistency, price and delivery of the raw materials which they supply.

Our five largest suppliers for other raw materials and packaging materials in the aggregate accounted for approximately 42.5%, 36.2% and 30.2% of our total procurement for the years ended December 31, 2016, 2015 and 2014, respectively. We have not experienced any shortage of supply or significant quality issue with respect to any raw materials and packaging materials.

**Plasma Collection**

Our plasma collection stations purchase, collect, examine and deepfreeze plasma on behalf of Shandong Taibang and Guizhou Taibang and are subject to provincial health bureau's rules, regulations and specifications for quality, packaging and storage. Each station is only allowed to collect plasma from healthy donors within its respective districts and in accordance with a time table set by its respective parent company, Shandong Taibang or Guizhou Taibang. The plasma must be tested negative for HBsAb, HCV and HIV antibodies and the RPR test, contain ALT 25 units (ALT) and plasma protein 55g/l, and contain no virus pollution or visible erythrolysis, lipemia, macroscopic red blood cell or any other irregular finding. The plasma is packaged in 25 to 30 separate 600g bags in each box and then stored at a temperature of -20°C or lower within limited time after collection to ensure that it will congeal within six hours. Each bag is labeled with a computer-generated tracking code. Shandong Taibang and Guizhou Taibang are responsible for the overall technical and quality supervision of the plasma collection, packaging and storage at each plasma collection station.

**Sales, Marketing and Distribution**

Because all of our products are prescription drugs, we can only sell to hospitals and inoculation centers directly or through approved distributors. For 2016, 2015 and 2014, direct sales to hospitals and inoculation centers represented approximately 61.1%, 59.0% and 65.4%, respectively, of our total plasma products sales. Our five largest customers in the aggregate accounted for approximately 15.5%, 13.0% and 14.6% of our total sales for 2016, 2015 and 2014, respectively. Our largest customer accounted for approximately 5.4%, 4.0% and 4.2% of our total sales for 2016, 2015 and 2014, respectively.

We select our distributors through a rigorous process, which focuses on market leadership in the covered region, the degree of control we have over to which hospitals our products are sold (i.e. larger and higher tiered hospitals are preferred), and the level of access we have to our customers (i.e. greater access enables us to better track the sales of our products). As part of our effort to ensure the quality of our distributors, we also conduct due diligence to verify whether potential distributors have obtained necessary permits and licenses and facilities (such as cold storage) for the distribution of our biopharmaceutical products and assess their financial condition. Certain of our regional distributors are appointed on an exclusive basis within a specified geographic territory. Our supply contracts set out the quantity and price of products to be supplied by us. For distributors, our contracts also contain guidelines for the sale and distribution of our products, including restrictions on the geographical territory in which the products may be sold. We provide our distributors with training in relation to our products and on sales techniques. We generally require our distributors to pay in advance before we deliver products, with a few exceptions for a credit period of no longer than 60 days to major distributors in tier-one cities. For hospitals and clinics, we generally grant a credit period of no longer than 90 days, with exceptions to certain high credit-worthy customers of up to six months. For 2016, 2015 and 2014, we had not incurred any significant bad debts from our customers.

Our largest geographic market is Shandong Province, representing approximately 24.3%, 23.2% and 23.9% of our total sales for 2016, 2015 and 2014, respectively. Jiangsu Province is our second largest geographic market, representing 10.0%, 10.0% and 9.3% of our total sales for 2016, 2015 and 2014, respectively. In addition to Shandong Province and Guizhou Province, we also have sales presence in 28 other provinces, municipalities and autonomous regions.

As of December 31, 2016, our marketing and after-sales services department consisted of 114 employees.

We believe that due to the nature of our products, our competitiveness centers on product safety, steady supply, brand recognition, timely availability and pricing. As all of our products are prescription medicines, we are not allowed to advertise our products in the mass media. For 2016, 2015 and 2014, total sales and marketing expenses amounted to approximately $11.7 million, $10.0 million and $10.7 million, respectively, representing approximately 3.4%, 3.4% and 4.4%, respectively, of our total sales.

16

**Our Research and Development Efforts**

Each of Shandong Taibang and Guizhou Taibang has its own research and development department. All of our research and development researchers hold degrees in medicine, pharmacy, biology, biochemistry or other relevant fields. Our research and development departments are responsible for the development and registration of our products. We also cooperate with a number of leading institutions in China specializing in plasma products to strengthen our research and development capacity.

We employ a market driven approach to initiate research and development projects, including both product and production technique development. We believe that the key to our industry's developments is the safety of products and maximizing the yield per unit volume of plasma. Our research and development efforts are focused on the following areas:

- broaden the breadth and depth of our portfolio of plasma products;
- enhance the yield per unit volume of plasma through new fractionation techniques;
- maximize manufacturing efficiency and safety;
- promote product safety through implementation of new technologies; and
- refine production technology for existing products.

All the products we currently manufacture have been developed in-house. The following table outlines our research and development work in progress:

| **Products Currently in Development** | **Treatment/Use** | **Status of Product Development** | **Stage*** |
|---|---|---|---|
| Human fibrinogen | Treatment for lack of fibrinogen and increase human fibrinogen concentration. | Completed on-site inspection by the CFDA. Commercial production expected in the second half of 2017. | 4 |

| | | | |
|---|---|---|---|
| Immune Globulin Intravenous (Human), Caprylate/Chromatography Purified and 20 nm virus filtration | Treatment for original immunoglobulin deficiency; secondary immunoglobulin deficiency and auto-immune deficiency diseases. | Obtained approval for clinical trial by the CFDA. | 3 |
| Human Antithrombin III (concentration) | Treatment for (1) hereditary antithrombin III deficiency in connection with surgical or obstetrical procedures and (2) thromboembolism. | Obtained approval for clinical trial by the CFDA. | 3 |
| Human coagulation factor IX | Prevention and control of bleeding in patients who suffer from hemophilia B. | Obtained approval for clinical trial by the CFDA. | 3 |
| Human Cytomegalovirus Immunoglobulin | Prophylaxis and treatment of CMV infection, especially for the prevention of active virus replication for patients in immunosuppression, such as organ transplantation patients. | Obtained approval for clinical trial by the CFDA | 3 |
| Human Fibrin Sealant | Adjunct to hemostasis on patients undergoing surgery in case that traditional surgical techniques (such as suture, ligature or cautery) are ineffective or impractical. | Completed the official virus inactivation by the PRC National Institutes for Food and Drug Control. Completed the animal experiments for safety and effectiveness. | 1 |

* These stages refer to the stages in the regulatory approval process for our products described in "— Regulation."

For 2016, 2015 and 2014, total research and development expenses amounted to approximately $7.0 million, $6.0 million and $4.2 million, respectively, representing approximately 2.1%, 2.0% and 1.7%, respectively, of our total sales.

**Competition**

We face intense competition. There are both local and overseas pharmaceutical enterprises that engage in the manufacture and sale of potential substitutes or similar biopharmaceutical products as our products in China. These competitors may have more capital, better research and development resources, and stronger manufacturing and marketing capabilities than we do. In our industry, we compete based upon product quality, production cost, ability to produce a diverse range of products and logistical capabilities.

Our profitability may be adversely affected if competition intensifies, competitors reduce prices, regulators promulgate or strengthen regulations that have the effect of controlling the prices of our products, or competitors develop new products or product substitutes with comparable medicinal applications or therapeutic effects that are more effective or less costly than ours.

There are approximately 30 approved manufacturers of plasma products in China of which approximately 28 are currently in operation. Many of these manufacturers are essentially producing the same type of products that we produce, including human albumin and various types of immunoglobulin. We believe, however, that it is difficult for new manufacturers to enter into the industry due to current regulatory barrier. We believe that our major competitors in China include CNBG, Hualan, Shanghai RAAS Blood Products Co., Ltd., Sichuan Yuanda Shuyang Pharmaceutical Co., Ltd., Shanxi Kangbao Biological Product Co., Ltd., and Jiangxi Boya Bio Pharmaceutical Co., Ltd.

In addition, we also face competition from imported products where allowed. China became a member of the World Trade Organization in December 2001 and as a result imported biopharmaceutical products enjoy lower tariffs. Since 2009, China has experienced a substantial increase in volume of imported human albumin. If the import of human albumin continues to increase, we may face more fierce competition in the domestic human albumin market.

Based on our industry knowledge, we are among the top three plasma products manufacturer in China in terms of 2016 sales revenue. To solidify our market position, we have expanded our product portfolio to include coagulation factor products, such as factor VIII and human prothrombin complex concentrate, or PCC. For factor VIII, we obtained the manufacturing approval certificate and the GMP certification for production facility from the CFDA in 2012. For PCC, we obtained the manufacturing approval certificate in July 2013 and the GMP certification for the

production facility in March 2014.

We will continue to meet challenges and secure our market position by enhancing our existing products, introducing new products to meet customer demand, delivering quality products to our customers in a timely manner and maintaining our established industry reputation.

**Our Intellectual Property**

We held 59 issued patents and 10 pending patent applications in China for certain manufacturing processes and packing designs as of December 31, 2016. We also had eight registered trademarks in China as of December 31, 2016.

In addition, we had registered three domain names as of December 31, 2016, namely, *www.chinabiologic.com*, *www.ctbb.com.cn* and *www.taibanggz.com*.

**Regulation**

Set forth below is a summary of the major PRC regulations relating to our business.

Due to the nature of our products, we are supervised by various levels of the NHFPC and/or CFDA. Such supervision includes the safety standards regulating our raw material supplies (mainly plasma), our manufacturing process and our finished products.

We are also subject to other PRC regulations, including those relating to taxation, foreign currency exchange and dividend distributions.

***Plasma collection***

Plasma collection stations are commonly used to collect plasma in China and substantially all plasma donations for commercialized plasma products are made at plasma collection stations. Plasma donation means that donors give only plasma but not the other blood components such as platelets, red cells and infection-fighting white cells. In China, current regulations only allow an individual donor to donate plasma in 14-day intervals, with a maximum quantity of 580ml (or about 600 gram) per donation.

The following are the general regulatory requirements to establish a plasma collection station in China:

- meet the overall plan in terms of the total number, distribution, and operational scale of plasma collection stations;
- have the required professional health care technicians to operate a station;
- have the facility and a hygienic environment to operate a station;
- have an identification system to identify donors;

- have the equipment to operate a station; and

- have the equipment and quality control technicians to ensure the quality of the plasma collected.

Plasma collection stations were historically owned and managed by the PRC health authorities. In March 2006, the NHFPC and other eight central governmental departments of the PRC State Council promulgated the Measures for the Reform of Blood Collection Stations whereby the ownership and management of the plasma collection stations are required to be transferred to plasma-based biopharmaceutical companies while the regulatory supervision and administrative control remain with the government. As a result, all plasma collection stations are now having direct supply relationship with their parent fractionation facilities.

Set out below are some of the safety features at China's plasma collection stations:

- Plasma collection stations can only source plasma from donors that are the local residents within the assigned districts approved by the provincial health authorities.

- Plasma collection stations must perform a health check on the donor. Once the donor passes the health check, a "donor permit" is issued to the donor. The standards of the health check are established by the health authorities at the PRC State Council level.

- The designing and printing of the "donor permit" is administrated by the provincial health authorities, autonomous region or municipality government, as the case maybe. The "donor permit" cannot be altered, copied or assigned.

- Before donors can donate plasma, the station must verify their identities and the validity of their "donor permits." The donors must pass the verification procedures before they are given a health check and blood test. For those donors who have passed the verification, health check and blood test and whose plasma were donated according to prescribed procedures, the station will set up a record.

- Collected plasma which passes quality testing cannot be used to produce plasma products until its donor donates again after a 90-day quarantine period and the subsequently donated plasma passes quality testing as well.

- All plasma collection stations are subject to the regulations on the prevention of communicable diseases. They must strictly adhere to the sanitary requirements and reporting procedures in the event of an epidemic situation.

The operation of plasma collection stations is subject to stringent regulations by the PRC government. We estimate that there were approximately 209 plasma collection stations in operation in China as of December 31, 2016.

***Importation of plasma products***

According to current PRC regulations, except for human albumin and recombinant factor VIII products, all the plasma products are banned from importation into China.

***Production of plasma products***

The manufacture and sale of plasma products are subject to stringent regulations by the PRC government. Under PRC law, each variation in the packaging, dosage and concentration of medical products requires separate registration and approval by the CFDA before it may be commercially available for sale. For example, among our human albumin products, only human albumin 20%/10ml, 20%/25ml, 20%/50ml, 10%/100ml, 10%/20ml, 10%/50ml, 25%/50ml and 20%/50ml (10g, from factor IV) products have been approved and are commercially available. All references in this report to our manufacture and sale of human albumin relate to our approved human albumin products.

The table below illustrates the PRC approval process for the manufacture and sale of new medicines:

| Stage | | Activities |
|---|---|---|
| 1 | Pre-clinical Research | The pre-clinical research stage mainly involves the following steps:<br>· initiate the research project, study the project feasibility and develop a plan for testing and producing the new medicine;<br>· develop the scope and the techniques for testing the new medicine in the laboratory;<br>· develop laboratory-scale manufacturing process for the new medicine;<br>· develop the manufacturing process for the new medicine on an expanded basis in the workshop; and<br>· develop the virus inactivation process/techniques, engage qualified institution to assess the virus inactivation process/techniques, and report the related documents to the related government authority for re-assessment. |

20

| | | |
|---|---|---|
| 2 | Clinical trial application | The clinical trial application stage mainly involves the following steps:<br><br>· submit required sample products and documents to The PFDA. The PFDA will perform an on-site examination on the documents and equipment, and then transfer all the required materials to the CFDA, who will further review the documents and test the sample products;<br><br>· submit a draft clinical trial program to the CFDA for the application of the clinical trial; and<br><br>· obtain approval of the clinical trial. |
| 3 | Clinical trials | Clinical trials range from Phase I to IV:<br><br>· Phase I: preliminary trial of clinical pharmacology and human safety evaluation studies. The primary objective is to observe the pharmacokinetics and the tolerance level of the human body to the new medicine as a basis for ascertaining the appropriate delivery methods or dosage.<br><br>· Phase II: preliminary exploration on the therapeutic efficacy. The purpose is to assess preliminarily the efficacy and safety of the new medicine on patients and to provide the basis for designing dosage tests in phase III.<br><br>· Phase III: confirm the therapeutic efficacy. The objective is to further verify the efficacy and safety of the new medicine on patients, to evaluate the benefits and risks and finally to provide sufficient experimental evidence to support the registration application of the new medicine.<br><br>· Phase VI: application research conducted after the launch of a new medicine. The objective is to observe the efficacy and adverse reaction of the new medicine under extensive use, to perform an evaluation of the benefits and risks of the application among ordinary or special group of patients, and to ascertain and optimize the appropriate dosage and formula for application. |
| 4 | Registration | The registration stage mainly involves the following steps:<br><br>· submit documents related to pre-clinical and clinical trials to the PFDA, which will perform on-site inspection on the clinical trials and then transfer the related documents to the CFDA for further review;<br><br>· receive on-site inspection by the CFDA on three consecutive sample productions at the production facilities;<br><br>· obtain the manufacturing approval certificate following the public notification period; and<br><br>· obtain the GMP certificate following the public notification period. |
| 5 | Production and approval for sale | The production and approval for sale stage mainly involves the following steps:<br><br>· produce the approved products in qualified facilities with requisite GMP certificates; |

- submit documentation and samples of mass production products to the CFDA for inspection; and
- obtain qualification certificate to mass production products for sale on a batch-by-batch basis.

***New GMP standard***

All of our production facilities are required to obtain GMP certificates for their pharmaceutical production activities. In February 2011, the CFDA enacted the new GMP standard, which has significantly increased standards for quality control, documentation, and overall manufacturing processes of blood products, vaccines, injections and other sterile pharmaceutical products. The new GMP standard requires us to, among others, maintain and operate a comprehensive and effective product quality control system throughout the production process. In addition, it imposes higher standards for our production facilities. The new GMP standard became applicable to all of our production facilities at the end of 2013. Following the upgrades on our production facilities, we obtained the renewed GMP certificate for Shandong Taibang and Guizhou Taibang in June 2013 and March 2014, respectively. Huitian obtained the GMP certificate from the CFDA for its new plasma production facility in February 2016 and commenced commercial production thereafter.

***Pricing***

Prior to June 1, 2015, retail prices of certain pharmaceutical products were subject to various price-related regulations. According to the "Regulations on Controlling Blood Products" promulgated by the PRC State Council in 1996, regional offices of the Pricing Bureau and the NHFPC had the authority to regulate retail prices for controlled plasma products. Effective on June 1, 2015, the NDRC removed the retail price ceilings for all drug products (except for anesthetics and category I antipsychotics) in China. See "Risk Factors—Risks Relating to Our Business— We do not have discretion to increase the prices of certain of our products, which are subject to the regional government tendering mechanism."

After the pricing ceiling was removed, the pricing of pharmaceutical products are mainly subject to the provincial tendering mechanism. In 2016, 31 provinces/regions/municipalities in China initiated a new round of tenders with different tender rules, including the followings trends: 1) a combination of Essential Drug List ("EDL") tenders and non-EDL tenders; 2) a dynamic pricing system across different provinces; 3) volume-based procurement; 4) different tender mechanisms based on product types; 5) various implementation timelines; 6) group purchase organization ("GPO") in certain regions. For our plasma products, tetanus immunoglobulin, Factor VIII and PCC are included on the life-saving EDL in most Chinese provinces, for which drug procurement was prioritized and the hospitals are allowed to directly purchase drugs from manufacturers through an on-line procurement process. For products like albumin and IVIG, most provinces adopted regular tendering process that requires manufacturers to compete with other suppliers in both quality and price. To date, most provinces have not completed the tendering. We expect that most of the provinces, which accounted for the majority of our product sales, will finish their tenders in the first half of 2017. Even after the official tendering, there might be post-tender negotiations. Tenders across different provinces with on-line price disclosure will help narrow the differences in tenders among different provinces and make the practice more uniform across the country, which will increase the price pressure since provinces intend to benchmark to the lowest nationwide prices.

In addition, retail prices of pharmaceutical products fully or partially covered under the national insurance system are also affected by the reimbursement ceilings set out in the National Drug Reimbursement List, or the NDRL, which may be adjusted by the NDRC from time to time. The new edition of NDRL was launched on February 21, 2017. The hospitals as participants of the national insurance program are pressured not to sell the products to patients at prices substantially exceeding such reimbursement ceilings. This in turn puts pressure on the manufacturers' pricing of the relevant products. Seven of our principal products (namely human albumin, IVIG, human rabies immunoglobulin, human tetanus immunoglobulin, factor VIII, PCC and human immunoglobulin) are included in the NDRL. Two other principal products (namely placenta polypeptide and human hepatitis B immunoglobulin), although not included in the NDRL, are also subject to tender and drug reimburse list in certain provinces.

***Taxation***

On March 16, 2007, the National People's Congress of China passed the Enterprise Income Tax Law, or the EIT Law, and on November 28, 2007, the PRC State Council passed its implementation rules, which became effective on January 1, 2008. The EIT Law and its implementation rules impose a unified EIT of 25.0% on all domestic-invested enterprises and foreign investment enterprises, or FIEs, unless they qualify under certain limited exceptions.

In addition to the changes to the tax structure, under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a resident enterprise and will normally be subject to an EIT of 25.0% on its global income. The implementation rules define the term "de facto management bodies" as "an establishment that exercises, in substance, overall management and control over, among others, the production, business, recruitment and accounting aspects of a Chinese enterprise." If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, then our global income will be subject to PRC income tax of 25%. For detailed discussion of PRC tax issues related to resident enterprise status, see "Risk Factors—Risks Relating to Doing Business in China—Under the Enterprise Income Tax Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders."

The EIT Law confirmed that qualified high and new technology enterprises may enjoy a preferential income tax rate of 15%, instead of the uniform enterprise income tax rate of 25%. The PRC Ministry of Science and Technology, the PRC Ministry of Finance and the State Administration of Taxation, or SAT, jointly promulgated the Measures for Determination of High and New Technology Enterprise on August 14, 2008 to provide the detailed rules for the examination of qualifications and approval of certificates for high and new technology enterprises. Each high and new technology enterprise certificate is valid for three years. Shandong Taibang was recognized by Shandong provincial government as a high and new technology enterprise in 2008 and renewed the certificate in 2011, as a result of which Shandong Taibang was entitled to enjoy a preferential income tax rate of 15.0% until the end of 2013. In October 2014, Shandong Taibang renewed the high and new technology enterprise certificate, which entitled it to enjoy a preferential income tax rate of 15.0% for a period of three years from 2014 to 2016. Shandong Taibang will apply for a renewal for an additional three years from 2017 to 2019 upon the expiration of such certificate.

According to Notice on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy jointly promulgated by the PRC Ministry of Finance, the PRC General Administration of Customs and SAT on July 27, 2011, enterprises located in the western region of China which have at least 70.0% of their income from the businesses falling within the Category of Encouraged Industries in western region of China may enjoy a preferential income tax of 15.0% within the period from January 1, 2011 to December 31, 2020. Guizhou Taibang, being a qualified enterprise located in the western region of China, enjoys a preferential income tax rate of 15.0% effective from January 1, 2011 to December 31, 2020.

***Foreign currency exchange***

The principal regulation governing foreign currency exchange in China is the Foreign Currency Administration Rules (1996), as amended (2008). Under these rules, RMB is freely convertible for current account items, such as trade and service-related foreign exchange transactions, but not for capital account items, such as direct investment, loan or investment in securities outside China unless the prior approval of, and/or registration with, the State Administration of Foreign Exchange, or SAFE, or its local counterparts (as the case may be) is obtained.

Pursuant to the Foreign Currency Administration Rules, FIEs in China may purchase foreign currency without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, if a foreign company acquires a company in China, the acquired company will also become an FIE. However, the relevant PRC government authorities may limit or eliminate the ability of FIEs to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions for direct investment, loan and investment in securities outside China are still subject to limitations and require approvals from, and/or registration with, SAFE.

***Dividend distributions***

Under applicable PRC regulations, FIEs in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, an FIE in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reach 50% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of an FIE also has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation.

In addition, under the EIT law, the Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates, promulgated on January 29, 2008, the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, or the Double Taxation Treaty, which became effective on December 8, 2006, and the Notice of the State Administration of Taxation Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties, which became effective on October 27, 2009, dividends from our PRC subsidiary, Taibang Biotech (Shandong) Co., Ltd., paid to us through our Hong Kong subsidiary, Taibang Holdings, may be subject to a withholding tax at a rate of 10%, or at a rate of 5% if Taibang Holdings is considered a “beneficial owner” that is generally engaged in substantial business activities in Hong Kong and entitled to treaty benefits under the Double Taxation Treaty.

**Our Employees**

As of December 31, 2016, we employed 1,799 full-time employees, of which 48 were seconded to us by Shandong Institute of Biological Products, or the Shandong Institute.

We believe we are in material compliance with all applicable labor and safety laws and regulations in China. We participate in various employee benefit plans that are organized by municipal and provincial governments, including

retirement, medical, unemployment, work injury and maternity benefit plans for our managerial and key employees. In addition, we provide short term insurance plans for certain employees while on duty to cover work related accidents. We believe that we maintain a satisfactory working relationship with our employees and we have not experienced any significant labor disputes or any difficulties in recruiting staff for our operations.

**ITEM 1A. RISK FACTORS.**

*An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should read the section entitled "Special Note Regarding Forward Looking Statements" above for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this report.*

**RISKS RELATING TO OUR BUSINESS**

***The biopharmaceutical industry in China is strictly regulated and changes in such regulations, including banning or limiting plasma products, may have a material adverse effect on our operations, revenues and profitability.***

The biopharmaceutical industry in China is strictly regulated by the government. The regulatory regime regulates the process of administrative approval of medicine and its production, and includes laws and regulations such as the PRC Pharmaceutical Law, the Implementation Rules on the PRC Pharmaceutical Law and the Regulations on the Administration of Blood Products. These laws and regulations require entities producing plasma products to comply strictly with certain hygienic standards and specifications promulgated by the government. In the event that a plasma product is discovered to be not compliant with the government's hygienic standards and specifications, the health department may revoke its approval of such plasma product, or otherwise limit the use of such plasma product. Changes in these laws and regulations, including banning or limiting plasma products, could have a material adverse effect on our operations, revenues and profitability.

***If the biopharmaceutical products we sell are found to be contaminated, our operation, revenues and profitability would be severely and adversely affected and we may be subject to civil and criminal liabilities.***

The principal raw material of our existing and planned biopharmaceutical products is human source plasma, which, due to its unique nature, is subject to risks of contaminations and blood-borne diseases. In addition, current technology cannot eliminate entirely the risk of biological hazards inherent in plasma that are not currently known or for which screens are not currently commercially available, which could result in a widespread epidemic due to blood infusion. If any of our human donors is infected with diseases, then the plasma from such donor may be infected. Although we pre-screen all donors in order to ensure that they are not infected with HIV and hepatitis C and have not contracted liver disease, screening tests may fail to identify and exclude from our supply the plasma from infected donors due to technical limitation and human errors. In addition, we purchase source plasma and plasma pastes from Xinjiang Deyuan. Although we perform screening tests on the purchased plasma before putting it into production, we may fail to identify contaminated plasma from Xinjiang Deyuan due to the technical limitation and/or human errors. If any contaminated plasma is not appropriately screened out, our entire plasma supply for the relevant plasma collection station may become contaminated. If the plasma from our collection or purchased from Xinjiang Deyuan is contaminated and we sell biopharmaceutical products made from such plasma, we could be subject to civil liability from suits brought by consumers. Further, we may lose our registration and have criminal liability if we are found by the government to have been criminally negligent. If this occurs, our business, prospects, results of operations and financial condition will be materially and adversely affected.

***If our supply of quality plasma is interrupted, our results of operations and profitability will be adversely affected. In addition, if we experience any shortage of raw materials in the future, we may be unable to proceed with our***

***long-term business plan and we may be forced to curtail or cease our operations or further business expansion.***

The production of plasma products relies on the supply of plasma of suitable quality. For 2016, 2015 and 2014, the cost of plasma we used for production accounted for approximately 81.5%, 82.3% and 80.1%, respectively, of total production cost. The supply and market prices of plasma may be adversely affected by factors such as heightened or new regulatory restrictions, higher living standards or outbreaks of diseases, any of which would affect our costs of production. We may not be able to pass on any resulting increase in costs to our customers and therefore any substantial fluctuation in supply or market prices of plasma may adversely affect our results of operations and profitability.

Our production volume, capacity utilization and future expansion are affected by a contraction in the supply of raw materials, especially plasma. In addition to the plasma collected from our own plasma collection stations, we also outsource plasma from Xinjiang Deyuan pursuant to a cooperation agreement entered into in August 2015. Under this cooperation agreement, Xinjiang Deyuan agreed to sell to us no less than 500 tonnes of source plasma in batches over the next three years. We cannot assure you, however, that Xinjiang Deyuan will always deliver the source plasma on schedule or such plasma will always pass our quality inspection. If we experience any shortage of plasma supply or fail to secure sufficient plasma supply for our production, we may not be able to fully utilize our production capacity or proceed with our expansion plans.

***We may not be able to carry on our business if we lose any of the required permits and licenses.***

We and Huitian are required to obtain from various PRC governmental authorities certain permits and licenses, including permits for pharmaceutical manufacturing and GMP certificates for each of our plants, as well as pharmaceutical distribution permits.

Each of the production facilities operated by us and Huitian is required to obtain a GMP certificate for its pharmaceutical production activities. In February 2011, the CFDA enacted the new GMP standard, which has significantly increased standards for quality control, documentation, and overall manufacturing processes that applied to each of the production facilities operated by us and Huitian as of December 31, 2013. In order for us to meet the new GMP standard, we have upgraded the related production facilities of Shandong Taibang and Guizhou Taibang, which obtained the renewed GMP certificates and resumed commercial production of plasma products in June 2013 and March 2014, respectively. Huitian suspended its production in late 2013 and obtained the GMP certification for its new plasma production facility in Xi’an in February 2016 and commenced commercial production thereafter.

We have also obtained permits and licenses and GMP certificates required for the manufacturing and sales of our products. Our permits and licenses are subject to periodic renewal and/or reassessment by the relevant PRC governmental authorities, and the compliance standards may be subject to change from time to time. We intend to apply for the renewal of such permits and licenses when required by applicable laws and regulations. However, we cannot guarantee that we may renew such permits and licenses in a timely manner, or at all. If we are unable to renew our permits and licenses or fail an inspection which would impair our permits and licenses, our business, prospects, financial condition and results of operations may be materially and adversely affected.

In addition, any changes in compliance standards, or any new laws or regulations that may prohibit or restrict our business activities or increase our compliance costs may adversely affect our operations and profitability. For example, we expect our on-going compliance cost to increase under the new GMP standard as compared to the previous standard. As a result, our business and financial condition may be materially and adversely affected.

26

***We may fail to obtain, maintain or renew required licenses and permits for our plasma collection stations. In addition, if we fail to adequately monitor our plasma collection stations, follow proper procedures or comply with safety requirements, we may be subject to sanctions by the government, civil and criminal liability.***

We currently operate 12 plasma collection stations (including one branch collection facility) through Shandong Taibang and two plasma collection stations through Guizhou Taibang. Huitian, a company in which we hold a minority interest, operates three plasma collection stations in Shaanxi Province. To enable growth in our sales, we are seeking opportunities to build more plasma collection stations. In October 2014, we received the regulatory approval to build two new plasma collection stations in Xinglong and Daming Counties, respectively, in Hebei Province. In June 2016, we received the operating permit for and commenced operations at our new plasma collection station in Xinglong County. In September 2015, we received the regulatory approval to build a new branch collection facility to operate under our Ningyang plasma collection station in Shandong Province. We obtained the operating permit for this new branch collection facility in October 2015 and commenced plasma collection thereafter. In December 2016, we received the regulatory approvals to build a new plasma collection station in Ju County in Shandong Province and to build a branch collection facility in Feicheng County to operate under our Ningyang plasma collection station in Shandong Province. The operation of plasma collection stations, however, is highly regulated and we cannot assure you that we will be able to obtain, maintain and renew the required licenses and permits for existing and new plasma collection stations in desirable locations or in a timely manner, if at all. For example, we have experienced difficulties and delays in obtaining and/or renewing the business licenses and collection permits for a new plasma collection station in Pubei, Guangxi Province and five existing plasma collection stations we acquired in Guizhou Province. While we monitor our plasma intake procedures through frequent unscheduled inspections of our stations, there remain risks that our plasma collection stations may fail to comply with hygiene and procedural requirements for plasma screening, collection, storage and tracking. If we fail to comply with any of these requirements, we may lose our plasma collection permits or incur criminal liability if we are found by the government to have been criminally negligent. In the case of plasma contamination, we may also be subject to civil liability from suits brought by consumers of our biopharmaceutical products. In addition, failure to comply with hygiene and procedural requirements may cause harm to donors, who may contract diseases from other donors, among other things. Any such incident may subject us to government sanctions, civil or criminal liabilities. If any of these events were to occur, our business, reputation and prospects would be materially and adversely affected.

***Our operations, sales, profit and cash flow will be adversely affected if our plasma products fail to pass inspection in a timely manner.***

The PRC government inspects each batch of our plasma products before we can ship it to our customers. The CFDA has quality standards which require the regulators to assess, among other things, the appearance, packing capacity, thermal stability, pH value, protein content and purity of the product. We must strictly comply with relevant rules and regulations throughout the lifecycle of each product including plasma collection, delivery, production and packaging. Government regulators typically take more than a month to inspect one batch of plasma products. The process begins when the regulator randomly selects samples of our products and delivers them to the PRC National Institute for the Control of Pharmaceutical and Biological Products, or NICBPB, for testing, and the process ends when the products are given final approval by NICBPB. In the event that the regulators delay the approval of or reject our products or

change the requirements such that we are unable to comply, our operations, sales, profit and cash flow will be adversely affected.

***Current or worsening economic conditions may adversely affect our business and financial condition.***

We currently generate sufficient operating cash flows which provide us with significant working capital. However, any uncertainty arising out of economic conditions may affect our ability to manage normal relationships with our customers, suppliers and creditors and adversely affect our results of operations, cash flows and financial condition, or those of our customers, suppliers and creditors. Current or worsening economic conditions may adversely affect the ability of our customers to pay for our products, and curtail their spending on healthcare generally. This could result in a decrease in the demand for our products, declining cash flows, longer sales cycles, slower adoption of new technologies and increased price competition. These conditions may also adversely affect certain of our suppliers, which could cause a disruption in our production capacities. Such reductions and disruptions could have a material adverse effect on our business operations.

***Our inability to successfully research and develop new biopharmaceutical products could have an adverse effect on our future growth.***

We believe that the successful development of biopharmaceutical products can be affected by many factors. Products that appear to be promising in the early phases of research and development may fail to be commercialized for various reasons, including the failure to obtain the necessary regulatory approvals. In addition, the research and development cycle for any new medicine is a relatively lengthy process. In our experience, the process of conducting research and various tests on new products before obtaining a new medicine certificate from the CFDA and subsequent procedures may take approximately three to five years. We cannot assure you that our future research and development projects will be successful or that they will be completed within the anticipated time frame or budget. Also, we cannot guarantee that we will receive the necessary approvals from relevant authorities for the production of our newly developed products. Even if such products could be successfully commercialized, we cannot assure you that they will be accepted by the market as anticipated.

As mandated by a CFDA notice promulgated on July 22, 2015, all pharmaceutical enterprises that are in the process of registration application are required to inspect the data from the clinical trials and report the inspection results to the CFDA and to withdraw the registration application should any deficiency surface from such inspection.

Since July 22, 2015, 1,622 manufacturing certificates have been included in the self-inspection list, among whichN7% submitted the data, 20% withdrew, and 12% asked to waive the clinical trials.

The three typical reasons for application withdrawals include:

- insufficiency of application documents;
- quality issue uncovered from trial data;
- voluntary withdrawal to improve the quality of clinical trial data.

We withdrew the registration application for human hepatitis B immunoglobulin (pH4) for intravenous injection as a result of our self-inspection in December 2015 with the aim to improve the quality of clinical trial data.

Given the uncovered quality issues and rising costs for clinical trials, certain small drug manufacturers may face increased difficulty in submitting new registration applications, which could accelerate the CFDA's overall review process. We cannot assure you, however, that our registration applications will benefit from this new CFDA practice. Our new product launches might be delayed or aborted due to our withdrawal in December 2015 and any forced or voluntary withdrawal of our other products in the process of registration application in the future should quality issues be uncovered from the inspection of the relevant clinical trial data. Such delay or abortion could have a material adverse effect on our results of operations, financial condition and prospects.

***We do not have discretion to increase the prices of certain of our products, which are subject to the regional government tendering mechanism.***

Prices of certain pharmaceutical products were subject to various price-related regulations. Effective on June 1, 2015, the NDRC removed the retail price ceilings for all drug products (except for anesthetics and category I antipsychotics) in China. Even after the NDRC removed the price ceiling, our pricing is still subject to provincial and local tendering mechanisms where we compete with other manufacturers in the price of plasma products. In 2016, 31 provinces/regions/municipalities in China initiated a new round of tenders. For our plasma products, tetanus immunoglobulin, Factor VIII and PCC are included on the life-saving EDL in most Chinese provinces, for which drug procurement was prioritized and the hospitals are allowed to directly purchase drugs from manufacturers through an on-line procurement process. For products like albumin and IVIG, most provinces adopted regular tendering process that requires manufacturers to compete with other suppliers in both quality and price. To date, most provinces have not completed the tendering. We expect that most of the provinces, which accounted for the majority of our product sales, will finish their tenders in the first half of 2017. Even after the official tendering, there might be post-tender negotiations. Tenders across different provinces with on-line price disclosure will help narrow the differences in tenders among different provinces and make the practice more uniform across the country, which will increase the price pressure since provinces intend to benchmark to the lowest nationwide prices.

In addition, retail prices of pharmaceutical products fully or partially covered under the national insurance system are also affected by the reimbursement ceilings set out in the NDRL, which may be adjusted by the NDRC from time to time. The new edition of NDRL was launched on February 21, 2017. The hospitals as participants of the national insurance program are pressured not to sell the products to patients at prices substantially exceeding such reimbursement ceilings. This in turn puts pressure on the manufacturers' pricing of the relevant products. Seven of our principal products (namely human albumin, IVIG, human rabies immunoglobulin, human tetanus immunoglobulin, factor VIII, PCC and human immunoglobulin) are included in the NDRL and are affected by the reimbursement ceilings. Two other principal products (namely placenta polypeptide and human hepatitis B immunoglobulin), although not included in the NDRL, are also subject to tender price ceilings in certain PRC provinces. See "Business — Regulation" for further details.

Because of the tender process and the reimbursement ceilings for certain of our products, we do not have discretion to increase the prices we charge our customers and distributors for such products above certain levels. We may not be able to increase our prices even if the cost of manufacturing our products increases as a result of increases in the cost of raw materials or other costs, and, our revenue and profitability would be adversely affected. If the margin of any of these products becomes prohibitively low, we may stop manufacturing such product, which may further adversely affect our revenue and profitability.

***Our ability to increase the prices of our products is limited by general market conditions and intense competition.***

Our pricing practices may also be affected by the general market conditions and intense competition. To the extent the demand for our products declines or competition intensifies, we may decide to respond by reducing our prices in order to capture the declining market demand and maintain the competitiveness of our products. See also "—We are subject to intense competition and may encounter increased competition from both local and overseas pharmaceutical enterprises if PRC regulators relax the approval process for plasma products or international trade restrictions. A change in our competitive environment could adversely affect our profitability and prospects" below. If the margin of any of our products becomes prohibitively low, we may stop manufacturing such product, which may further adversely affect our revenue and profitability.

***If reimbursement or other payment for our current or future products is reduced or modified in the PRC, including through the implementation of government-sponsored healthcare reform or other similar actions, cost containment measures, or changes to policies with respect to pricing, then our business could suffer.***

Sales of our products depend, in part, on the extent to which the costs of our products are paid by public payers. These public payers mainly consist of local governments which reimburse the medicines covered by the NIC. The local governments update the NIC on a regularly basis and may remove certain medicines from the NIC. These public payers may also reduce the reimbursement amounts for certain medicines under the NIC. These measures by local governments may limit, reduce or eliminate payments for our products and adversely affect both pricing flexibility and demand for our products.

Legislation and regulations affecting reimbursement for our products may change at any time and in ways that may be adverse to us. We cannot predict the impact of these pressures and initiatives, or any negative effects of any additional regulations that may affect our business.

***Some of our owned or leased properties have title defects or non-compliance, which could adversely affect our business operations.***

Some of our owned or leased properties have title defects or non-compliance. For example, we use properties built on collectively owned rural land for one of our plasma collection stations. We are also in the process of obtaining the property ownership certificate for another one of our plasma collection stations. Although such title defects and non-compliance have not adversely affected our business operations, we cannot assure you that we will be able to rectify such defects and non-compliance in a timely manner or at reasonable costs, if at all. For example, under PRC laws, collectively owned rural land may not be used for commercial purposes and we may be required to vacate and seek other space to house our collection facilities. For the collection station built on collectively owned rural land, under the lease agreement for the collectively owned rural land among us, the local government and the economic collective which owns the land, the economic collective is required to assist us in securing legal rights to use such land. If the economic collective fails to perform its obligations under the lease agreement, or the lease agreement is deemed to be void, voidable or otherwise unenforceable, or if ownership disputes or claims regarding the land otherwise arise, we may be required to relocate our collection station. Any disputes or claims relating to our owned or leased properties or land or any efforts in securing alternative sites and properties could divert our resources and management’s attention from our regular business operations. In addition, we may not be able to secure alternative sites and properties, if required, in a timely manner or at reasonable costs, which could adversely affect our business operations.

***Our financial position and operations may be materially and adversely affected if our product liability insurance does not sufficiently cover our liabilities.***

Under current PRC laws, manufacturers and vendors of defective products in China may incur liability for loss and injury caused by such products. Pursuant to the General Principles of the Civil Law of the PRC, or the PRC Civil Law, which became effective in 1987, a defective product that causes property damage or physical injury to any person may subject the manufacturer or vendor of such product to civil liability.

The Product Quality Law of the PRC, or the Product Quality Law, was enacted in 1993 and revised in 2000. The Product Quality Law was enacted to protect the rights and interests of end-users and consumers and to strengthen the supervision and control of the quality of products. Under the Product Quality Law, manufacturers who produce defective products may be subject to fines and production suspension, and in severe cases, be subject to criminal liability and may have their business licenses revoked.

The PRC Law on the Protection of the Rights and Interests of Consumers, or the Consumers' Rights Law, was enacted in 1993 to further protect the legal rights and interests of consumers in connection with the purchase or use of goods and services. All businesses, including our business, must observe and comply with the Consumers' Rights Law.

The Tort Liability Law of the PRC was enacted in December 2009, which imposes liability on manufacturers for damages caused by defects in their products. If the defects are caused by third parties such as transporters or storekeepers, manufactures may be entitled to claim for indemnification or contribution from such third parties for making compensation to the consumers.

We maintain two product liability insurance policies for sales in China for Shandong Taibang and Guizhou Taibang's products in the amount of $2.9 million (RMB20 million) each. If our products are found to be defective and our insurance coverage is insufficient to cover a successful claim against us, our financial position and operations may be materially and adversely affected.

***Product liability claims or product recalls involving our products could have a material adverse effect on our business.***

Our business exposes us to the risk of product liability claims that are inherent in the manufacturing, distribution and sale of plasma products. Plasma is a biological substance that is capable of transmitting viruses and pathogens, whether known or unknown. Therefore, our plasma and plasma products, if not properly collected, tested, pathogen-inactivated, processed, stored or transported, could cause serious disease and possibly death to patients. Further, there are viral and other infections of plasma which may escape detection using current testing methods and which are not susceptible to inactivation methods. Any infection of disease by persons using our products could result in claims against us. Since our establishment in 2002, we have been subject to four lawsuits filed by patients who were treated with our products and received blood and/or plasma transfusions. In three of these cases, we were ordered to contribute a portion of the compensation for the patients even though the courts did not find that our products were defective or caused the patients' illness. The required contribution by us was immaterial in these three cases. The fourth case is pending in an ongoing litigation, which we are vigorously defending. We cannot assure you that there will be no future claims against us or that we will always succeed in defending against such claims. Furthermore, the presence of a defect in a product could require us to carry out a recall of such product.

A product liability claim, regardless of merit or eventual outcome, or a product recall could result in substantial financial losses, civil and criminal liabilities, administrative sanctions, revocation of business and product permits and licenses, negative reputational repercussions and an inability to retain customers. If our products are found to be defective and our insurance coverage is insufficient to cover a successful claim against us, our financial position and operations may be materially and adversely affected.

***We are subject to intense competition and may encounter increased competition from both local and overseas pharmaceutical enterprises if PRC regulators relax the approval process for plasma products or international trade restrictions. A change in our competitive environment could adversely affect our profitability and prospects.***

We face intense competition from local and foreign entities that manufacture and sell products that compete with ours in China. These competitors may have more capital, better research and development resources, expanded manufacturing and marketing capabilities and more experience than we do. The plasma-based biopharmaceutical manufacturing industry in China is highly regulated, and although we believe that compliance with the regulatory requirements pose a competitive barrier to enter into the Chinese market, over time, however, there may be new entrants. If the government relaxes these restrictions and allows more competitors to enter into the market, these competitors may have more capital, better research and development resources, more manufacturing and marketing capability and experience than us. Our operating results and financial condition may be adversely affected if competition intensifies, competitors reduce prices to gain market share, or competitors develop new products having comparable medicinal applications or therapeutic effects which are more effective or less costly than ours.

In addition, we also face competition from imported products. Since 2009, there has been a substantial increase in volume of imported human albumin in China, which competes in domestic human albumin market. In addition, we compete with foreign biopharmaceutical manufacturers that set up production facilities in China and compete directly with us. The increased supply of both domestic and foreign biopharmaceutical products in China may result in lower sales or lower prices for our products. We cannot assure you that we will remain competitive or that our profitability and prospects will not be adversely affected.

***We depend heavily on key personnel, and turnover of key employees and senior management could harm our business.***

Our success, to a certain extent, is attributable to the expertise and experience of our senior management and key research and technical personnel who carry out key functions in our operation. If we lose the service of any of our senior management or key research or technical personnel or fail to attract additional personnel with suitable experience and qualification, our business operations and research capability may be adversely affected.

***We have a secondment agreement with the Shandong Institute, which is expected to terminate upon its future privatization, for certain of our employees. If the secondment agreement is breached or terminated, it could have an adverse effect on our operations and on our financial results.***

Shandong Institute provided us with 48 of our employees, including certain key management personnel, out of our total of approximately 1,799 employees as of December 31, 2016, pursuant to a secondment agreement dated October 28, 2002, between Shandong Taibang and the Shandong Institute. Pursuant to the secondment agreement, we are responsible for the salaries of these employees, as well as for their social benefits such as insurance. Our secondment agreement with the Shandong Institute will expire on the earlier of October 2032 or the privatization of the Shandong Institute, which was originally scheduled to occur before the end of 2008. However, the privatization of the Shandong Institute has been delayed indefinitely due to delay by the Shandong Department of Health in implementing the privatization plan. Upon expiration or termination of the secondment agreement, we plan to hire the seconded employees directly. However, we cannot assure you that all of the employees will accept our employment offers at that time. Guangli Pang, Shandong Taibang's chief executive officer is employed through the secondment agreement. Although none of our seconded employees have indicated that they do not plan to continue working for us after the privatization, if the secondment agreement is terminated or expires and we are unable to hire those employees or their replacements on time, our operations, as well as our financial results, may be materially and adversely affected.

***Future acquisitions may have an adverse effect on our ability to manage our business.***

Selective acquisitions form part of our strategy to further expand our business. If we are presented with appropriate opportunities, we may acquire additional companies, products or technologies. Future acquisitions and the subsequent integration of new companies into ours would require significant attention from our management. The diversion of our management's attention and any difficulties encountered in any integration process could have an adverse effect on our ability to manage our business. Future acquisitions would expose us to potential risks, including risks associated with the integration of new operations, technologies and personnel, unforeseen or hidden liabilities, the diversion of resources from our existing businesses and technologies, the inability to generate sufficient revenue to offset the costs and expenses of acquisitions, and potential loss of, or harm to, relationships with employees, customers and suppliers as a result.

***We may lose our competitive advantage and our operations may suffer if we fail to prevent the loss or misappropriation of, or disputes over, our intellectual property or proprietary information.***

We regard our intellectual property, particularly our patents and trade secrets, to be of considerable value and importance to our business and our success. We rely on a combination of patent, trademark and trade secret laws, as well as confidentiality agreements to protect our intellectual property rights. Failure to protect our intellectual property rights could harm our brands and our reputation, and adversely affect our ability to compete effectively. Further, enforcing or defending our intellectual property rights, including our patents and trade secrets, could result in the expenditure of significant financial and managerial resources.

As of December 31, 2016, we held 59 issued patents and had 10 pending patent applications in China for certain manufacturing processes and packaging designs. We may not be able to successfully obtain the approval of the PRC authorities for our patent applications. As of December 31, 2016, we also had eight trademarks registered in China.

While we are not aware of any infringement on our intellectual property and we have not been notified by any third party that we are infringing on their intellectual property, our ability to compete successfully and to achieve future revenue growth will depend, in significant part, on our ability to protect our proprietary technologies and operate without infringing upon the intellectual property rights of others. Policing unauthorized use of proprietary technologies is difficult and expensive. The steps we have taken may not be adequate to prevent unauthorized use of our intellectual property rights.

The legal regime in China for the protection of intellectual property rights is still at its early stage of development. Despite many laws and regulations promulgated and other efforts made by China over the years to tighten up its regulation and protection of intellectual property rights, private parties may not enjoy intellectual property rights in China to the same extent as they would in many more developed countries, including the United States, and the enforcement of such laws and regulations in China has not achieved the levels reached in those countries. The administrative agencies and the court system in China are not well-equipped to deal with violations or handle the nuances and complexities between compliant technological innovation and noncompliant infringement.

We also rely on confidentiality agreements with our management and employees to protect our confidential proprietary information. However, the protection of our intellectual property may be compromised as a result of:

- departure of any of our management members or employees in possession of our confidential proprietary information;

- breach by such departing management member or employee of his or her confidentiality and non-disclosure undertaking to us;

- infringement by others of our proprietary information and intellectual property rights; or

- refusal by relevant regulatory authorities to approve our patent or trademark applications.

Any of these events or occurrences may have a material adverse effect on our operations.

We cannot assure you that the steps taken by us to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate our patents, trademarks, confidential proprietary information or similar proprietary rights. Litigation may be necessary to enforce our intellectual property rights and the outcome of any such litigation may not be in our favor. Given the relative unpredictability of China's legal system and potential difficulties enforcing a court judgment in China, we cannot guarantee that we would be able to halt any unauthorized use of our intellectual property through litigation in a timely manner.

Furthermore, we cannot assure you that other parties will not assert infringement claims against us, and we may have to pursue litigation against other parties to assert our rights. Any such claim or litigation could be costly and we may lack the resources required to defend against such claims. If we are unsuccessful in defending against such infringement claims, we may be required to pay damages, modify our products or suspend the production and sale of such products. We cannot guarantee that we will be able to modify our products on commercially reasonable terms.

Finally, any event that would jeopardize our proprietary rights or any claims of infringement by third parties could have a material adverse effect on our ability to market or sell our brands, and profitably exploit our products.

*A disruption in the supply of utilities, fire or other calamity at our manufacturing plant would disrupt production of our products and adversely affect our business.*

Our products are manufactured at our production facilities located in Tai'an, Shandong Province and Guiyang, Guizhou Province in China. While we have not in the past experienced any calamities which disrupted production, any disruption in the supply of utilities, in particular, electricity or power supply, or any outbreak of fire, flood or other calamity resulting in significant damage at our facilities would severely affect our production and have a material adverse effect on our business, financial condition and results of operations.

We maintain insurance policies covering losses with respect to damages to our properties and products. We do not have insurance coverage for inventories of raw materials or business interruption. We cannot assure you that our insurance would be sufficient to cover all of our potential losses.

***If we do not maintain strong financial controls, investor confidence in us may decline and our stock price may decline as a result.***

As required by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which must also contain management's assessment of the effectiveness of our company's internal control over financial reporting. In addition, the independent registered public accounting firm auditing the financial statements must also attest to the operating effectiveness of our company's internal controls.

A report of our management and attestation by our independent registered public accounting firm is included in our annual report on Form 10-K for the year ended December 31, 2016. Our management has concluded that our internal controls over financial reporting as of December 31, 2016 were effective. We have in the past discovered, and may in the future discover, material weakness in our internal controls. For example, we identified material weaknesses related to review controls on the accounting for income taxes and derivative instrument valuation as described under Item 9A of our annual report on Form 10-K for year ended December 31, 2010, which were subsequently remediated in 2011 as described under Item 9A of our annual report on Form 10-K for the year ended December 31, 2011. However, we cannot guarantee that these remedies will continue to be effective. Failure to achieve and maintain an effective internal control environment could result in us not being able to accurately report our financial results, prevent or detect fraud or provide timely and reliable financial and other information pursuant to the reporting obligations we have as a public company, which could have a material adverse effect on our business, financial condition and results of operations. This could reduce investors' confidence in our reported financial information, which in turn could result in lawsuits being filed against us by our stockholders, otherwise harm our reputation or negatively affect the trading price of our common stock.

**RISKS RELATING TO DOING BUSINESS IN CHINA**

***Changes in China's political or economic situation could harm us and our operating results.***

Economic reforms adopted by the PRC government have had a positive effect on the economic development of the country. The reformed economic infrastructure and legal systems, however, may be subject to abrupt adjustments by the government. These adjustments, especially in the following areas, could either benefit or damage our operations and profitability:

- Level of government involvement in the economy;
- Control of foreign exchange;
- Methods of allocating resources;
- International trade restrictions; and
- International conflict.

The PRC economy differs from the economies of most member countries of the Organization for Economic Cooperation and Development, or the OECD, in many ways. For example, state-owned enterprises still constitute a large portion of China's economy, and weak corporate governance and the lack of a flexible currency exchange policy still prevail in China. As a result of these differences, we may not develop in the same way or at the same rate as might be expected if the PRC economy was similar to those of the OECD member countries.

***Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.***

We conduct substantially all of our business through our operating subsidiaries in China. Our operating subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations, and rules are not always uniform, and enforcement of these laws, regulations, and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

***You may have difficulty enforcing judgments against us.***

Most of our assets are located outside of the United States and most of our current operations are conducted in China. In addition, most of our directors and officers are nationals and residents of countries other than the United States and substantially all the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon our PRC operations and these persons. It may also be difficult for you to enforce in U.S. courts judgments on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors.

There is also uncertainty as to whether the PRC courts would recognize or enforce judgments of U.S. courts. Our counsel as to PRC law has advised us that although recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law, recognition and enforcement of a foreign judgment by PRC courts depend on treaties or reciprocity between China and the country where the judgment is made. China does not have any treaties or other arrangements with the United States that provide for the reciprocal recognition and enforcement of U.S. judgments. In addition, according to the PRC Civil Procedures Law, PRC courts will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates basic principles of PRC law or national sovereignty, security, or the public interest. So it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States.

***The PRC government exerts substantial influence over the manner in which we must conduct our business activities.***

The PRC government has exercised and continues to exercise substantial control over virtually every sector of the PRC economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property, and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy and any regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

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

Substantially all of our sales are settled in RMB, and any future restrictions on currency exchanges may limit our ability to use revenue generated in RMB to fund any future business activities outside China or other payments in U.S. dollars. Although the PRC government introduced regulations in 1996 to allow greater convertibility of the RMB for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents at those banks in China authorized to conduct foreign exchange business. In addition, conversion of RMB for capital account items, including direct investments and loans, is subject to governmental approval and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of the RMB.

***Fluctuations in exchange rates could adversely affect our business and the value of our securities.***

The value of our common stock will be indirectly affected by the foreign exchange rate between the U.S. dollar and RMB and between those currencies and other currencies in which our sales may be denominated. Appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividends we issue that will be exchanged into U.S. dollars, as well as earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

Since July 2005, RMB has no longer been pegged to U.S. dollars. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, RMB may appreciate or depreciate significantly in value against U.S. dollars in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

Currently, some of our raw materials and major equipment are imported. In the event that the U.S. dollars appreciate against RMB, our costs will increase. If we cannot pass the resulting cost increases on to our customers, our profitability and operating results will suffer. In addition, if our sales to international customers grow, we will be increasingly subject to the risk of foreign currency depreciation.

***Restrictions under PRC law on our PRC subsidiaries' ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions, pay dividends to you and otherwise fund and conduct our business.***

Substantially all of our profits are earned by our PRC subsidiaries. However, PRC regulations restrict the ability of our PRC subsidiaries to make dividends and other payments to their offshore parent companies. PRC legal restrictions permit payments of dividends by our PRC subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required under PRC laws and regulations to allocate at least 10.0% of their annual after-tax profits determined in accordance

with PRC generally accepted accounting principles to a statutory general reserve fund until the amounts in such fund reaches 50.0% of their registered capital. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

***Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident stockholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit the ability of our PRC subsidiaries to distribute profits to us or otherwise materially adversely affect us.***

Pursuant to the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicle, or Circular 37, which was promulgated by SAFE, and became effective on July 4, 2014, (1) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an Overseas SPV, that is directly established or controlled by the PRC resident for the purpose of conducting investment or financing; and (2) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV's PRC resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the Overseas SPV's registered capital, share transfer or swap, and merger or division.

We have requested the beneficial holders of our stock who are PRC residents to register with the relevant branch of SAFE in connection with their equity interests in us and our acquisitions of equity interests in our PRC subsidiaries pursuant to Circular 37 or the predecessor regulation of Circular 37, namely the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, as the case may be. Because of uncertainty over how Circular 37 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. For example, the ability of our present and prospective PRC subsidiaries to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 37 by our PRC resident beneficial holders.

In addition, such PRC residents may not always be able to complete the necessary registration procedures required by Circular 37. We also have little control over either our present or prospective direct or indirect stockholders or the outcome of such registration procedures. Failure of our present or future PRC resident beneficial holders to comply with Circular 37 could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC subsidiaries to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

*We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations.*

In August 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission, or CSRC, promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or Circular 10, which became effective in September 2006 and was amended in June 2009. This regulation, among other things, governs the approval process by which a PRC company may participate in an acquisition of assets or equity interests. Depending on the structure of the transaction, Circular 10 requires the PRC parties to make a series of applications and supplemental applications to the government agencies. In some instances, the application process may require the presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Government approvals will have expiration dates by which a transaction must be completed and reported to the government agencies. Compliance with Circular 10 is likely to be more time-consuming and expensive than in the past and the government can now exert more control over the combination of two businesses. Accordingly, due to Circular 10, our ability to engage in business combination transactions has become significantly more complicated, time consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our stockholders or sufficiently protect their interests in a transaction.

Circular 10 allows PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to the PRC Ministry of Commerce, or MOFCOM, and other relevant government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The regulations also

prohibit a transaction at an acquisition price obviously lower than the appraised value of the PRC business or assets and in certain transaction structures, require that consideration must be paid within defined periods, generally not in excess of a year. The regulation also limits our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited. Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on financial terms that satisfy our investors and protect our stockholders' economic interests.

***Under the Enterprise Income Tax Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders.***

The Enterprise Income Tax Law, or the EIT Law, and its implementing rules became effective on January 1, 2008. Under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," meaning that it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise.

On April 22, 2009, SAT issued the Notice Concerning Relevant Issues Regarding Cognizance of Chinese Investment Controlled Enterprises Incorporated Offshore as Resident Enterprises pursuant to Criteria of de facto Management Bodies, or the Notice, further interpreting the application of the EIT Law and its implementation on non-PRC enterprise or group controlled by a PRC enterprise or a PRC enterprise group. Pursuant to the Notice, an enterprise incorporated in an offshore jurisdiction and controlled by a PRC enterprise or group will be classified as a "non-domestically incorporated resident enterprise" if (1) its senior management in charge of daily operations reside or perform their duties mainly in China; (2) its financial or personnel decisions are made or approved by bodies or persons in China; (3) its substantial assets and properties, accounting books, corporate chops, board and shareholder minutes are kept in China; and (4) at least half of its directors with voting rights or senior management often resident in China. A resident enterprise would be subject to an enterprise income tax rate of 25.0% on its worldwide income and must pay a withholding tax at a rate of 10.0% when paying dividends to its non-PRC shareholders. However, it remains unclear as to whether the Notice is applicable to an offshore enterprise not controlled by a PRC enterprise or a PRC enterprise group. Nor are detailed measures on imposition of tax from non-domestically incorporated resident enterprises are available. Therefore, it is unclear how the PRC tax authorities will determine tax residency based on the facts of each case.

We may be deemed to be a resident enterprise by PRC tax authorities. If the PRC tax authorities determine that we are a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25.0% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest on financing proceeds and non-PRC source income would be subject to PRC enterprise income tax at a rate of 25.0%. Second, although under the EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as "tax-exempt income," we cannot guarantee that such dividends will not be subject to a 10.0% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. In addition, dividends paid by us to non-PRC shareholders may be subject to PRC withholding tax and gains on dispositions of our shares by non-PRC shareholders may be subject to PRC tax. In that case, the tax rate would be 10.0% in the case of non-PRC enterprise shareholder or 20.0% in the case of non-PRC individual shareholder. Finally, if we were treated as a "resident enterprise" by PRC tax authorities, we would be subject to taxation in both the U.S. and China, and our PRC tax may not be creditable against our U.S. tax.

39

*We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.*

SAT released a circular on December 15, 2009 that addresses the transfer of shares by nonresident companies, generally referred to as Circular 698. Circular 698, which is effective retroactively to January 1, 2008, may have a significant impact on many companies that use offshore holding companies to invest in China. Circular 698 has the effect of taxing foreign companies on gains derived from the indirect sale of a PRC company. Where a foreign investor indirectly transfers equity interests in a PRC resident enterprise by selling the shares in an offshore holding company, and the latter is located in a country or jurisdiction that has an effective tax rate less than 12.5% or does not tax foreign income of its residents, the foreign investor must report this indirect transfer to the tax authority in charge of that PRC resident enterprise. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at a rate of up to 10.0%.

SAT subsequently released public notices to clarify issues relating to Circular 698, including the Announcement on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-resident Enterprises, or SAT Notice 7, which became effective on February 3, 2015. SAT Notice 7 abolished the compulsive reporting obligations originally set out in Circular 698. Under SAT Notice 7, if a non-resident enterprise transfers its shares in an overseas holding company, which directly or indirectly owns PRC taxable properties, including shares in a PRC company, via an arrangement without reasonable commercial purpose, such transfer shall be deemed as indirect transfer of the underlying PRC taxable properties. Accordingly, the transferee shall be deemed as a withholding agent with the obligation to withhold and remit the enterprise income tax to the competent PRC tax authorities. Factors that may be taken into consideration when determining whether there is a "reasonable commercial purpose" include, among other factors, the economic essence of the transferred shares, the economic essence of the assets held by the overseas holding company, the taxability of the transaction in offshore jurisdictions, and economic essence and duration of the offshore structure. SAT Notice 7 also sets out safe harbors for the "reasonable commercial purpose" test. SAT Notice 7 contains an exemption for transfers of shares of a holding company listed outside the PRC when the shares are acquired and sold in the public market.

However, uncertainties exist on testing the reasonable commercial purpose. For example, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions. As a result, we may become at risk of being taxed under Circular 698 and the related SAT notices and we may be required to expend valuable resources to comply with Circular 698 and the related SAT notices or to establish that we should not be taxed under Circular 698 and the related SAT notices, which could have a material adverse effect on our financial condition and results of operations.

***We may be exposed to liabilities under the Foreign Corrupt Practices Act and Chinese anti-corruption laws, and any determination that we violated these laws could have a material adverse effect on our business.***

We are subject to the Foreign Corrupt Practice Act, or FCPA, and other U.S. laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the relevant statute, for the purpose of obtaining or retaining business. We have operations, agreements with third parties, and make most of our sales in China. PRC anti-corruption laws also strictly prohibit bribery of government officials. Our activities in China create the risk of unauthorized payments or offers of payments by the employees, consultants, sales agents, or distributors, even though they may not always be subject to our control. It is our policy to implement safeguards to discourage these practices by our employees. However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants, sales agents, or distributors may engage in conduct for which we might be held responsible. Particularly, most of the hospitals and inoculation centers in China are state-owned entities, whose employees may be recognized as foreign government officials for the purpose of FCPA. Therefore, any payments, expensive gifts or other benefits provided to an employee of the state-owned hospital or inoculation center may be deemed violation of FCPA. Violations of FCPA or PRC anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, prospects, operating results and financial condition. In addition, the U.S. government may seek to hold us liable for successor liability under FCPA violations committed by companies in which we invest or that we acquire.

***If we become directly subject to the scrutiny, criticism and negative publicity involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations, stock price and reputation and could result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved favorably.***

In recent years, U.S. public companies that have substantially all of their operations in China, particularly companies like us which have completed the "reverse merger" transactions, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S.-listed PRC-based companies has sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to shareholder lawsuits, SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what effect this sector-wide scrutiny, criticism and negative publicity will have on us, our business and our stock price. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our company. This situation will be costly and time consuming and distract our management from growing our company. If such allegations are not proven to be groundless, our company and our business operations will be severely impacted and your investment in our stock could be rendered worthless.

***The disclosures in our reports and other filings with the SEC and our other public pronouncements are not subject to the scrutiny of any regulatory bodies in China. Accordingly, our public disclosure should be reviewed in light of the fact that no governmental agency that is located in China where substantially all of our operations and business are located has conducted any due diligence on our operations or reviewed or cleared any of our disclosure.***

We are regulated by the SEC and our reports and other filings with the SEC are subject to SEC review in accordance with the rules and regulations promulgated by the SEC under the Securities Act and the Exchange Act. Unlike public reporting companies whose operations are located primarily in the United States, however, substantially all of our operations are located in China. Since substantially all of our operations and business takes place in China, it may be more difficult for the Staff of the SEC to overcome the geographic and cultural obstacles that are present when reviewing our disclosure. These same obstacles are not present for similar companies whose operations or business take place entirely or primarily in the United States. Furthermore, our SEC reports and other disclosure and public pronouncements are not subject to the review or scrutiny of any PRC regulatory authority. For example, the disclosure in our SEC reports and other filings are not subject to the review of the CSRC, a PRC regulator that is tasked with oversight of the capital markets in China. Accordingly, you should review our SEC reports, filings and our other public pronouncements with the understanding that no local regulator has done any due diligence on our company and with the understanding that none of our SEC reports, other filings or any of our other public pronouncements has been reviewed or otherwise scrutinized by any local regulator.

41

***Our independent registered public accounting firm may be temporarily suspended from practicing before the SEC if unable to continue to satisfy SEC investigation requests in the future. If a delay in completion of our audit process occurs as a result, we could be unable to timely file certain reports with the SEC, which may lead to the delisting of our stock.***

The vast majority of our sales are to customers in China, and we have all of our operations in China. Like many U.S. companies with significant operations in China, our independent registered public accounting firm is located in China.

On January 22, 2014, Judge Cameron Elliot, an SEC administrative law judge, issued an initial decision suspending the Chinese member firms of the "Big Four" accounting firms, including our independent registered public accounting firm, from practicing before the SEC for six months. In February 2014, the initial decision was appealed. While under appeal and in February 2015, the Chinese member firms of "Big Four" accounting firms reached a settlement with the SEC. As part of the settlement, each of the Chinese member firms of "Big Four" accounting firms agreed to settlement terms that include a censure, undertakings to make a payment to the SEC, procedures and undertakings as to future requests for documents by the SEC, and possible additional proceedings and remedies should those undertakings not be adhered to.

If the settlement terms are not adhered to, Chinese member firms of "Big four" accounting firms may be suspended from practicing before the SEC which could in turn delay the timely filing of our financial statements with the SEC. In addition, it could be difficult for us to timely identify and engage another qualified independent auditor to replace our independent registered public accounting firm. A delinquency in our filings with the SEC may result in NASDAQ initiating procedures, which could adversely harm our reputation and have other material adverse effects on our overall growth and prospects.

***Our independent registered public accounting firm's audit documentation related to their audit reports included in our annual report is located in China. The PCAOB currently cannot inspect audit documentation located in China and, as such, you may be deprived of the benefits of such inspection.***

Our independent registered public accounting firm issued an audit opinion on the financial statements included in our annual reports filed with the SEC. Our independent registered public accounting firm's audit documentation related to their audit reports included in our annual reports is located in China, and audit procedures take place within China's borders. As auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board, or the PCAOB, our auditor is required by the laws of the United States to undergo regular inspections by the PCAOB. However, work papers located in China are not currently inspected by the PCAOB because the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities.

Inspections of certain other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. However, the PCAOB is currently unable to inspect an auditor's audit work related to a company's operations in China and where such documentation of the audit work is located in China. As a result, our investors may be deprived of the benefits of the PCAOB's oversight of auditors that are located in China through such inspections.

The inability of the PCAOB to conduct inspections of an auditor's work papers in China makes it more difficult to evaluate the effectiveness of any of our auditor's audit procedures or quality control procedures that may be located in China as compared to auditors outside of China that are subject to PCAOB inspections. Investors may consequently lose confidence in our reported financial information and procedures and the quality of our financial statements.

**RISKS RELATING TO OUR STOCK**

***The market price of our common stock is volatile, leading to the possibility of its value being depressed at a time when you want to sell your holdings.***

The market price of our common stock is volatile, and this volatility may continue. Numerous factors, many of which are beyond our control, may cause the market price of our common stock to fluctuate significantly. These factors include, among others:

- our earnings releases, actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- speculation about our business in the press or the investment community, including negative publicity and short seller reports that make allegations against us, even if unfounded;
- significant developments relating to our relationships with our customers or suppliers;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in our industry;
- customer demand for our products;
- investor perceptions of our industry in general and our company in particular;
- the operating and stock performance of comparable companies;

- general economic conditions and trends;
- major catastrophic events;
- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
- changes in accounting standards, policies, guidance, interpretation or principles;
- loss of external funding sources;
- sales of our common stock, including sales by our directors, officers or significant stockholders;
- additions or departures of key personnel; and
- investor perception of litigation, investigation or other legal proceedings involving us or certain of our individual stockholders or their family members.

Securities class action litigation is often instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs to us and divert our management's attention and resources. Moreover, securities markets may from time to time experience significant price and volume fluctuations for reasons unrelated to operating performance of particular companies. For example, in July 2008, the securities markets in the United States, China and other jurisdictions experienced the largest decline in share prices since September 2001. These market fluctuations may adversely affect the price of our common stock and other interests in our company at a time when you want to sell your interest in us.

***The provisions in our currently effective certificate of incorporation and bylaws and our preferred shares rights agreement might discourage, delay or prevent a change of control of our company or changes in our management and, therefore depress the trading price of the common stock.***

Upon stockholders' approval on July 20, 2012, we have adopted amended and restated certificate of incorporation and bylaws, which contained provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the raider and to encourage prospective acquirers to negotiate with our board of directors, rather than to attempt a hostile takeover.

These provisions include, among others:

- the right of our board of directors to issue preferred stock without stockholder approval;
- division of our board of directors into three classes with staggered terms;
- elimination of the right of our stockholders to act by written consent;
- prohibiting stockholders from calling a special meeting of the stockholders;
- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings; and
- requiring super majority stockholder vote to amend certain provisions of the amended and restated certificate of incorporation and bylaws.

Approved on June 20, 2014, our currently-in-effect bylaws authorize our stockholders who hold 25.0% of our entire capital stock issued and outstanding and are entitled to vote to call a special meeting of the stockholders.

On February 22, 2017, our board of directors adopted a preferred shares rights agreement between us and the Securities Transfer Corporation, as the rights agent. This agreement provides, among other things, that when specified events occur, our stockholders will be entitled to purchase from us a fraction of a share of series A participating preferred stock for each share of common stock they own. Such preferred stock purchase rights are triggered by the earlier to occur of (1) 10 business days (or a later date determined by our board of directors before the rights are separated from our common stock) after the public announcement that a person or group has become an "acquiring person" by acquiring beneficial ownership of 15.0% or more of our outstanding common stock or (2) 10 business days (or a later date determined by our board of directors before the rights are separated from our common stock) after a person or group begins a tender or exchange offer that, if completed, would result in that person or group becoming an acquiring person. The issuance of preferred stock pursuant to this preferred shares rights agreement would cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors. Our board of directors had previously adopted similar preferred shares rights agreements on November 19, 2012, which expired on November 20, 2014, and on January 8, 2015, which expired on January 8, 2017.

***We do not intend to pay dividends for the foreseeable future.***

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Accordingly, investors must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our common stock. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend on our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant.

***Stock prices of companies with business operations primarily in China have fluctuated widely in recent years, and the trading prices of our common stock are likely to be volatile, which could result in substantial losses to investors.***

The trading prices of our common stock are likely to be volatile and could fluctuate widely in response to factors beyond our control. For example, if one or more of the industry analysts or ratings agencies who cover us downgrades us or our common stock, or publishes unfavorable research about us, the price of our common stock may decline. If one or more of these analysts or agencies cease to cover our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the price of our common stock or trading volume to decline. In addition, the performance and fluctuation of the market prices of other China-based, U.S.-listed healthcare companies may affect the volatility in the price of and trading volume for our common stock. In recent years, a number of PRC-based companies have listed their securities, or are in the process of preparing for listing their securities, on U.S. stock markets. Some of these companies have experienced significant volatility, including significant price declines following their initial public offerings. The trading performances of the securities of these PRC-based companies' securities at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in the United States and consequently may affect the trading performance of our common stock. These broad market and industry factors may significantly affect the market price and volatility of our common stock, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our common stock may be highly volatile for specific business reasons. Any of these factors may result in large and sudden changes in the volume and price at which our common stock will trade. We cannot assure you that these factors will not occur in the future again. In the past, following periods of volatility in the market price of a company's securities, stockholders have often instituted securities class action litigation against that company. If we were involved in a class action lawsuit, it could divert the attention of senior management, and, if adversely determined, could have a material adverse effect on our business, financial condition and results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

We have no outstanding or unresolved comments from the SEC staff.

**ITEM 2. PROPERTIES.**

Our company's corporate offices are leased and located at 18th Floor, Jialong International Building, 19 Chaoyang Park Road, Chaoyang District, Beijing 100125, the People's Republic of China.

| Business | Location | Owned/Leased |
|---|---|---|
| Manufacturing Facilities | Taishan District, Tai'an City, Shandong Province, China | Owned |
| | Gaoxin District, Tai'an City, Shandong Province, China | Owned |
| | Huaxi District, Guiyang City, Guizhou Province, China | Owned |
| Plasma Collection Stations | Qihe County, Shandong Province, China | Leased |
| | Xiajin County, Shandong Province, China | Owned |
| | Zhangqiu County, Shandong Province, China | Owned |
| | Yanggu County, Shandong Province, China | Owned |
| | Yishui County, Shandong Province, China | Owned |
| | Huanjiang Maonan Autonomous County, Guangxi Zhuang Autonomous Region, China | Owned |
| | Fangchenggang City, Guangxi Zhuang Autonomous Region, China | Owned |
| | Yuncheng County, Shandong Province, China | Leased |
| | Ningyang County, Shandong Province, China | Owned |
| | Cao County, Shandong Province, China | Owned |
| | Xinglong County, Hebei Province, China | Owned |
| | Zaozhuang City, Shandong Province, China | Leased |
| | Huangping County, Guizhou Province, China | Owned |
| | Puding County, Guizhou Province, China | Owned |
| | Ziyun Miaozu Buyizu autonomous County, Guizhou Province, China | Leased |

We believe that all of our properties have been adequately maintained, are generally in good condition, and are suitable and adequate for our business.

**ITEM 3. LEGAL PROCEEDINGS.**

From time to time, we may become involved in various lawsuits and legal proceedings arising in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business. Other than the legal proceedings set forth below, we are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

**Dispute with Jie'an over Certain Capital Injection into Guizhou Taibang**

In May 2007, a 91% majority of Guizhou Taibang's shareholders approved a plan to raise additional capital from qualified strategic investors through the issuance of an additional 20,000,000 shares of Guizhou Taibang. The plan required all existing Guizhou Taibang shareholders to waive their rights of first refusal to subscribe for the additional

shares. The remaining 9% minority shareholder of Guizhou Taibang's shares, Guizhou Jie'an Company, or Jie'an, did not support the plan and did not waive its right of first refusal. In May 2007, Guizhou Taibang signed an Equity Purchase Agreement with certain alleged strategic investors (who concealed their background), pursuant to which such investors agreed to invest an aggregate of RMB51.0 million (approximately $7.3 million) in exchange for 21.4% of Guizhou Taibang's equity interests. Such Equity Purchase Agreement was not approved or ratified by over two-thirds supermajority of Guizhou Taibang's shareholders, which approval or ratification is required under the PRC Company Law. At the same time, as an existing shareholder, Jie'an also subscribed for 1,800,000 shares, representing its pro rata share of the 20,000,000 shares being offered. In total, Guizhou Taibang received RMB51.0 million (approximately $7.3 million) from the investors and RMB6.5 million (approximately $0.9 million) from Jie'an.

In June 2007, Jie'an brought a lawsuit against Guizhou Taibang, alleging that it had a right to acquire the 18,200,000 shares offered to the investors under the Equity Purchase Agreement. The trial court denied Jie'an's request, and the PRC Supreme Court ultimately sustained the original ruling in May 2009 and denied the rights of first refusal of Jie'an over the 18,200,000 shares.

During the second quarter of 2010, Jie'an requested that Guizhou Taibang register its 1.8 million shares of additional capital injection with the local administration of industry and commerce, or AIC. Guizhou Taibang's board of directors withheld its required ratification of Jie'an's request, pending the outcome of the ongoing litigation. In March 2012, Jie'an brought another lawsuit against Guizhou Taibang for refusing to register the shares. In July 2013, the trial court dismissed the lawsuit for lack of jurisdiction. Jie'an did not appeal the dismissal.

In December 2013, Jie'an brought a third lawsuit against Guizhou Taibang, requesting Guizhou Taibang to register 1.8 million shares under its name with the local AIC. In July 2014, the trial court denied Jie'an's request to register such shares. Despite the denial of Jie'an's share registration request, the trial court, however, in its ruling, ordered Guizhou Taibang to pay accumulated dividends of RMB13.8 million (approximately $2.0 million) associated with these shares and the related interest expenses to Jie'an. Guizhou Taibang and Jie'an subsequently filed a cross-appeal. In December 2014, the appellate court ruled in favor of Jie'an supporting its request to register 1.8 million shares and ordered Guizhou Taibang to pay Jie'an its share of accumulated dividends of RMB18.3 million (approximately $2.6 million) associated with these shares plus the related interest expenses to Jie'an. In the first half of 2015, Guizhou Taibang paid an aggregate of RMB22.6 million (approximately $3.3 million) to the trial court held in escrow pending further appeal of this case. In June 2015, Guizhou Taibang appealed to the High Court of Guizhou, which overruled the decision of the appellate court and remanded the case to the trial court for retrial in September 2015. In August 2016, the trial court granted Jie'an's petition to withdraw the lawsuit as Jie'an sought to withdraw its capital contribution in Guizhou Taibang pursuant to an agreement dated July 31, 2016. The funds held in escrow were credited to the consideration payable to Jie'an for the capital withdrawal as described below.

In November 2013, Guizhou Taibang held a shareholders meeting and the shareholders passed resolutions, or the November 2013 Resolutions, that, inter alia, (1) determined that it was no longer necessary for Guizhou Taibang to obtain additional capital from investors; (2) rejected Jie'an's request that Jie'an subscribe for additional shares of Guizhou Taibang alone and one or more other shareholders reduce their shareholding in Guizhou Taibang; and (3) approved the issuance of a total of 20,000,000 new shares to all existing shareholders on a pro rata basis. Jie'an subsequently filed a fourth lawsuit against Guizhou Taibang in December 2013, requesting that the court declare the November 2013 Resolutions void. Both the trial court and the appellate court denied Jie'an's request.

In March 2014, Guizhou Taibang held another shareholders meeting and the shareholders passed resolutions, or the March 2014 Resolutions, that, inter alia, re-calculated the ownership percentage in Guizhou Taibang based on the November 2013 Resolutions and the additional capital injections from existing shareholders. Guizhou Taibang subsequently updated the registration with the local AIC regarding the additional capital injections in August 2014. In September 2014, Jie'an and Shenzhen Yigong Shengda Technology Co., Ltd., or Yigong Shengda, another minority

shareholder of Guizhou Taibang, filed a lawsuit against Guizhou Taibang, requesting that the court declare both the November 2013 Resolutions and the March 2014 Resolutions void and instruct Guizhou Taibang to withdraw the AIC registration. In November 2014, the trial court suspended this case pending the final outcome of the third lawsuit filed by Jie'an. In October 2015, the trial court denied their request. In May 2016, the appellate court vacated the trial court's decision to uphold Guizhou Taibang's shareholders resolution, and remanded the case for retrial. In August 2016, the trial court granted the petitions by Jie'an and Yigong Shengda to withdraw the lawsuit as Jie'an and Yigong Shengda sought to withdraw their respective capital contributions in Guizhou Taibang pursuant to an agreement dated July 31, 2016.

On July 31, 2016, Guiyang Dalin Biologic Technologies Co., Ltd., or Guiyang Dalin, Guizhou Taibang, Jie'an and Yigong Shengda entered into an agreement, pursuant to which Jie'an and Yigong Shengda agreed to withdraw their respective capital contributions in Guizhou Taibang for an aggregate consideration of RMB415.0 million (approximately $59.8 million). In August 2016, Guizhou Taibang paid the first installment of RMB90.0 million (approximately $13.0 million) of the consideration to Jie'an and Yigong Shengda. Guizhou Taibang completed the AIC registration for the foregoing capital withdrawal in October 2016 and paid the balance of the consideration to Jie'an and Yigong Shengda in November 2016. As a result of the capital withdrawal, Guiyang Dalin has become the sole shareholder of Guizhou Taibang.

**Dispute with Certain Individual Investor over Certain Capital Injection into Guizhou Taibang**

In part due to the invalidity of the Equity Purchase Agreement with certain alleged strategic investors in May 2007, which was never approved or ratified by Guizhou Taibang's shareholders, such investors' equity ownership in Guizhou Taibang and the related increase in registered capital of Guizhou Taibang have never been registered with the local AIC. In January 2010, one individual among such investors brought a lawsuit against Guizhou Taibang requesting to register his 14.35% ownership interest in Guizhou Taibang with the local AIC and seeking the distribution of his share of Guizhou Taibang's dividends declared since 2007.

In October 2010, the trial court denied such individual investor's right as shareholder of Guizhou Taibang and his entitlement to share the dividends, which ruling was reaffirmed after a re-trial by the same trial court in December 2012. After such ruling, Guizhou Taibang attempted to return the originally received fund of RMB34.2 million (approximately $4.9 million) to such investor by wiring the fund back to his bank account but was unable to do so due to the closure of his bank account. Another investor, however, accepted the returned fund of RMB11.2 million (approximately $1.6 million) from Guizhou Taibang in November 2010. In 2013, the same individual investor appealed the case to the PRC Supreme Court, which also denied his claims for shareholder status in Guizhou Taibang and the related dividend distribution and accrued interest in September 2013. Such investor subsequently attempted to seek a re-trial by the PRC Supreme Court, which request was denied by the PRC Supreme Court in January 2014. He then applied to the PRC Supreme Procuratorate to request for a review of the PRC Supreme Court's decision and seek an appeal by the PRC Supreme Procuratorate to the PRC Supreme Court for an ultimate re-trial on his behalf. In July 2015, the PRC Supreme Procuratorate rejected his request for review.

As of December 31, 2016, Guizhou Taibang had maintained, on its balance sheet, payables to the investors of RMB34.2 million (approximately $4.9 million) as originally received funds from such individual investor in respect of the shares in dispute, RMB20.6 million (approximately $3.0 million) for the interest expenses, and RMB0.3 million (approximately $0.1 million) for the 1% penalty imposed by the Equity Purchase Agreement for any breach in the event that Guizhou Taibang is required to return the original investment amount to such investor.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

**Market Information**

Our common stock is traded on the NASDAQ Global Select Market under the symbol "CBPO."

The following table sets forth, for the periods indicated, the high and low closing prices of our common stock. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

| | **Closing Prices[(1)]** | |
|---|---|---|
| | High USD | Low USD |
| 2016 | | |
| 1st Quarter | 142.08 | 105.52 |
| 2nd Quarter | 128.74 | 101.05 |
| 3rd Quarter | 134.17 | 107.18 |
| 4th Quarter | 125.43 | 107.52 |
| | | |
| 2015 | | |
| 1st Quarter | 95.51 | 64.98 |
| 2nd Quarter | 120.85 | 92.69 |
| 3rd Quarter | 123.83 | 82.62 |
| 4th Quarter | 142.46 | 89.13 |

(1) The above table sets forth the range of high and low closing prices per share of our common stock as reported by www.quotemedia.com for the periods indicated.

**Approximate Number of Holders of Our Common Stock**

As of February 17, 2017, there were 437 holders of record of our common stock. This number excludes the shares of our common stock owned by stockholders holding stock under nominee security position listings.

**Dividend Policy**

We have never declared dividends or paid cash dividends. Any future decisions regarding dividends will be made by our board of directors. We currently intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Our board of directors has complete discretion on whether to pay dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

**Recent Sales of Unregistered Securities**

We have not sold any equity securities during the 2016 fiscal year that were not previously disclosed in a quarterly report on Form 10-Q or a current report on Form 8-K that was filed during the 2016 fiscal year.

**ITEM 6. SELECTED FINANCIAL DATA**.

The selected consolidated statement of comprehensive income data for 2016, 2015 and 2014 and the selected balance sheet data as of December 31, 2016 and 2015 are derived from our audited consolidated financial statements included elsewhere in this report. The selected consolidated financial data for 2013 and 2012 and the selected balance sheet data as of December 31, 2014, 2013 and 2012 are derived from our audited consolidated financial statements not included in this report.

The following selected historical financial information should be read in conjunction with our consolidated financial statements and related notes and the information contained in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | (U.S. dollars in thousands, except per share data) | | | | |
| Revenues | 341,169 | 296,458 | 243,252 | 203,357 | 184,813 |
| Income From Operations | 143,915 | 132,586 | 111,159 | 86,933 | 74,489 |
| Net Income attributable to China Biologic Products, Inc. | 104,780 | 89,043 | 70,917 | 54,602 | 45,222 |
| Total Assets | 604,958 | 551,466 | 446,847 | 403,781 | 311,047 |
| Total Current Liabilities | 73,441 | 71,655 | 120,682 | 63,439 | 47,719 |
| Total Long Term Liabilities | 10,380 | 12,849 | 50,904 | 36,373 | 5,909 |
| Total Stockholders' equity attributable to China Biologic Products, Inc. | 462,200 | 382,343 | 212,087 | 237,692 | 195,470 |
| Total Equity | 521,137 | 466,962 | 275,262 | 303,970 | 257,419 |
| Net Income Per Share | | | | | |
| Basic | 3.79 | 3.40 | 2.85 | 2.05 | 1.73 |
| Diluted | 3.74 | 3.27 | 2.71 | 1.96 | 1.62 |

**ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

*The following management’s discussion and analysis should be read in conjunction with our financial statements and the notes thereto and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion contains certain forward-looking information. See “Special Note Regarding Forward Looking Statements” above for certain information concerning those forward looking statements. Our financial statements are prepared in U.S. dollars and in accordance with United States generally accepted accounting principles.*

**Overview**

We are a biopharmaceutical company principally engaged in the research, development, manufacturing and sales of plasma products in China. We have a strong product portfolio with over 20 different dosage forms of plasma products and other biopharmaceutical products across nine categories. Our principal products are human albumin and IVIG. These products use human plasma as their principal raw material. Sales of human albumin products represented approximately 39.2%, 37.6% and 39.3% of our total sales for 2016, 2015 and 2014, respectively. Sales of IVIG products represented approximately 34.6%, 42.2% and 40.4% of our total sales for 2016, 2015 and 2014, respectively.

All of our products are prescription medicines administered in the form of injections.

Our sales model focuses on direct sales to hospitals and inoculation centers and is complemented by distributor sales. In 2016, we generated sales of $341.2 million, an increase of 15.1% from 2015, and recorded net income attributable to our company of $104.8 million, an increase of 17.8% from 2015.

**Recent Developments**

We received two approvals from the Shandong Provincial Health and Family Planning Commission on December 30, 2016 to build a new plasma collection station and a new branch collection facility, respectively, in Shandong Province. The new plasma collection station will be located in Ju County in Rizhao City, while the new branch plasma collection facility will be located in Feicheng County in Tai'an City and operated under the Company's Ningyang plasma collection station, which was established in Tai'an City in July 2011.

**Financial Performance Highlights**

The following are some financial highlights for 2016:

- ***Sales***: Sales increased by $44.7 million, or 15.1%, to $341.2 million for 2016 from $296.5 million for 2015.

- ***Gross Profit***: Gross profit increased by $27.2 million, or 14.3%, to $217.2 million for 2016 from $190.0 million for 2015. As a percentage of sales, gross profit decreased from 64.1% in 2015 to 63.6% in 2016.

- ***Income from operations***: Income from operations increased by $11.4 million, or 8.6%, to $144.0 million for 2016 from $132.6 million for 2015.

- ***Net income attributable to our company***: Net income attributable to our company increased by $15.8 million, or 17.8%, to $104.8 million for 2016 from $89.0 million for 2015.

- ***Fully diluted net income per share***: Fully diluted net income per share was $3.74 for 2016, as compared to $3.27 for 2015.

**Principal Factors Affecting Our Financial Performance**

The following are key factors that affect our financial condition and results of operations and we believe them to be important to the understanding of our business:

***Raw material supply and prices***

The primary raw material used in the production of our albumin and immunoglobulin products is human plasma. The collection of human plasma in China is generally influenced by a number of factors such as government regulations, geographical locations of plasma collection stations, sanitary conditions of plasma collection stations, living standards of the donors, and cultural and religious beliefs. If we experience any shortage of plasma supply, we may not be able to fully utilize our production capacity. We currently operate 12 plasma collection stations (including one branch collection facility) through Shandong Taibang and two plasma collection stations through Guizhou Taibang. These plasma collection stations provide us with a stable source of plasma supply.

***Prices of and demand for our products***

The demand for our products is largely affected by the general economic conditions in China because the prices of our products are still not affordable to many patients. A significant improvement in the economic environment in China will likely improve consumer income which in turn would make our products more affordable and consequently increase the demand for our products. We have been able to expand our product range and consumer base by introducing new products required by customers. We believe that our technical expertise is important in introducing products that are in demand.

***Production capacity***

Our sales volume is limited by our annual production capacity. As we grow our business in the future, our ability to fulfill additional and larger orders will depend on our ability to increase our production capacity. Our plan to expand our production capacity will depend on the availability of capital to meet our needs of expansion or upgrading of production lines, and the availability of stable plasma supply. To comply with applicable PRC laws and regulations, we have maintained permits and licenses necessary for the current operations of our plasma collection stations and production plants, and are required to apply for such permits and licenses to operate new plasma collection stations and production plants. As a result, our expansion plan also depends on our ability to renew existing permits and licenses and obtain new permits and licenses.

***Competition***

We face intense competition from local and foreign entities that manufacture and sell products that compete with ours in the PRC. These competitors may have more capital, better research and development resources, expanded manufacturing and marketing capabilities and more experience than we do. In our industry, we compete based upon product quality, production cost, ability to produce a diverse range of products and logistical capabilities.

Our profitability may be adversely affected if competition intensifies, competitors reduce prices, PRC government requires us to reduce the prices of our products, or competitors develop new products or product substitutes with comparable medicinal applications or therapeutic effects which are more effective or less costly than ours. See Item 1, “Business—Competition” for more information.

***Taxation***

China Biologic is subject to United States tax at gradual rates of up to 35.0%. No provision for income taxes in the United States has been made as China Biologic has no U.S. taxable income.

Taibang Biological was incorporated in the BVI, but is not subject to taxation in that jurisdiction.

Taibang Holdings was incorporated in Hong Kong, and under the current laws of Hong Kong, is subject to a Profits Tax of 16.5% on profits arising in Hong Kong. However, no provision for Hong Kong Profits Tax has been made as Taibang Holdings has no taxable income.

According to the PRC government policy, new or high technology companies may enjoy a preferential income tax rate of 15.0%, instead of 25.0% under the EIT Law. In October 2014, Shandong Taibang renewed its high and new technology enterprise qualification, which entitled it to enjoy a preferential income tax rate of 15.0% for a period of three years from 2014 to 2016. Shandong Taibang will apply for a renewal for an additional three years from 2017 to 2019 upon the expiration of its high and new technology enterprise certificate. According to Notice on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy jointly promulgated by the PRC Ministry of Finance, the PRC General Administration of Customs and SAT dated July 27, 2011, Guizhou Taibang, being a qualified enterprise located in the western region of China, enjoys a preferential income tax rate of 15.0% effective from January 1, 2011 to December 31, 2020. All of our other PRC subsidiaries are subject to the statutory income tax rate of 25.0%.

**Results of Operations**

The following table sets forth a summary of our consolidated statements of comprehensive income for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any other future period.

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2014 | |
| | $ | % of Total Sales | $ | % of Total Sales | $ | % of Total Sales |
| | (U.S. dollars in thousands, except percentage and per share data) | | | | | |
| SALES | 341,169 | 100.0 | 296,458 | 100.0 | 243,252 | 100.0 |
| COST OF SALES | 124,034 | 36.4 | 106,483 | 35.9 | 80,026 | 32.9 |
| GROSS MARGIN | 217,135 | 63.6 | 189,975 | 64.1 | 163,226 | 67.1 |
| OPERATING EXPENSES**:** | | | | | | |
| Selling expenses | 11,679 | 3.4 | 9,973 | 3.4 | 10,707 | 4.4 |
| General and administrative expenses | 54,519 | 16.0 | 41,392 | 14.0 | 32,130 | 13.2 |
| Research and development expenses | 7,022 | 2.1 | 6,024 | 2.0 | 4,162 | 1.7 |
| Provision for other receivables in respect of an employee housing development project | - | - | - | - | 5,068 | 2.1 |
| Total operating expenses | 73,220 | 21.5 | 57,389 | 19.4 | 52,067 | 21.4 |
| INCOME FROM OPERATIONS | 143,915 | 42.1 | 132,586 | 44.7 | 111,159 | 45.7 |
| OTHER INCOME (EXPENSES)**:** | | | | | | |
| Equity in income (loss) of equity method investee | 2,519 | 0.7 | (1,311) | (0.4) | 8,646 | 3.6 |
| Interest income | 7,816 | 2.3 | 5,551 | 1.9 | 6,645 | 2.7 |
| Interest expense | (254) | - | (1,727) | (0.6) | (3,698) | (1.5) |
| Loss from disposal of a subsidiary | (76) | - | - | - | - | - |
| Total other income, net | 10,005 | 3.0 | 2,513 | 0.9 | 11,593 | 4.8 |
| EARNINGS BEFORE INCOME TAX EXPENSE | 153,920 | 45.1 | 135,099 | 45.6 | 122,752 | 50.5 |
| INCOME TAX EXPENSE | 25,126 | 7.4 | 20,993 | 7.1 | 26,639 | 11.0 |
| NET INCOME | 128,794 | 37.7 | 114,106 | 38.5 | 96,113 | 39.5 |
| Less: Net income attributable to non-controlling interest | 24,014 | 7.0 | 25,063 | 8.5 | 25,196 | 10.3 |
| NET INCOME ATTRIBUTABLE TO COMPANY | 104,780 | 30.7 | 89,043 | 30.0 | 70,917 | 29.2 |
| NET INCOME PER SHARE OF COMMON STOCK | | | | | | |
| BASIC | 3.79 | | 3.40 | | 2.85 | |
| DILUTED | 3.74 | | 3.27 | | 2.71 | |

***Comparison of years ended December 31, 2016 and 2015***

***Sales***

Our total sales increased by 15.1%, or $44.7 million, to $341.2 million for 2016, compared to $296.5 million for 2015. In RMB terms, which is a non-GAAP measure, our total sales increased by 22.8% for 2016 as compared to 2015. The increase in sales for 2016 was primarily attributable to the increase in the sales price of human tetanus immunoglobulin products and the increase in the sales volume of human albumin products, placenta polypeptide and human tetanus immunoglobulin products, partially offset by the decrease in the sales volume of IVIG products.

54

The following table summarizes the breakdown of sales by major types of products:

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | Change | |
| | $ | % | $ | % | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | | | |
| Human albumin | 133.7 | 39.2 | 111.4 | 37.6 | 22.3 | 20.0 |
| Immunoglobulin products: | | | | | | |
| IVIG | 117.9 | 34.6 | 125.1 | 42.2 | (7.2 ) | (5.8 ) |
| Other immunoglobulin products | 40.1 | 11.8 | 22.5 | 7.6 | 17.6 | 78.2 |
| Placenta polypeptide | 32.2 | 9.4 | 27.2 | 9.2 | 5.0 | 18.4 |
| Others | 17.3 | 5.0 | 10.3 | 3.4 | 7.0 | 68.0 |
| Totals | 341.2 | 100.0 | 296.5 | 100.0 | 44.7 | 15.1 |

For 2016 as compared to 2015:

- the average price for our approved human albumin products, which represented 39.2% of our total sales for 2016, increased by 1.5% in RMB terms (which is a non-GAAP measure) and decreased by 4.9% in USD terms; and

- the average price for our approved IVIG products, which represented 34.6% of our total sales for 2016, increased by 4.2% in RMB terms (which is a non-GAAP measure) and decreased by 2.3% in USD terms.

The average sales price of our human albumin and IVIG products increased in RMB term for 2016 as compared to 2015, following the removal of the retail price ceiling for drug products effective on June 1, 2015, owing to the increased market demand for human albumin and IVIG products.

The sales volume of our products depends on market demand and our production volume. The production volume of our human albumin products and IVIG products depends primarily on the general plasma supply. The production volume of our hyper-immune products, which include human rabies immunoglobulin, human hepatitis B immunoglobulin and human tetanus immunoglobulin products, is subject to the availability of specific vaccinated plasma and our production capacity. The supply of specific vaccinated plasma requires several months of lead time. Our production facility currently can only accommodate the production of one type of hyper-immune products at any given time and we rotate the production of different types of hyper-immune products from time to time in response to market demand. As such, the sales volume of any given type of hyper-immune products may vary significantly from period to period.

The sales volume of our human albumin products increased by 26.2% for 2016 as compared to 2015, which was primarily attributable to the increased production volume at Shandong Taibang and Guizhou Taibang as a result of increased plasma supply volume. The sales volume of our IVIG products decreased by 3.6% for 2016 as compared to 2015, primarily due to the depletion of IVIG pastes we reserved from prior years that were processed and sold in 2015 and the allocation of more production facilities to human tetanus immunoglobulin products with higher margin in 2016.

The sales increase of other immunoglobulin products for 2016 as compared to 2015 was mainly attributable to the increase in both average sales price and sales volume of human tetanus immunoglobulin products. The sales volume of our human tetanus immunoglobulin increased by 41.9% for 2016 as compared to 2015. The average sales price of human tetanus immunoglobulin products increased significantly for 2016 as compared to 2015 due to the significant market supply shortage following the removal of the retail price ceiling for drug products effective on June 1, 2015.

The sales increase of placenta polypeptide products was generally in line with the sales volume increase for 2016 as compared to 2015. The sales volume of placenta polypeptide products increased by 22.6% for 2016 as compared to 2015, primarily because we increased our market penetration into more hospitals through our improved sales capabilities.

The sales increase of other products for 2016 as compared to 2015 was mainly due to the increase in sales volume of both factor VIII and PCC, sales of which we ramped up in 2016.

***Cost of sales & gross profit***

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| Cost of sales | $ 124.0 | $ 106.5 | $ 17.5 | 16.4 |
| as a percentage of total sales | 36.4 % | 35.9 % | | 0.5 |
| Gross Profit | $ 217.2 | $ 190.0 | $ 27.2 | 14.3 |
| Gross Margin | 63.6 % | 64.1 % | | (0.5 ) |

Our cost of sales was $124.0 million, or 36.4% of our sales, for 2016, as compared to $106.5 million, or 35.9% of our sales for 2015. Our gross profit was $217.1 million and $190.0 million for 2016 and 2015, respectively, representing gross margins of 63.6% and 64.1%, respectively.

Our cost of sales and gross margin are affected by the product pricing, raw material costs, product mix, yields and manufactory efficiency. In an effort to increase plasma collection volume and expand our donor base, we increased the nutrition fees paid to donors consistent with the industry practice. We expect the nutrition fees to be paid to donors will continue to increase as a result of improving living standards in China. Consequently, future improvements on margins will need to be derived from increases in product pricing, yields and manufacturing efficiency, as well as from optimizing the product mix.

The increase of cost of sales was mainly due to the increases in the sales volume of human albumin products, placenta polypeptide products and human tetanus immunoglobulin products, which was partially offset by the decrease in the sales volume of IVIG products. The increase in cost of sales as a percentage of sales for 2016 as compared to 2015 was mainly due to the higher cost of plasma purchased from Xinjiang Deyuan, which was partially offset by the increase in the average sales price of certain plasma products and a more profitable product mix.

***Operating expenses***

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| Operating expenses | $ 73.2 | $ 57.4 | $ 15.8 | 27.5 |
| as a percentage of total sales | 21.5 % | 19.4 % | | 2.1 |

Our total operating expenses increased by $15.8 million, or 27.5%, to $73.2 million for 2016 from $57.4 million for 2015. As a percentage of total sales, total expenses increased by 2.1% to 21.5% for 2016 from 19.4% for 2015. The increase of the total operating expenses was primarily due to the combined effect of the increase of general and administrative expenses and selling expenses as discussed below.

Selling expenses

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| Selling expenses | $ 11.7 | $ 10.0 | $ 1.7 | 17.0 |
| as a percentage of total sales | 3.4 % | 3.4 % | | - |

For 2016, our selling expenses increased by $1.7 million, or 17.0%, to $11.7 million from $10.0 million for 2015. As a percentage of total sales, our selling expenses for 2016 remained stable as compared to 2015. The increase of the selling expenses was in line with the sales growth in 2016 as compared to 2015.

General and administrative expenses

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| General and administrative expenses | $ 54.5 | $ 41.4 | $ 13.1 | 31.6 % |
| as a percentage of total sales | 16.0 % | 14.0 % | | 2.0 |

For 2016, our general and administrative expenses increased by $13.1 million, or 31.6%, to $54.5 million from $41.4 million for 2015. As a percentage of total sales, general and administrative expenses increased by 2.0% to 16.0% for 2016 from 14.0% for 2015. The increase in general and administrative expenses was mainly due to the increase of share-based compensation expenses of $12.3 million.

Research and development expenses

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| Research and development expenses | $ 7.0 | $ 6.0 | $ 1.0 | 16.7 % |
| as a percentage of total sales | 2.1 % | 2.0 % | | 0.1 |

For 2016, our research and development expenses increased by $1.0, or 16.7%, to $7.0 million from $6.0 million for 2015. In 2016 and 2015, we received government grants totaling $0.8 million and $1.2 million, respectively, and recognized them as a reduction of research and development expenses. Excluding this impact, our non-GAAP research and development expenses increased by $0.6 million for 2016 from 2015. As a percentage of total sales, our non-GAAP research and development expenses, excluding the impact of these recognized government grants, decreased by 0.1% to 2.3% for 2016 from 2.4% for 2015.

***Equity in (loss) income of equity method investee***

Our equity method investment represented our 35.0% equity interest in Huitian, our equity method investee. For 2016, our equity in income (loss) of equity method investee increased by $3.8 million to a gain of $2.5 million from a loss of $1.3 million for 2015. Huitian suspended its production and began to construct a new production facility to meet the new GMP standard in late 2013. Huitian incurred operation losses during the suspension period in 2015 as it did not commence production at its new facility until February 2016.

***Income tax expense***

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| Income tax expense | $ 25.1 | $ 21.0 | $ 4.1 | 19.5 |
| Effective income tax rate | 16.3 % | 15.5 % | | 0.8 |

Our provision for income taxes increased by $4.1 million, or 19.5%, to $25.1 million for 2016 from $21.0 million for 2015. Our effective income tax rates were 16.3% and 15.5% for 2016 and 2015, respectively. The increase of effective income tax rate was mainly due to that on a percentage basis, greater losses were generated by China Biologic in U.S. for 2016 as compared to 2015, most of which were provided valuation allowance.

***Comparison of years ended December 31, 2015 and 2014***

***Sales***

Our total sales increased by 21.9%, or $53.2 million, to $296.5 million for 2015, compared to $243.3 million for 2014, primarily due to increases in the sales volumes of human albumin and IVIG. In RMB terms, which is a non-GAAP measure, our sales increased by 23.4% for 2015 as compared to 2014. Such increase of sales was mainly due to the increase in sales volume in major plasma products.

The following table summarizes the breakdown of sales by major types of products:

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | Change | |
| | $ | % | $ | % | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | | | |
| Human albumin | 111.4 | 37.6 | 95.6 | 39.3 | 15.8 | 16.5 |
| Immunoglobulin products: | | | | | | |
| IVIG | 125.1 | 42.2 | 98.4 | 40.4 | 26.7 | 27.1 |
| Other immunoglobulin products | 22.5 | 7.6 | 19.7 | 8.1 | 2.8 | 14.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Placenta polypeptide | 27.2 | 9.2 | 24.0 | 9.9 | 3.2 | 13.3 |
| Others | 10.3 | 3.4 | 5.6 | 2.3 | 4.7 | 83.9 |
| Totals | 296.5 | 100.0 | 243.3 | 100.0 | 53.2 | 21.9 |

For 2015 as compared to 2014:

- the average price for our approved human albumin products, which represented 37.6% of our total sales, remained stable and, excluding the foreign exchange effect, their average price in RMB increased by approximately 1.3% (which is a non-GAAP measure); and

- the average price for our approved IVIG products, which represented 42.2% of our total sales, remained stable, and excluding the foreign exchange effect, their average price in RMB increased by approximately 1.2% (which is a non-GAAP measure).

The average sales price of our human albumin and IVIG products increased in RMB term for 2015 as compared to 2014, as a result of the combined effects of the reduced value added tax, or VAT, rate, strong market demand and our sales effort to increase market shares in tier-one cities and new markets. The VAT rate on sales of plasma products was reduced from 6.0% to 3.0%, effective on July 1, 2014. The reduction in the VAT rate had a positive impact on our sales prices as our sales are recognized as the invoiced price of the products sold minus VAT. All other factors being equal, the reduction in the VAT rate had the effect of increasing our sales price of plasma products by 2.9%. Excluding this impact, the average sales price of our human albumin and IVIG products in RMB term would have remained stable in 2015 as compared to 2014. The average sales price of our human albumin and IVIG products increased slightly in RMB term in response to the strong market demand following the removal of the retail price ceilings for drug products, effective on June 1, 2015. This increase was partially offset by our effort to increase the market share of our human albumin products and IVIG products in tier-one cities and new markets in 2015, whereby we increased sales to distributors with lower invoiced prices compared to direct sales to hospitals and inoculation centers.

The sales volume of our products depends on market demand and our production volume. The production volume of our human albumin products and IVIG products depends primarily on the general plasma supply. The production volume of our hyper-immune products, which include human rabies immunoglobulin, human hepatitis B immunoglobulin and human tetanus immunoglobulin products, is subject to the availability of specific vaccinated plasma and our production capacity. The supply of specific vaccinated plasma requires several months of lead time. Our production facility currently can only accommodate the production of one type of hyper-immune products at any given time and we rotate the production of different types of hyper-immune products from time to time in response to market demand. As such, the sales volume of any given type of hyper-immune products may vary significantly from period to period.

The sales volume of our human albumin products increased by 16.6% for 2015 as compared to 2014, as a result of the increased production volume at Shandong Taibang and Guizhou Taibang. The sales volume of our IVIG products increased by 27.0% for 2015 as compared to 2014, mainly due to the increased sales through distributors in tier-one cities and new markets supported by the increased output following the production resumption at Guizhou Taibang in March 2014. Further, in anticipation of a favorable market environment and our increased sales capabilities in 2015, we reserved a large volume of IVIG pastes from previous years to be processed and sold in early 2015, which also contributed to our increased sales volume in 2015.

The sales increase of other immunoglobulin products for 2015 as compared to 2014 was mainly attributable to the increase in average sales price of human tetanus immunoglobulin products. The increase in average sales price of human tetanus immunoglobulin products was primarily due to the strong market demand coupled by the removal of the retail price ceiling for drug products effective on June 1, 2015.

The sales increase of placenta polypeptide products was generally in line with the volume increase for 2015 as compared to 2014. The sales volume of placenta polypeptide products increased by 12.8% for 2015 as compared to 2014, primarily due to the ramp-up of the production capacities for placenta polypeptide at Guizhou Taibang after receiving the GMP certification for the upgraded production facilities in January 2014.

The sales increase of other products for 2015 as compared to 2014 was mainly due to the increase in sales volume of both factor VIII and PCC.

***Cost of sales & gross profit***

| For the Year Ended December 31, | Change |
|---|---|

| | 2015 | | 2014 | | Amount | % |
|---|---|---|---|---|---|---|
| | (U.S. dollars in millions, except percentage) | | | | | |
| Cost of sales | $ 106.5 | | $ 80.0 | | $ 26.5 | 33.1 |
| as a percentage of total sales | 35.9 | % | 32.9 | % | | 3.0 |
| Gross Profit | $ 190.0 | | $ 163.2 | | $ 26.8 | 16.4 |
| Gross Margin | 64.1 | % | 67.1 | % | | (3.0 ) |

59

Our cost of sales was $106.5 million, or 35.9% of our sales, for 2015, as compared to $80.0 million, or 32.9% of our sales for 2014. Our gross profit was $190.0 million and $163.2 million for 2015 and 2014, respectively, representing gross margins of 64.1% and 67.1%, respectively. Excluding the sales of the products derived from raw plasma outsourced from Xinjiang Deyuan, whose cost is moderately higher than plasma from our own collection stations, our gross margin would have been 65.4% for 2015. Our cost of sales and gross margin are affected by the volume and pricing of our finished products, raw material costs, production mix and yields, inventory impairments, production cycles and routine maintenance costs.

The increase in cost of sales for 2015 as compared to 2014 was generally in line with the increases in sales volume and cost of plasma. In an effort to increase plasma collection volume and expand our donor base, we increased the nutrition fees paid to donors consistent with the industry practice. We expect the nutrition fees to be paid to donors will continue to increase as a result of improving living standards in China. Consequently, future improvements on margins will need to be derived from increases in product pricing, yields and manufacturing efficiency, as well as from optimizing the product mix. The increase in cost of sales as a percentage of sales for 2015 as compared to 2014 was mainly due to the increase in cost of plasma, which was partially offset by the increase in the average sales price of major plasma products.

***Operating expenses***

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2015 | 2014 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| Operating expenses | $ 57.4 | $ 52.1 | $ 5.3 | 10.2 |
| as a percentage of total sales | 19.4 % | 21.4 % | | (2.0 ) |

Our total operating expenses increased by $5.3 million, or 10.2%, to $57.4 million for 2015 from $52.1 million for 2014. As a percentage of total sales, total expenses decreased by 2.0% to 19.4% for 2015 from 21.4% for 2014. The operating expenses for 2014 included a provision of $5.1 million for all the receivables in respect of an employee housing development project at Shandong Taibang as discussed below. Excluding the effect of this provision, our operating expenses increased by $10.4 million, or 22.1%, for 2015 as compared to 2014, primarily due to the combined effect of the increase of the general and administrative expenses and research and development expenses and the decrease of selling expenses as discussed below.

Selling expenses

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2015 | 2014 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| Selling expenses | $ 10.0 | $ 10.7 | $ (0.7 ) | (6.5 ) |
| as a percentage of total sales | 3.4 % | 4.4 % | | (1.0 ) |

For 2015, our selling expenses decreased by $0.7 million, or 6.5%, to $10.0 million from $10.7 million for 2014. As a percentage of total sales, our selling expenses for 2015 decreased by 1.0% to 3.4% from 4.4% for 2014. The decrease was mainly due to the decreased selling expense of placenta polypeptide for 2015 as compared to 2014. We began to utilize internal resources instead of third-party service providers to promote sales of placenta polypeptide products, and did not renew a third-party engagement upon its expiration in May 2014.

General and administrative expenses

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2015 | 2014 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| General and administrative expenses | $ 41.4 | $ 32.1 | $ 9.3 | 29.0 |
| as a percentage of total sales | 14.0 % | 13.2 % | | 0.8 |

For 2015, our general and administrative expenses increased by $9.3 million, or 29.0%, to $41.4 million from $32.1 million for 2014. As a percentage of total sales, general and administrative expenses increased by 0.8% to 14.0% for 2015 from 13.2% for 2014. The increase in general and administrative expenses was mainly due to the increase of share-based compensation expenses totaling $6.7 million. In addition, the disposal losses on assets increased by $2.7 million for 2015 as compared to 2014.

Research and development expenses

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2015 | 2014 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| Research and development expenses | $ 6.0 | $ 4.2 | $ 1.8 | 42.9 |
| as a percentage of total sales | 2.0 % | 1.7 % | | 0.3 |

For 2015, our research and development expenses increased by $1.8, or 42.9%, to $6.0 million from $4.2 million for 2014. In 2015 and 2014, we received government grants totaling $1.2 million and $2.1 million respectively and recognized them as a reduction of research and development expenses. Excluding this impact, our non-GAAP research and development expenses increased by $0.9 million for 2015 from 2014. As a percentage of total sales, our non-GAAP research and development expenses, excluding the impact of the government grants, decreased by 0.2% to 2.4% for 2015 from 2.6% for 2014. The increase of our research and development expenses was mainly due to the expenditures paid for certain clinical trial programs in 2015.

Provision for other receivables in respect of an employee housing development project

In 2014, we made a full provision of $5.1 million for all the receivables in respect of an employee housing development project at Shandong Taibang because it became probable that these receivables may not be recoverable after all legal means of collection were exhausted.

***Equity in (loss) income of equity method investee***

Our equity method investment represented our 35.0% equity interest in Huitian, our equity method investee. For 2015, our equity in (loss) income of equity method investee decreased by $9.9 million to a loss of $1.3 million from income of $8.6 million for 2014. Huitian suspended its production and began to construct a new production facility to meet the new GMP standard in late 2013. Huitian incurred operation losses during the suspension period in 2015 as it did not commence production at its new facility until February 2016. In 2014, Huitian disposed of a subsidiary, recognizing a gain of RMB116.7 million (approximately $19.0 million).

***Income tax expense***

| | For the Year Ended December 31, | | Change | |
|---|---|---|---|---|
| | 2015 | 2014 | Amount | % |
| | (U.S. dollars in millions, except percentage) | | | |
| Income tax expense | $ 21.0 | $ 26.6 | $ (5.6 ) | (21.1 ) |
| Effective income tax rate | 15.5 % | 21.7 % | | (6.2 ) |

Our provision for income taxes decreased by $5.6 million, or 21.1%, to $21.0 million for 2015 from $26.6 million for 2014. For 2014, we incurred the dividend withholding income tax of $8.9 million in respect of the dividends declared or to be declared by Shandong Taibang. With our plan to reinvest Shandong Taibang's earnings in its business operations, we no longer incurred dividend withholding income tax in respect of Shandong Taibang since 2015 following an internal corporate restructuring.

Excluding the impact of dividend withholding income tax, our effective income tax rates were 15.5% and 14.4% for 2015 and 2014, respectively. The statutory tax rate applicable to our major operating subsidiaries in the PRC for 2015 and 2014 was 15.0%.

**Foreign Currency Exchange Impact**

All of our consolidated revenues and consolidated costs of sales and majority of expenses, as well as all of our assets (except for certain cash balances) are denominated in RMB, whereas our reporting currency is U.S. dollars. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollars and RMB. For details, see "Item 7A. Quantitative and Qualitative Disclosures about Market Risk— Foreign Exchange Risk."

Given that our operations are primarily in China, we evaluate certain key items of our financial results on a local currency basis (i.e., in RMB) in addition to the reporting currency (i.e., in USD). The local currency presentation, which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing local currency information on such key items enhances the understanding of our financial results and evaluation of performance in comparison to prior periods. We calculate changes in local currency percentages by comparing financial results denominated in RMB from period to period.

**Liquidity and Capital Resources**

To date, we have financed our operations primarily through cash flows from operations, augmented by bank borrowings and equity contributions by our stockholders. As of December 31, 2016, we had $183.8 million in cash and cash equivalents, primarily consisting of cash on hand and demand deposits.

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

**Cash Flow**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (U.S. dollars in millions) | | |
| Net cash provided by operating activities | $ 123.3 | $ 109.4 | $ 93.5 |
| Net cash used in investing activities | (52.5) | (89.8) | (13.4) |
| Net cash (used in) provided by financing activities | (22.1) | 51.6 | (142.8) |
| Effects of exchange rate change in cash | (9.8) | (7.1) | (0.6) |
| Net increase (decrease) in cash and cash equivalents | 38.9 | 64.1 | (63.3) |
| Cash and cash equivalents at beginning of the year | 144.9 | 80.8 | 144.1 |
| Cash and cash equivalents at end of the year | $ 183.8 | $ 144.9 | $ 80.8 |

***Operating activities***

Cash inflows from operating activities totaled $123.3 million in 2016, $109.4 million in 2015, and $93.5 million in 2014. Cash inflows increased by $13.9 million in 2016 as compared to 2015 and increased by $15.9 million in 2015 as compared to 2014. Such increases in cash inflows from operations were mainly in line with the improvements in our results of operations in 2016 and 2015, partially offset by an increase in accounts receivable and inventories during the relevant years.

Accounts receivable

Our average collection speed of accounts receivable slowed down slightly in 2016 as compared to 2015. The accounts receivable turnover days for plasma products were 41 days, 34 days, and 31 days for 2016, 2015, and 2014, respectively. The increase in turnover days for 2016 was primarily due to the extended credit terms granted to certain qualified hospitals in 2016 for enhancing our business relationship with certain key customers. In 2015, we adjusted our sales strategy by granting extended credit terms to certain qualified distributors of human rabies immunoglobulin products to assist in their bidding efforts with provincial centers for disease control and prevention. In prior years, these distributors were required to make the payments in advance of our product deliveries.

Inventories

Cash outflows for inventories increased in both 2016 and 2015. The increases in inventory for 2016, 2015 and 2014 were $40.1, $32.1 million and $13.4 million, respectively. The increase of inventories in 2016 as compared to 2015 was mainly attributable to the increase in source plasma purchased from Xinjiang Deyuan as well as the increase of finished goods in preparation for Shandong Taibang’s facility transition. The increase of inventories in 2015 as compared to 2014 was mainly attributable to the source plasma and plasma pastes purchased from Xinjiang Deyuan.

***Investing activities***

Cash outflows from investing activities for 2016 was $52.5 million, as compared to $89.8 million and $13.4 million for 2015 and 2014, respectively. In 2016, we paid $51.0 million for the acquisition of property, plant and equipment, intangible assets and land use rights and provided loans of $12.3 million to Xinjiang Deyuan, which was partially offset by a $10.3 million refund of deposits on land use rights from the local government.

In 2015, we paid $52.3 million for the acquisition of property, plant and equipment, intangible assets and land use rights and provided a long-term loan of $40.7 million to Xinjiang Deyuan, which was partially offset by government grants of $2.5 million in connection with our purchase of property, plant and equipment.

In 2014, we paid $21.9 million for the acquisition of property, plant and equipment, intangible assets and land use rights, which was partially offset by a $1.6 million refund of deposits from the local government due to a decrease in the size of a land parcel purchased by Guizhou Taibang and proceeds of $6.6 million from the maturity of a time deposit made in 2013.

***Financing activities***

Cash outflows from financing activities for 2016 totaled $22.1 million, as compared to cash inflows from financing activities totaled $51.6 million and cash outflows from financing activities totaled $142.8 million for 2015 and 2014, respectively.

Cash outflows from financing activities in 2016 mainly consisted of payment of $58.1 million to the former minority shareholders of Guizhou Taibang in connection with their capital withdrawal from Guizhou Taibang (See Item 3 “Legal Proceedings”) and a dividend payment of $7.9 million by our subsidiary to noncontrolling interest shareholder, partially offset by the maturity of a $37.8 million time deposit as a security for a bank loan that was fully repaid in June 2015 and proceeds of $3.6 million from stock option exercised.

Cash inflows from financing activities in 2015 mainly consisted of net proceeds of $80.6 million from a follow-on offering of our company’s common stock in June 2015, proceeds of $63.2 million from the maturity of deposits used as security for bank loans, proceeds of $15.8 million from a short-term bank loan and proceeds of $7.7 million from stock options exercised, partially offset by repayments of bank loans totaling $113.5 million and a dividend of $3.7 million held in escrow by a trial court in connection with disputes with a minority shareholder of Guizhou Taibang.

Cash outflows from financing activities in 2014 mainly consisted of a payment of $86.8 million for acquisition of noncontrolling interest in Guizhou Taibang, a dividend payment of $8.8 million by our subsidiaries to noncontrolling interest shareholders and a payment of $70.0 million for repurchase of shares from an individual stockholder, partially offset by proceeds of $33.2 million from a follow-on offering of our company’s common stock.

Management believes that our company has sufficient cash on hand and will continue to have positive cash inflow for its operations from the sale of its products in the PRC market.

**Obligations under Material Contracts**

The following table sets forth our material contractual obligations as of December 31, 2016:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than one year | One to three years | Three to five years | More than five years |
| | (U.S. dollars in millions) | | | | |
| Operating lease commitment | 1.1 | 0.4 | 0.6 | - | 0.1 |
| Purchase commitment | 44.7 | 25.4 | 19.3 | - | - |
| Capital commitment | 27.4 | 24.6 | 2.8 | - | - |
| Total | 73.2 | 50.4 | 22.7 | - | 0.1 |

**Seasonality of our Sales**

Our operating results and operating cash flows historically have not been subject to seasonal variations. This pattern may change, however, as a result of new market opportunities or new product introductions.

**Inflation**

Inflation does not materially affect our business or the results of our operations.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our investors.

**Critical Accounting Policies**

The preparation of financial statements in conformity with United States generally accepted accounting principles, or U.S. GAAP, requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following:

***Use of estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment and intangibles with definite lives, the allowances for doubtful accounts, the fair value determinations of equity instruments and stock compensation awards, the realizability of deferred tax assets and inventories, the recoverability of intangible assets, land use rights, property, plant and equipment, equity method investment and loan receivable, and accruals for income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

***Allowance for doubtful accounts***

We maintain an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses, the customers' financial condition, the amount of accounts receivable in dispute, the accounts receivable aging and customers' payment patterns. We review our allowance for doubtful accounts monthly. Past due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance-sheet credit exposure related to our customers.

We generally ask our distributors to pay in advance before we deliver products, with few exceptions for a credit period of no longer than 60 days. For hospitals and clinics, depending on the relationship and the creditability, we generally grant a credit period of no longer than 90 days with exceptions to customers, which we believe are credit worthy, of up to six months. We have provided a bad debt allowance of $123,239, $34,902 and $6,211 respectively for 2016, 2015 and 2014. Due to recovery of bad debt that we previously provided an allowance, the recoveries of bad debt

provision was nil, nil and $30,673 for 2016, 2015 and 2014, respectively.

***Inventories***

Inventories are stated at the lower of cost or market. Adjustments are recorded to write down the carrying amount of any obsolete and excess inventory to its estimated net realizable value based on historical and forecasted demand.

We review the inventory periodically for possible obsolete goods and cost in excess of net realizable value to determine if any reserves are necessary. Provisions to write-down the carrying amount of obsolete inventory to its estimated net realizable value amounted to $256,862, $76,587 and $324,584 for 2016, 2015 and 2014, respectively, and were recorded as cost of sales in the consolidated statements of comprehensive income.

***Long-lived assets***

Long-lived assets, such as property, plant and equipment, and purchased intangible asset subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Our operations are carried out in the PRC and we are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. Accordingly, our business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC economy. Our results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

**Interest Rate Risk**

We are exposed to interest rate risk primarily with respect to our bank loans. We have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. However, our future interest expenses may increase due to changes in market interest rates.

Management monitors the banks' prime rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

**Foreign Exchange Risk**

All of our consolidated revenues and consolidated costs and majority of expenses are denominated in RMB. All of our assets are denominated in RMB, except certain cash balances. However, our reporting currency is U.S. dollars. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollars and RMB. If RMB depreciates against the U.S. dollars, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and shareholders' equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of stockholders' equity. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

RMB is currently freely convertible under the "current account," which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account," which includes foreign direct investment. In addition, beginning in July 2005, China reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of major foreign currencies. Under the managed floating exchange rate regime, RMB is no longer pegged to U.S. dollars. The People's Bank of China announces the closing prices of foreign currencies such as U.S. dollars traded against RMB in the inter-bank foreign exchange market after the closing of the market on each business day, and makes such prices the central parity for trading against RMB on the following business day. On May 19, 2007, the People's Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against U.S. dollars in the inter-bank spot foreign exchange market from 0.3% to 0.5%. On June 19, 2010, the People's Bank of China announced that it would proceed further with the reform of the RMB exchange rate regime to enhance the flexibility of the RMB exchange rate and that emphasis would be placed on reflecting market supply and demand with reference to a basket of major foreign currencies. On April 16, 2012, the People's Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against U.S. dollars in the inter-bank spot foreign exchange market from 0.5% to 1.0%. On March 17, 2014, the People's Bank of China announced a policy to further expand the maximum daily floating range of RMB trading prices against U.S. dollars in the inter-bank spot foreign exchange market to 2.0%. In the long term, RMB may appreciate or depreciate more significantly in value against U.S. dollars or other foreign currencies, depending on the market supply and demand with reference to a basket of major foreign currencies. On August 10, 2015, the People's Bank of China announced that it had changed the calculation method for RMB's daily central parity exchange rate against U.S. dollars, which resulted in an approximately 2.0% depreciation of RMB on that day. RMB continued to experience an approximately 9.6% depreciation against U.S. dollars throughout the remainder of 2015 and up to the date of this report.

**Account Balances**

We maintain cash balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for the banks located in the United States, Hong Kong Deposit Protection Board insured limits for the banks located in Hong Kong, or China Deposit Insurance Scheme insured limits for the banks located in the PRC. Total cash at banks, time deposits and restricted cash deposits as of December 31, 2016 and December 31, 2015 amounted to $183.1 million and $182.3 million respectively, $2.7 million and $3.0 million of which are covered by insurance, respectively. We have not experienced any losses in such accounts and we do not believe that we are exposed to any significant risks on our cash at banks and deposits.

**Inflation**

Inflationary factors such as increases in the cost of our sales and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net sales if the selling prices

of our products do not increase with these increased costs.

**Market for Human Albumin and IVIG**

Our two major products, human albumin and IVIG, accounted for 39.2% and 34.6% of the total sales for 2016, respectively. If the market demands for human albumin or IVIG cannot be sustained in the future or if there is substantial price decrease in either or both products, our operating results could be materially and adversely affected.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**.

**Consolidated Financial Statements**

The full text of our audited consolidated financial statements as of December 31, 2016, 2015 and 2014 begins on page F-1 of this report.

**Quarterly Financial Results**

The following table sets forth certain unaudited financial information for each of the eight quarters ended December 31, 2016. The consolidated financial statements for each of these quarters have been prepared on the same basis as the audited consolidated financial statements included in this annual report and, in the opinion of management, include all adjustments necessary for the fair presentation of the results of operations for these periods. This information should be read together with our audited consolidated financial statements and the related notes included elsewhere in this annual report.

| | December 31, 2016 | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 |
|---|---|---|---|---|---|---|---|---|
| | (U.S. dollars in thousands, except per share data) | | | | | | | |
| Sales | $77,634 | $ 86,526 | $91,421 | $ 85,588 | $ 68,285 | $ 78,751 | $79,068 | $70,354 |
| Gross profit | 46,772 | 58,879 | 59,939 | 51,545 | 41,263 | 50,806 | 52,013 | 45,893 |
| Earnings before income tax expense | 27,530 | 42,552 | 44,498 | 39,340 | 23,531 | 35,931 | 40,366 | 35,271 |
| Net income attributable to Company | 19,439 | 28,391 | 30,753 | 26,197 | 16,280 | 22,877 | 26,724 | 23,162 |
| Basic earnings per share | 0.69 | 1.02 | 1.12 | 0.96 | 0.60 | 0.86 | 1.05 | 0.91 |
| Diluted earnings per share | 0.69 | 1.01 | 1.10 | 0.94 | 0.59 | 0.82 | 0.99 | 0.87 |

Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly net earnings per share will not necessarily equal the total for the year.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**.

None.

**ITEM 9A. CONTROLS AND PROCEDURES**.

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information that would be required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) promulgated under the Securities Exchange Act, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the design and operating effectiveness as of December 31, 2016 of our disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act. Based on this evaluation our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2016, our disclosure controls and procedures were effective at the reasonable assurance level to enable our company to record, process, summarize and report information required under the SEC's rules in a timely manner.

**Management's Annual Report on Internal Control over Financial Reporting**

Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) refers to the process designed by, or under the supervision of, our Chief Executive Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management is responsible for establishing and maintaining adequate internal control over financial reporting.

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

Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this evaluation, management used the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including the control environment, risk assessment, control activities, information and communication, and monitoring activities. Based on our evaluation we determined that our internal control over financial reporting was effective as of December 31, 2016.

Our internal control over financial reporting as of December 31, 2016 has been audited by our registered public accounting firm as stated in their report which is included in Part II, Item 9A of this form 10-K.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

China Biologic Products, Inc.:

We have audited China Biologic Products, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). China Biologic Products, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, China Biologic Products, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of China Biologic Products, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated February 23, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Huazhen LLP

Beijing, China

February 23, 2017

**Changes in Internal Controls over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(d) and 15d-15(f)) during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

**Entry into a Material Definitive Agreement**

Given the timing of the event, the following information is included in this Form 10-K pursuant to Item 1.01 "Entry into a Material Definitive Agreement" of Form 8-K in lieu of filing a Form 8-K.

On February 22, 2017, our board of directors (the "Board") authorized and declared a dividend distribution of one right (a "Right") for each outstanding share of the common stock, par value $0.0001 per share (the "Common Shares"), of the Company to stockholders of record at the close of business on March 6, 2017 (the "Record Date"). The complete terms of the Rights are set forth in a Preferred Shares Rights Agreement (the "Rights Agreement"), dated as of February 22, 2017, between the Company and Securities Transfer Corporation, as rights agent.

The Board adopted the Rights Agreement to protect stockholders from coercive or otherwise unfair takeover tactics. In general terms, it works by imposing a significant penalty upon any person or group that acquires 15% or more of the Common Shares without the approval of the Board after February 22, 2017. As a result, the overall effect of the Rights Agreement and the issuance of the Rights may be to render more difficult or discourage a merger, tender or exchange offer or other business combination involving the Company that is not approved by the Board. However, neither the Rights Agreement nor the Rights should interfere with any merger, tender or exchange offer or other business combination approved by the Board. The Board had previously adopted similar preferred shares rights agreements on November 19, 2012, which expired on November 20, 2014, and on January 8, 2015, which expired on January 8, 2017.

Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Series A Participating Preferred Stock, par value $0.0001 per share (the "Preferred Shares"), of the Company at an exercise price of $550.00 per one one-thousandth of a Preferred Share, subject to adjustment (the "Exercise Price"). However, the Rights are not immediately exercisable and will become exercisable only upon the occurrence of certain events. In

particular, after February 22, 2017:

- if a person or group acquires 15% or more of the Company's Common Shares (including through derivatives), then the Rights will become exercisable and each Right will entitle its holder (except the acquiring person or group) to purchase, at the Exercise Price, a number of the Company's Common Shares having a then-current market value of twice the Exercise Price;

- if after a person or group acquires 15% or more of the Company's Common Shares, the Company merges into another company, an acquiring entity merges into the Company or the Company sells or transfers more than 50% of its assets, cash flow or earning power, then each Right will entitle its holder (except the acquiring person or group) to purchase, for the Exercise Price, a number of shares of common stock of the person engaging in the transaction having a then-current market value of twice the Exercise Price; or

- after a person or group acquires 15% or more of the Company's Common Shares, the Board may, at its option, exchange the Rights (except for Rights held by the acquiring person or group), in whole or in part, for Common Shares at an exchange ratio of one Common Share per Right (subject to adjustment).

The following is a more detailed summary of the terms of the Rights Agreement. The summary does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, a copy of which is attached as Exhibit 4.5 and incorporated herein by reference.

*Distribution and Transfer of Rights; Rights Certificates*

The Board has declared a dividend of one Right for each outstanding Common Share. Prior to the Distribution Date referred to below:

- the Rights will be evidenced by and trade with the certificates for the Common Shares (or, with respect to any uncertificated Common Shares registered in book entry form, by notation in book entry), together with a copy of this summary of Rights, and no separate rights certificates will be distributed;

- new Common Shares certificates issued after the Record Date will contain a legend incorporating the Rights Agreement by reference (for uncertificated Common Shares registered in book entry form, this legend will be contained in a notation in book entry); and

- the surrender for transfer of any certificates for Common Shares (or the surrender for transfer of any uncertificated Common Shares registered in book entry form) will also constitute the transfer of the Rights associated with such Common Shares.

Rights will accompany any new Common Shares that are issued after the Record Date.

*Distribution Date*

Subject to certain exceptions specified in the Rights Agreement, the Rights will separate from the Common Shares and become exercisable following (i) the 10th business day (or such later date as may be determined by the Board) after the public announcement that an Acquiring Person has acquired beneficial ownership of 15% or more of the Common Shares or (ii) the 10th business day (or such later date as may be determined by the Board) after a person or

group announces a tender or exchange offer that would result in ownership by a person or group of 15% or more of the Common Shares. For purposes of the Rights Agreement, beneficial ownership is defined to include the ownership of derivative securities.

"Acquiring Person" means a person or group of affiliated or associated persons who has acquired beneficial ownership of 15% or more of the Common Shares; provided however, no person who, at the time of the adoption of the Rights Agreement, beneficially owns 15% or more of the Common Shares shall be deemed to be an Acquiring Person (i.e. a stockholder's existing ownership of the Common Shares will be grandfathered), unless and until such person acquires beneficial ownership of additional 2% or more of the Common Shares without the pre-approval of the Board.

The date on which the Rights separate from the Common Shares and become exercisable is referred to as the "Distribution Date."

After the Distribution Date, the Company will mail Rights certificates to the Company's stockholders as of the close of business on the Distribution Date and the Rights will become transferable apart from the Common Shares. Thereafter, such Rights certificates alone will represent the Rights.

*Preferred Shares Purchasable Upon Exercise of Rights*

After the Distribution Date, each Right will entitle the holder to purchase, for the Exercise Price, one one-thousandth of a Preferred Share having economic and other terms similar to that of one Common Share. This portion of a Preferred Share is intended to give the stockholder approximately the same dividend, voting and liquidation rights as would one Common Share, and should approximate the value of one Common Share.

More specifically, each one one-thousandth of a Preferred Share, if issued, will:

- not be redeemable;
- entitle holders to quarterly dividend payments of $0.001 per share, or an amount equal to the dividend paid on one Common Share, whichever is greater;
- entitle holders upon liquidation either to receive $1 per share or an amount equal to the payment made on one Common Share, whichever is greater;
- have the same voting power as one Common Share; and

- entitle holders to a per share payment equal to the payment made on one Common Share, if the Common Shares are exchanged via merger, consolidation or a similar transaction.

*Flip-In Trigger*

If an Acquiring Person obtains beneficial ownership of 15% or more of the Common Shares, then each Right will entitle the holder thereof to purchase, for the Exercise Price, a number of Common Shares (or, in certain circumstances, cash, property or other securities of the Company) having a then-current market value of twice the Exercise Price. However, the Rights are not exercisable following the occurrence of the foregoing event until such time as the Rights are no longer redeemable by the Company, as further described below.

Following the occurrence of an event set forth in preceding paragraph, all Rights that are or, under certain circumstances specified in the Rights Agreement, were beneficially owned by an Acquiring Person or certain of its transferees will be null and void.

*Flip-Over Trigger*

If, after an Acquiring Person obtains 15% or more of the Common Shares, (i) the Company merges into another entity, (ii) an acquiring entity merges into the Company or (iii) the Company sells or transfers more than 50% of its assets, cash flow or earning power, then each Right (except for Rights that have previously been voided as set forth above) will entitle the holder thereof to purchase, for the Exercise Price, a number of shares of common stock of the person engaging in the transaction having a then-current market value of twice the Exercise Price.

*Exchange Provision*

At any time after the date on which an Acquiring Person beneficially owns 15% or more of the Common Shares, the Board may, at its option, exchange the Rights (except for Rights that have previously been voided as set forth above), in whole or in part, for Common Shares at an exchange ratio of one Common Share per Right (subject to adjustment). In certain circumstances, the Company may elect to exchange the Rights for cash or other securities of the Company having a value approximately equal to one Common Share.

*Redemption of the Rights*

The Rights will be redeemable at the Company’s option for $0.001 per Right (payable in cash, Common Shares or other consideration deemed appropriate by the Board) at any time on or prior to the 10th business day (or such later date as may be determined by the Board) after the public announcement that an Acquiring Person has acquired beneficial ownership of 15% or more of the Common Shares. Immediately upon the action of the Board ordering redemption, the Rights will terminate and the only right of the holders of the Rights will be to receive the $0.001 redemption price. The redemption price will be adjusted if the Company undertakes a stock dividend or a stock split.

*Expiration of the Rights*

The Rights expire on the earliest of (i) 5:00 p.m., New York City time, on the two year anniversary date of the date of the Rights Agreement (unless such date is extended) or (ii) the redemption or exchange of the Rights as described above.

*Amendment of Terms of Rights Agreement and Rights*

The terms of the Rights and the Rights Agreement may be amended in any respect without the consent of the holders of the Rights on or prior to the Distribution Date. Thereafter, the terms of the Rights and the Rights Agreement may be amended without the consent of the holders of Rights in order to cure any ambiguities, to shorten or lengthen any time period pursuant to the Rights Agreement or to make changes that do not adversely affect the interests of holders of the Rights.

*Voting Rights; Other Stockholder Rights*

The Rights will not have any voting rights. Until a Right is exercised, the holder thereof, as such, will have no separate rights as stockholder of the Company.

*Anti-Dilution Provisions*

The Board may adjust the Exercise Price, the number of Preferred Shares issuable and the number of outstanding Rights to prevent dilution that may occur from a stock dividend, a stock split or a reclassification of the Preferred Shares or Common Shares.

With certain exceptions, no adjustments to the Exercise Price will be made until the cumulative adjustments amount to at least 1% of the Exercise Price. No fractional Preferred Shares will be issued and, in lieu thereof, an adjustment in cash will be made based on the current market price of the Preferred Shares.

*Taxes*

The distribution of Rights should not be taxable for federal income tax purposes. However, following an event that renders the Rights exercisable or upon redemption of the Rights, stockholders may recognize taxable income.

**Disclosure pursuant to Section 13(r) of the Exchange Act**

Pursuant to Section 13(r) of the Securities Exchange Act of 1934, we may be required to disclose in our annual and quarterly reports to the Securities and Exchange Commission (the "SEC"), whether we or any of our "affiliates" knowingly engaged in certain activities, transactions or dealings relating to Iran or with certain individuals or entities targeted by US economic sanctions. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law. Because the SEC defines the term "affiliate" broadly, it includes any entity under common "control" with us (and the term "control" is also construed broadly by the SEC).

The description of the activities below has been provided to us by Warburg Pincus LLC ("WP"), affiliates of which: (i) beneficially own more than 10% of our outstanding common stock and/or are members of our board of directors, (ii) beneficially own more than 10% of the equity interests of, and have the right to designate members of the board of directors of Santander Asset Management Investment Holdings Limited ("SAMIH"). SAMIH may therefore be deemed to be under common "control" with us; however, this statement is not meant to be an admission that common control exists.

The disclosure below relates solely to activities conducted by SAMIH and its affiliates. The disclosure does not relate to any activities conducted by us or by WP and does not involve our or WP's management. Neither we nor WP has had any involvement in or control over the disclosed activities, and neither we nor WP has independently verified or participated in the preparation of the disclosure. Neither we nor WP is representing as to the accuracy or completeness of the disclosure nor do we or WP undertake any obligation to correct or update it.

We understand that one or more SEC-reporting affiliates of SAMIH intends to disclose in its next annual or quarterly SEC report that:

(a) Santander UK plc ("Santander UK") holds two savings accounts and one current account for two customers resident in the United Kingdom ("UK") who are currently designated by the United States ("US") under the Specially Designated Global Terrorist ("SDGT") sanctions program. Revenues and profits generated by Santander UK on these accounts in the year ended December 31, 2016 were negligible relative to the overall revenues and profits of Banco Santander SA.

(b) Santander UK held a savings account for a customer resident in the UK who is currently designated by the US under the SDGT sanctions program. The savings account was closed on July 26, 2016. Revenue generated by Santander UK on this account in the year ended December 31, 2016 was negligible relative to the overall revenues and profits of Banco Santander SA.

76

(c) Santander UK held a current account for a customer resident in the UK who is currently designated by the US under the SDGT sanctions program. The current account was closed on December 22, 2016. Revenue generated by Santander UK on this account in the year ended December 31, 2016 was negligible relative to the overall revenues and profits of Banco Santander SA.

(d) Santander UK holds two frozen current accounts for two UK nationals who are designated by the US under the SDGT sanctions program. The accounts held by each customer have been frozen since their designation and have remained frozen through the year ended December 31, 2016. The accounts are in arrears (£1,844.73 in debit combined) and are currently being managed by Santander UK Collections & Recoveries department. Revenues and profits generated by Santander UK on these accounts in the year ended December 31, 2016 were negligible relative to the overall revenues and profits of Banco Santander SA.

(e) During the year ended December 31, 2016, Santander UK had an OFAC match on a power of attorney account. A party listed on the account is currently designated by the US under the SDGT sanctions program and the Iranian Financial Sanctions Regulations ("IFSR"). The power of attorney was removed from the account on July 29, 2016. During the year ended December 31, 2016, related revenues and profits generated by Santander UK were negligible relative to the overall revenues and profits of Banco Santander SA.

(f) An Iranian national, resident in the UK, who is currently designated by the US under the IFSR and the Weapons of Mass Destruction Proliferators Sanctions Regulations, held a mortgage with Santander UK that was issued prior to such designation. The mortgage account was redeemed and closed on April 13, 2016. No further drawdown has been made (or would be allowed) under this mortgage although Santander UK continued to receive repayment instalments prior to redemption. Revenues generated by Santander UK on this account in the year ended December 31, 2016 were negligible relative to the overall revenues of Banco Santander SA. The same Iranian national also held two investment accounts with Santander ISA Managers Limited. The funds within both accounts were invested in the same portfolio fund. The accounts remained frozen until the investments were closed on May 12, 2016 and bank checks issued to the customer. Revenues generated by Santander UK on these accounts in the year ended December 31, 2016 were negligible relative to the overall revenues and profits of Banco Santander SA.

(g) In addition, during the year ended December 31, 2016, Santander UK held a basic current account for an Iranian national, resident in the UK, previously designated under the Iranian Transactions and Sanctions Regulations. The account was closed in September 2016. Revenues generated by Santander UK on this account in the year ended December 31, 2016 were negligible relative to the overall revenues and profits of Banco Santander SA.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information required by Item 10 of Part III is included in our Proxy Statement for our 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION.**

The information required by Item 11 of Part III is included in our Proxy Statement for our 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

**Securities Authorized for Issuance under Equity Compensation Plans**

The following table includes the information as of December 31, 2016 for each category of our equity compensation plan:

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) [1] | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders[2] | 314,491 | $ 10.32 | 684,245 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 314,491 | $ 10.32 | 684,245 |

(1) Excludes shares of restricted stock granted pursuant to our 2008 Equity Incentive Plan. The 912,650 shares of unvested restricted stock at December 31, 2016 are issuable without the payment of any cash consideration by the grantee.

(2) Our board of directors adopted the 2008 Plan on May 9, 2008 and shortly thereafter sought and obtained written consent from the holders of a majority of our then outstanding shares. However, in response to an SEC comment in 2010, the disclosure in the foregoing table was revised for presently unknown reasons to reflect that the 2008 Plan

was not approved by our stockholders. Our recent review of our records indicates that the written consent signed by the holders of a majority of our then outstanding shares may not have complied with all requirements for a stockholder consent under the Delaware General Corporation Law (the "DGCL"). We believe that, even if the written consent did not satisfy all of the requirements applicable to stockholder consents under the DGCL, this written consent constituted approval of the 2008 Plan by the stockholders pursuant to the terms of the 2008 Plan. In addition, regardless of whether the stockholders' written consent complied with all requirements of the DGCL, we believe that the options granted and restricted stock awarded by our board of directors under the 2008 Plan are valid.

The 2008 Plan provides for grants of stock options, stock appreciation rights, performance units, restricted stock, restricted stock units and performance shares. A total of five million shares of our common stock may be issued pursuant to the 2008 Plan. The exercise price per share for the shares to be issued pursuant to an exercise of a stock option will be no less than the fair market value per share on the grant date, except that, in the case of an incentive stock option granted to a person who holds more than 10.0% of the total combined voting power of all classes of our stock or any of our subsidiaries, the exercise price will be no less than 110.0% of the fair market value per share on the grant date. As of December 31, 2016, 912,650 shares of restricted stock and options to purchase 314,491 share of our common stock were outstanding. No awards may be granted under the 2008 Plan after May 9, 2018, except that any award granted before then may extend beyond that date.

The other information required by Item 12 of Part III is included in our Proxy Statement for our 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The information required by Item 13 of Part III is included in our Proxy Statement for our 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information required by Item 14 of Part III is included in our Proxy Statement for our 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

**Financial Statements and Schedules**

The financial statements are set forth under Item 8 of this annual report on Form 10-K. Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

**Exhibit List**

The list of exhibits in the Exhibit Index to this Report is incorporated herein by reference.

**ITEM 16. FORM 10-K SUMMARY.**

None.

**SIGNATURES**

In accordance with section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereto duly authorized individual.

Date: February 23, 2017

**CHINA BIOLOGIC PRODUCTS, INC.**

By: /s/ David (Xiaoying) Gao
David (Xiaoying) Gao
Chief Executive Officer

By: /s/ Ming Yang
Ming Yang
Chief Financial Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ David (Xiaoying) Gao<br>David (Xiaoying) Gao | Chairman and Chief Executive Officer<br>(Principal Executive Officer) | February 23, 2017 |
| /s/ Ming Yang<br>Ming Yang | Chief Financial Officer<br>(Principal Financial and Accounting Officer ) | February 23, 2017 |
| /s/ Sean Shao<br>Sean Shao | Director | February 23, 2017 |
| /s/ Zhijun Tong<br>Zhijun Tong | Director | February 23, 2017 |
| /s/ Yungang Lu<br>Yungang Lu | Director | February 23, 2017 |
| /s/ Wenfang Liu<br>Wenfang Liu | Director | February 23, 2017 |
| /s/ Albert (Wai Keung) Yeung<br>Albert (Wai Keung) Yeung | Director | February 23, 2017 |
| /s/ Joseph Chow<br>Joseph Chow | Director | February 23, 2017 |

**CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES**

**CONTENTS**


| | **Page** |
|---|---|
| Report of Independent Registered Public Accounting Firm | F-1 |
| Consolidated Balance Sheets | F-2 |
| Consolidated Statements of Comprehensive Income | F-3 |
| Consolidated Statements of Changes in Equity | F-4 |
| Consolidated Statements of Cash Flows | F-5 |
| Notes to Consolidated Financial Statements | F-7 - F-30 |

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

China Biologic Products, Inc.:

We have audited the accompanying consolidated balance sheets of China Biologic Products, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Biologic Products, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Biologic Products, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG Huazhen LLP

Beijing, China
February 23, 2017

CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | Note | December 31, 2016 USD | December 31, 2015 USD |
|---|---|---|---|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 183,765,533 | 144,937,893 |
| Time deposits | | - | 38,032,593 |
| Accounts receivable, net of allowance for doubtful accounts | 3 | 33,918,796 | 25,144,969 |
| Inventories | 5 | 156,412,674 | 126,395,312 |
| Prepayments and other current assets, net of allowance for doubtful accounts | 4,12 | 18,275,717 | 24,545,597 |
| Deposits related to land use rights, current portion | 8 | 999,571 | 10,056,200 |
| Total Current Assets | | 393,372,291 | 369,112,564 |
| | | | |
| Property, plant and equipment, net | 7 | 132,091,923 | 105,364,251 |
| Land use rights, net | | 23,389,384 | 23,576,300 |
| Equity method investment | 9 | 10,614,755 | 8,718,133 |
| Loan receivable | 10 | 43,245,000 | 39,834,173 |
| Other non-current assets | 12 | 2,244,156 | 4,861,075 |
| Total Assets | | 604,957,509 | 551,466,496 |
| | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable | | 6,158,601 | 9,681,835 |
| Other payables and accrued expenses | 11 | 59,798,145 | 57,462,563 |
| Income tax payable | | 7,484,366 | 4,510,986 |
| Total Current Liabilities | | 73,441,112 | 71,655,384 |
| | | | |
| Deferred income | | 3,755,648 | 4,525,867 |
| Other liabilities | 12 | 6,623,926 | 8,323,446 |
| Total Liabilities | | 83,820,686 | 84,504,697 |
| | | | |
| Stockholders' Equity | | | |
| Common stock: par value $0.0001; 100,000,000 shares authorized; 29,427,609 and 28,835,053 shares issued at December 31, 2016 and 2015, respectively; 27,172,905 and 26,580,349 shares outstanding at December 31, 2016 and 2015, respectively | | 2,943 | 2,884 |
| Additional paid-in capital | 22 | 105,459,610 | 105,079,845 |
| Treasury stock: 2,254,704 shares at December 31, 2016 and 2015, respectively, at cost | 15,21 | (56,425,094) | (56,425,094) |

| | | | |
|---|---|---|---|
| Retained earnings | | 438,483,401 | 333,704,094 |
| Accumulated other comprehensive loss | | (25,320,271) | (18,605) |
| Total equity attributable to China Biologic Products, Inc. | | 462,200,589 | 382,343,124 |
| Noncontrolling interest | 22 | 58,936,234 | 84,618,675 |
| Total Stockholders' Equity | | 521,136,823 | 466,961,799 |
| Commitments and contingencies | 10,18 | - | - |
| Total Liabilities and Stockholders' Equity | | 604,957,509 | 551,466,496 |

See accompanying notes to Consolidated Financial Statements.

CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Note | For the Years Ended December 31, 2016 USD | December 31, 2015 USD | December 31, 2014 USD |
|---|---|---|---|---|
| Sales | 17 | 341,169,426 | 296,457,902 | 243,251,658 |
| Cost of sales | | 124,034,448 | 106,482,626 | 80,025,375 |
| Gross profit | | 217,134,978 | 189,975,276 | 163,226,283 |
| Operating expenses | | | | |
| Selling expenses | | 11,679,242 | 9,973,449 | 10,707,409 |
| General and administrative expenses | | 54,519,122 | 41,391,520 | 32,129,985 |
| Research and development expenses | | 7,021,992 | 6,024,368 | 4,161,901 |
| Provision for other receivables in respect of an employee housing development project | 6 | - | - | 5,068,075 |
| Income from operations | | 143,914,622 | 132,585,939 | 111,158,913 |
| Other income (expenses) | | | | |
| Equity in income (loss) of an equity method investee | 9 | 2,519,201 | (1,311,278) | 8,646,181 |
| Interest income | | 7,815,780 | 5,551,105 | 6,644,886 |
| Interest expense | | (254,471) | (1,727,335) | (3,697,819) |
| Loss from disposal of a subsidiary | | (75,891) | - | - |
| Total other income, net | | 10,004,619 | 2,512,492 | 11,593,248 |
| Earnings before income tax expense | | 153,919,241 | 135,098,431 | 122,752,161 |
| Income tax expense | 12 | 25,125,820 | 20,992,913 | 26,639,527 |
| Net income | | 128,793,421 | 114,105,518 | 96,112,634 |
| Less: Net income attributable to noncontrolling interest | | 24,014,114 | 25,062,815 | 25,195,794 |
| Net income attributable to China Biologic Products, Inc. | | 104,779,307 | 89,042,703 | 70,916,840 |
| Net income per share of common stock: | 19 | | | |
| Basic | | 3.79 | 3.40 | 2.85 |
| Diluted | | 3.74 | 3.27 | 2.71 |
| Weighted average shares used in computation: | 19 | | | |
| Basic | | 26,848,445 | 25,599,153 | 24,427,196 |
| Diluted | | 27,249,144 | 26,567,366 | 25,685,064 |
| Net income | | 128,793,421 | 114,105,518 | 96,112,634 |

| | | | |
|---|---|---|---|
| Other comprehensive loss: | | | |
| Foreign currency translation adjustment, net of nil income taxes | (31,303,262 ) | (24,368,360 ) | (1,918,715 ) |
| Comprehensive income | 97,490,159 | 89,737,158 | 94,193,919 |
| Less: Comprehensive income attributable to noncontrolling interest | 19,026,592 | 20,698,249 | 24,798,384 |
| Comprehensive income attributable to China Biologic Products, Inc. | 78,463,567 | 69,038,909 | 69,395,535 |

See accompanying notes to Consolidated Financial Statements

CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Common stock | | Additional | | | Accumulated other | Equity attributable to China | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Par value USD | paid-in capital USD | Treasury stock USD | Retained earnings USD | comprehensive income (loss) USD | Biologic Products, Inc. USD | Noncontr interest USD |
| **Balance as of January 1, 2014** | **27,341,744** | 2,734 | 72,031,864 | (29,594,080) | 173,744,551 | 21,506,494 | 237,691,563 | 66,278,0 |
| Net income | - | - | - | - | 70,916,840 | - | 70,916,840 | 25,195,7 |
| Other comprehensive loss | - | - | - | - | - | (1,521,305 ) | (1,521,305 ) | (397,41 |
| Dividend declared to noncontrolling interest shareholders | - | - | - | - | - | - | - | (13,056, |
| Acquisition of noncontrolling interests | - | - | (68,802,855 ) | - | - | - | (68,802,855 ) | (15,122, |
| Share repurchase | - | - | - | (70,000,000) | - | - | (70,000,000 ) | - |
| Share-based compensation | - | - | 5,396,271 | - | - | - | 5,396,271 | - |
| Excess tax benefits from stock option exercises | - | - | 1,333,594 | - | - | - | 1,333,594 | 277,805 |
| Reissuance of treasury stock | - | - | 10,189,059 | 23,023,459 | - | - | 33,212,518 | - |
| Common stock issued in connection with: | | | | | | | | |
| - Exercise of stock options | 417,002 | 42 | 3,860,359 | - | - | - | 3,860,401 | - |
| - Vesting of restricted shares | 107,125 | 11 | (11 ) | - | - | - | - | - |
| **Balance as of December 31, 2014** | **27,865,871** | 2,787 | 24,008,281 | (76,570,621) | 244,661,391 | 19,985,189 | 212,087,027 | 63,174,7 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income | - | - | - | - | 89,042,703 | - | 89,042,703 | 25,062,8 |
| Other comprehensive loss | - | - | - | - | - | (20,003,794) | (20,003,794 ) | (4,364,5 |
| Share-based compensation | - | - | 12,114,272 | - | - | - | 12,114,272 | - |
| Excess tax benefits from stock option exercises | - | - | 1,225,941 | - | - | - | 1,225,941 | 292,761 |
| Reissuance of treasury stock | - | - | 60,438,432 | 20,145,527 | - | - | 80,583,959 | - |
| Adjustments in noncontrolling interest resulting from capital injections | - | - | (452,962 ) | - | - | - | (452,962 ) | 452,962 |
| Common stock issued in connection with: | | | | | | | | |
| - Exercise of stock options | 780,557 | 78 | 7,745,900 | - | - | - | 7,745,978 | - |
| - Vesting of restricted shares | 188,625 | 19 | (19 ) | - | - | - | - | - |
| **Balance as of December 31, 2015** | **28,835,053** | 2,884 | 105,079,845 | (56,425,094) | 333,704,094 | (18,605 ) | 382,343,124 | 84,618,6 |
| | | | | | | | | |
| Net income | - | - | - | - | 104,779,307 | - | 104,779,307 | 24,014,1 |
| Other comprehensive loss | - | - | - | - | - | (26,315,740) | (26,315,740 ) | (4,987,5 |
| Dividend declared to noncontrolling interest shareholder | - | - | - | - | - | - | - | (10,901, |
| Share-based compensation | - | - | 24,405,511 | - | - | - | 24,405,511 | - |
| Excess tax benefits from stock option exercises | - | - | 2,299,316 | - | - | - | 2,299,316 | 314,515 |
| Adjustments in noncontrolling interest resulting from capital injections | - | - | 513,397 | - | - | - | 513,397 | (513,397 |
| Capital withdrawal by noncontrolling interest | - | - | (30,397,196 ) | - | - | 1,014,074 | (29,383,122 ) | (33,608, |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| shareholders | | | | | | | | |
| Common stock issued in connection with: | | | | | | | | |
| - Exercise of stock options | 337,406 | 34 | 3,558,762 | - | - | - | 3,558,796 | - |
| - Vesting of restricted shares | 255,150 | 25 | (25) | - | - | - | - | - |
| **Balance as of December 31, 2016** | **29,427,609** | 2,943 | 105,459,610 | (56,425,094) | 438,483,401 | (25,320,271) | 462,200,589 | 58,936,2 |

See accompanying notes to Consolidated Financial Statements.

CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Years Ended | | |
|---|---|---|---|
| | December 31, 2016 USD | December 31, 2015 USD | December 31, 2014 USD |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | 128,793,421 | 114,105,518 | 96,112,634 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 11,962,983 | 8,179,376 | 6,989,222 |
| Amortization | 775,053 | 854,364 | 758,232 |
| Loss on sale of property, plant and equipment | 293,098 | 3,024,830 | 172,032 |
| Allowance (reversal) for doubtful accounts - accounts receivable, net | 123,239 | 34,902 | (24,462) |
| Allowance for doubtful accounts - other receivables and prepayments | 65,341 | 788 | 5,068,075 |
| Impairment for other non-current assets | 1,225,200 | - | - |
| Write-down of obsolete inventories | 256,862 | 76,587 | 324,584 |
| Deferred tax (benefit) expense | (3,006,541) | (170,345) | 3,483,890 |
| Share-based compensation | 24,405,511 | 12,114,272 | 5,396,271 |
| Equity in (income) loss of an equity method investee | (2,519,201) | 1,311,278 | (8,646,181) |
| Loss from disposal of a subsidiary | 75,891 | - | - |
| Excess tax benefits from share-based compensation arrangements | (2,613,831) | (1,518,702) | (1,611,399) |
| Change in operating assets and liabilities: | | | |
| Accounts receivable | (10,971,773) | (7,146,311) | (2,191,118) |
| Prepayment and other current assets | 1,946,800 | 879,165 | (9,236,125) |
| Inventories | (40,077,384) | (32,095,328) | (13,418,971) |
| Accounts payable | 2,966,885 | 5,348,896 | 405,071 |
| Other payables and accrued expenses | 4,221,669 | 6,734,988 | 4,472,691 |
| Deferred income | (686,757) | (416,185) | (224,040) |
| Income tax payable | 6,022,145 | (1,926,093) | 5,683,912 |
| Net cash provided by operating activities | 123,258,611 | 109,392,000 | 93,514,318 |
| | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Payment for property, plant and equipment | (49,371,318) | (38,790,998) | (17,194,201) |
| Payment for intangible assets and land use rights | (1,635,891) | (13,500,526) | (4,677,358) |
| Refund of payments and deposits related to land use right | 10,297,893 | - | 1,635,200 |
| Proceeds upon maturity of time deposit | - | - | 6,608,612 |
| Proceeds from sale of property, plant and equipment and land use rights | 393,019 | 827,020 | 220,135 |
| Loans lent to a third party | (12,332,718) | (40,744,167) | - |
| Proceeds from disposal of a subsidiary | 128,654 | - | - |
| Receipt of government grants related to property and equipment | - | 2,452,864 | - |
| Net cash used in investing activities | (52,520,361) | (89,755,807) | (13,407,612) |

See accompanying notes to Consolidated Financial Statements.

CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Years Ended | | |
|---|---|---|---|
| | December 31, 2016 USD | December 31, 2015 USD | December 31, 2014 USD |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from stock option exercised | 3,558,796 | 7,745,978 | 3,860,401 |
| Payment for share repurchase | - | - | (70,000,000) |
| Proceeds from short-term bank loans | - | 15,770,881 | 44,500,340 |
| Repayment of short-term bank loans | - | (47,201,255) | (22,833,400) |
| Proceeds from long-term bank loans | - | - | 70,000,000 |
| Repayment of long-term bank loans | - | (66,300,000) | (33,700,000) |
| Payment for cash deposit as security for bank loans | - | - | (104,172,005) |
| Maturity of deposit as security for bank loans | 37,756,405 | 63,152,258 | 30,370,670 |
| Net proceeds from reissuance of treasury stock | - | 80,583,959 | 33,212,518 |
| Acquisition of noncontrolling interest | - | - | (86,830,499) |
| Excess tax benefits from share-based compensation arrangements | 2,613,831 | 1,518,702 | 1,611,399 |
| Dividend paid by subsidiaries to noncontrolling interest shareholders | (7,921,952) | - | (8,846,984) |
| Dividend to the trial court to be held in escrow as to dispute with Jie'an | - | (3,690,814) | - |
| Payment to noncontrolling interest shareholders in connection with their capital withdrawal | (58,091,018) | - | - |
| Net cash (used in) provided by financing activities | (22,083,938) | 51,579,709 | (142,827,560) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH | (9,826,672) | (7,098,233) | (597,409) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 38,827,640 | 64,117,669 | (63,318,263) |
| Cash and cash equivalents at beginning of year | 144,937,893 | 80,820,224 | 144,138,487 |
| Cash and cash equivalents at end of year | 183,765,533 | 144,937,893 | 80,820,224 |
| Supplemental cash flow information | | | |
| Cash paid for income taxes | 22,210,476 | 23,348,371 | 17,652,514 |
| Cash paid for interest expense | 84,664 | 1,526,807 | 3,150,381 |
| Noncash investing and financing activities: | | | |
| Acquisition of property, plant and equipment included in payables | 4,912,937 | 6,363,392 | 3,300,284 |
| Loan receivable offset by accounts payable | 5,848,400 | - | - |

See accompanying notes to Consolidated Financial Statements.

F-6

CHINA BIOLOGIC PRODUCTS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014

**NOTE 1 – DESCRIPTION OF BUSINESS AND SIGNIFICANT CONCENTRATIONS AND RISKS**

China Biologic Products, Inc. ("CBP") and its subsidiaries (collectively, the "Company"), through its subsidiaries in the People's Republic of China (the "PRC"), is a biopharmaceutical company that is principally engaged in the research, development, manufacturing and sales of plasma-based pharmaceutical products in the PRC. The PRC subsidiaries own and operate plasma collection stations that purchase and collect plasma from individual donors. The plasma is processed into finished goods after passing through a series of fractionating processes. All of the Company's plasma products are prescription medicines that require government approval before the products are sold to customers. The Company primarily sells its products to hospitals and inoculation centers directly or through distributors in the PRC.

*Cash Concentration*

The Company maintains cash balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for its bank accounts located in the United States or may exceed Hong Kong Deposit Protection Board insured limits for its bank accounts located in Hong Kong or may exceed the insured limits for its bank accounts in China established by China Deposit Insurance Fund Management Institution. Total cash at banks and deposits as of December 31, 2016 and December 31, 2015 amounted to $183,078,440 and $182,291,723, respectively, of which $2,744,704 and $3,020,569 are insured, respectively. The Company has not experienced any losses in uninsured bank deposits and does not believe that it is exposed to any significant risks on cash held in bank accounts.

*Sales Concentration*

The Company's two major products are human albumin and human immunoglobulin for intravenous injection ("IVIG"). Human albumin accounted for 39.2%, 37.6% and 39.3% of the total sales for the years ended December 31, 2016, 2015 and 2014, respectively. IVIG accounted for 34.6%, 42.2% and 40.4% of the total sales for the years ended December 31, 2016, 2015 and 2014, respectively. If the market demands for human albumin and IVIG cannot be sustained in the future or the price of human albumin and IVIG decreases, the Company's operating results could be adversely affected.

Substantially all of the Company's customers are located in the PRC. There were no customers that individually comprised 10% or more of sales during the years ended December 31, 2016, 2015 and 2014. No individual customer represented 10% or more of accounts receivables as at December 31, 2016 and 2015. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

*Purchase Concentration*

There was one supplier, namely, Xinjiang Deyuan Bioengineering Co., Ltd. ("Xinjiang Deyuan") (see Note 10), that comprised 10% or more of the total purchases during the year ended December 31, 2016 and 2015. No supplier that comprised 10% or more of the total purchases during the year ended December 31, 2014. Chongqing Sanda Great Exploit Pharmaceutical Co, Ltd. and Xinjiang Deyuan represented more than 10% of accounts payables as at December 31, 2016 and December 31, 2015, respectively.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), and include the financial statements of the Company and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation. The Company has no involvement with variable interest entities. The Company accounts for investments over which it has significant influence but not a controlling financial interest using the equity method of accounting.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment and intangibles with definite lives, the allowances for doubtful accounts, the fair value determinations of stock compensation awards, the realizability of deferred tax assets and inventories, the recoverability of intangible assets, land use rights, property, plant and equipment, equity method investment and loan receivable, and accruals for income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Foreign Currency Translation

The accompanying consolidated financial statements of the Company are reported in US dollar. The financial position and results of operations of the Company's subsidiaries in the PRC are measured using the Renminbi, which is the local and functional currency of these entities. Assets and liabilities of the subsidiaries are translated at the prevailing exchange rate in effect at each period end. Revenues and expenses are translated at the average rate of exchange during the period. Translation adjustments are included in other comprehensive income (loss).

Revenue Recognition

Revenue represents the invoiced value of products sold, net of value added taxes (VAT).

Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred and the customer takes ownership and assumes risk of loss, the sales price is fixed or determinable and collection of the relevant receivable is probable. The Company mainly sells human albumin and human immunoglobulin to hospitals, inoculation centers and pharmaceutical distributors. For all sales, the Company requires a signed contract or purchase order, which specify pricing, quantity and product specifications. Delivery of the product occurs when the customer receives the product, which is when the risks and rewards of ownership have been transferred. Delivery is evidenced by signed customer acknowledgement. The Company’s sales agreements do not provide the customer the right of return, unless the product is defective in which case the Company allows for an exchange of product or return. For the periods presented, defective product returns were inconsequential.

Fair Value Measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices for identical assets or liabilities in active markets accessible to the entity at the measurement date.

- Level 2 Inputs: Other than quoted prices included in Level 1, inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

See Note 16 to the Consolidated Financial Statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits. The Company considers all highly liquid investments with original maturities of three-month or less at the time of purchase to be cash equivalents. Cash and cash equivalents at December 31, 2016 and 2015 include $98,022,000 and $85,422,000 of certificates of deposit with an initial term of three months or less.

As of December 31, 2016 and 2015, the Company maintained cash and cash equivalents at banks in the following locations:

| | December 31, 2016 USD | December 31, 2015 USD |
|---|---|---|
| PRC, excluding Hong Kong | 171,539,309 | 130,319,811 |
| U.S. | 11,539,131 | 13,939,319 |
| Total | 183,078,440 | 144,259,130 |

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses, the customers' financial condition, the amount of accounts receivables in dispute, the accounts receivables aging and the customers' payment patterns. The Company reviews its allowance for doubtful accounts monthly. Past due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average method. Cost of work in progress and finished goods comprise direct materials, direct production costs and an allocation of production overheads based on normal operating capacity. Adjustments are recorded to write down the carrying amount of any obsolete and excess inventory to its estimated net realizable value based on historical and forecasted demand.

Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation and amortization of property, plant and equipment attributable to manufacturing activities is capitalized as part of inventories, and recognized as cost of revenues when the inventory is sold. Cost incurred in the construction of property, plant and equipment, including process payments and deposits, are initially capitalized as construction-in-progress and transferred into their respective asset categories when the assets are ready for their intended use, at which time depreciation commences.

Depreciation on property, plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the assets are as follows:

| | |
|---|---|
| Buildings | 30 years |
| Machinery and equipment | 10 years |
| Furniture, fixtures, office equipment and vehicles | 5-10 years |

When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value and the proceeds received thereon. Ordinary maintenance and repairs are charged to expense as incurred, and replacements and betterments are capitalized and amortized over the remaining useful life.

Equity Method Investment

Investment in an investee in which the Company has the ability to exercise significant influence, but does not have a controlling interest is accounted for using the equity method. Significant influence is generally presumed to exist when the Company has an ownership interest in the voting stock between 20% and 50%, and other factors, such as representation on the board of directors and participation in policy-making processes, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the Company's share of the investee's results of operations is included in other income (expenses) in the Company's consolidated statements of comprehensive income. Deferred taxes are provided for the difference between the book and tax basis of the investment. The Company recognizes a loss if it is determined that other than temporary decline in the value of the investment exists. The process of assessing and determining whether an impairment on a particular equity investment is other than temporary requires a significant amount of judgment. To determine whether an impairment is other-than-temporary, management considers whether the Company has the ability and intent to hold the investment until recovery and whether evidence indicating the carrying value of the investment is recoverable outweighs evidence to the contrary. No impairment loss was recognized by the Company for the years ended December 31, 2016, 2015 and 2014.

Government Grants

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received. Grants that compensate research and development expenses are recognized as a reduction to the related research and development expenses. Grants that compensate the Company for the cost of property, plant and equipment and land use rights are recognized as deferred income and are recognized over the useful life of the asset by way of other income.

For the year ended December 31, 2016, the Company received government grants of RMB5,056,361 (approximately $728,874), which have been recognized as a reduction of research and development expenses.

For the year ended December 31, 2015, the Company received government grants of RMB15,000,000 (approximately $2,452,864) related to the new manufacturing facilities for factor products in Shandong Taibang, which was recorded as deferred income. These grants are amortized as the related assets are depreciated. The grants amortized amounted to $410,369 and $118,751 for the year ended December 31, 2016 and 2015, respectively. For the year ended December 31, 2015, government grants of RMB7,280,600 (approximately $1,188,907), have been recognized as a reduction of research and development expenses.

For the year ended December 31, 2014, government grants of RMB12,963,600 (approximately $2,111,770), have been recognized as a reduction of research and development expenses.

For the year ended December 31, 2012, the Company received government grants of RMB18,350,000 (approximately $2,989,215) related to the technical upgrade of the manufacturing facilities in Guizhou Taibang. The grants amortized amounted to $276,388, $297,434 and $224,191 for the years ended December 31, 2016, 2015 and 2014, respectively.

Land Use Rights

Land use rights represent the exclusive right to occupy and use a piece of land in the PRC for a specified contractual term. Land use rights are carried at cost, less accumulated amortization. Amortization is calculated using the straight-line method over the contractual period of the rights ranging from 40 to 50 years.

Research and Development Expenses

Research and development costs are expensed as incurred. Research and development expenses for the years ended December 31, 2016, 2015 and 2014 were $7,021,992, $6,024,368 and $4,161,901, respectively. These expenses include the costs of the Company's internal research and development activities.

Product Liability

The Company's products are covered by two separate product liability insurances each with coverages of approximately $2,883,000 (or RMB20,000,000) for the products sold by Shandong Taibang Biological Products Co., Ltd. ("Shandong Taibang") and Guizhou Taibang Biological Products Co., Ltd. ("Guizhou Taibang"), respectively. There were no product liability claims as of December 31, 2016.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of comprehensive income in the period that includes the enactment date. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses.

Share-based Payment

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the cost over the period during which an employee is required to provide service in exchange for the award, which generally is the vesting period.

Long-lived Assets

Long-lived assets, such as property, plant and equipment, and purchased intangible asset subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Net Income per Share

Basic net income per share of common stock is computed by dividing net income attributable to common stockholders by the weighted average number of common stock outstanding during the year using the two-class method. Under the two-class method, net income is allocated between common stock and other participating securities based on their participating rights in undistributed earnings. The Company's nonvested shares were considered participating securities since the holders of these securities participate in dividends on the same basis as common stockholders. Diluted net income per share is calculated by dividing net income attributable to common stockholders as adjusted for the effect of dilutive common stock equivalent, if any, by the weighted average number of common stock and dilutive common stock equivalent outstanding during the year. Potential dilutive securities are not included in the calculation of diluted earnings per share if the impact is anti-dilutive.

Segment Reporting

The Company has one operating segment, which is the manufacture and sales of human plasma products. Substantially all of the Company's operations and customers are located in the PRC, and therefore, no geographic information is presented.

Contingencies

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations and tax matters. An accrual for a loss contingency is recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. The original effective date for ASU 2014-09 would have required the Company to adopt beginning in its first quarter of 2017. In August 2015, the

FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for one year and permits early adoption as early as the original effective date of ASU 2014-09. Accordingly, the Company may adopt the standard in either its first quarter of 2017 or 2018. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company plans to complete its evaluation by the third quarter of 2017, including an assessment of the new expanded disclosure requirements and a final determination of the transition method we will use to adopt the new standard.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which modified lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 is effective for public companies for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. This standard will be effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating the impact of adopting ASU 2016-09 on its consolidated financial statements. Adoption of this new standard is not expected to have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which addressed and provided guidance for each of eight specific cash flow issues with the objective of reducing the existing diversity in practice. This standard will be effective for public companies for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting ASU 2016-15 on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This standard required that companies recognize the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs. Current guidance prohibits companies from recognizing current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This standard will be effective for public companies for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable at December 31, 2016 and 2015 consisted of the following:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | USD | USD |
| Accounts receivable | 34,452,392 | 25,588,593 |
| Less: Allowance for doubtful accounts | (533,596) | (443,624) |
| Total | 33,918,796 | 25,144,969 |

The activity in the allowance for doubtful accounts – accounts receivable for the years ended December 31, 2016, 2015 and 2014 are as follows:

| | For the Years Ended | | |
|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2014 |
| | USD | USD | USD |
| Beginning balance | 443,624 | 433,948 | 460,689 |
| Provisions | 123,239 | 34,902 | 6,211 |
| Recoveries | - | - | (30,673) |
| Write-offs | - | - | - |
| Foreign currency translation adjustment | (33,267) | (25,226) | (2,279) |
| Ending balance | 533,596 | 443,624 | 433,948 |

**NOTE 4 – PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and other current assets as of December 31, 2016 mainly represented other receivables of $10,117,032 and prepayments of $2,921,069. Prepayments and other current assets as of December 31, 2015 mainly represented other receivables of $17,846,006 and prepayments of $2,206,131.

The activity in the allowance for doubtful accounts – other receivables and prepayments for the years ended December 31, 2016, 2015 and 2014 are as follows:

| | For the Years Ended December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| | USD | USD | USD |
| Beginning balance | 4,924,063 | 5,207,840 | 142,951 |
| Provisions | 65,341 | 788 | 5,068,075 |
| Recoveries | - | - | - |
| Write-offs | - | - | - |
| Foreign currency translation adjustment | (317,508) | (284,565) | (3,186) |
| Ending balance | 4,671,896 | 4,924,063 | 5,207,840 |

**NOTE 5 – INVENTORIES**

Inventories at December 31, 2016 and 2015 consisted of the following:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | USD | USD |
| Raw materials | 80,781,903 | 57,418,230 |
| Work-in-process | 24,994,839 | 27,401,062 |
| Finished goods | 50,635,932 | 41,576,020 |
| Total | 156,412,674 | 126,395,312 |

Raw materials mainly comprised of the human plasma collected from the Company's plasma collection stations. Work-in-process represented the intermediate products in the process of production. Finished goods mainly comprised plasma products. Provisions to write-down the carrying amount of obsolete inventory to its estimated net realizable value amounted to $256,862, $76,587 and $324,584 for the years ended December 31, 2016, 2015 and 2014,

respectively, and were recorded as cost of sales in the consolidated statements of comprehensive income.

**NOTE 6 – OTHER RECEIVABLES IN RESPECT OF AN EMPLOYEE HOUSING DEVELOPMENT PROJECT**

In 2009, 107 employees, or the Employee-participants, of Shandong Taibang entered into agreements, or the Housing Project Agreements, with a real estate developer regarding a housing development project, pursuant to which the developer agreed to develop and deliver residential units to the Employee-participants by the end of 2011 and the Employee-participants paid the developer deposits equal to 80% of the purchase prices of the residential units. To assist with their deposit payment, Shandong Taibang entered into separate agreements, or the Financial Assistance Agreements, with the Employee-participants and provided them with advances of up to 50% of the purchase prices of the residential units. These advances were to be repaid by deductions from the Employee-participants' salaries. In addition, Shandong Taibang also entered into a purchase agreement with the developer to purchase additional units in the development project and made a deposit of RMB3,823,200 (approximately $622,799). However, the developer failed to deliver the residential units and is unlikely to be able to perform the Housing Project Agreements. In August 2014, the Company entered into agreements, or the Advance Payment Agreements, with the Employee-participants, pursuant to which the Company made advance payments to the Employee-participants equal to the deposits that the Employee-participants had paid the developer pursuant to the Housing Project Agreements and refunded them the deductions previously made from their salaries pursuant to the Financial Assistance Agreements together with accrued interest totaling RMB27,071,684 (approximately $4,409,977). In November 2014, Shandong Taibang entered into supplemental agreements to the Advance Payment Agreements, or the Supplemental Agreements, with the Employee-participants, pursuant to which the Employee-participants transferred and assigned to Shandong Taibang their rights under the Housing Project Agreements, including their rights to pursue legal actions against and recover damages from the developer, and in return, Shandong Taibang waived its right to claim the advance payments and the refunds of the deductions under the Advance Payment Agreements. During the year ended December 31, 2014, the Company made a full provision of $5,068,075 in the consolidated financial statements for all the receivables in respect of this employee housing development project (see Note 4), including the deposits paid to the developer, the total advance payments and refunds made under this employee housing development project, as well as the related fees and expenses, because it became probable that these receivables may not be recoverable after all legal means of collection were exhausted.

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment at December 31, 2016 and 2015 consisted of the following:

| | December 31, 2016 USD | December 31, 2015 USD |
|---|---|---|
| Buildings | 34,131,032 | 31,505,133 |
| Machinery and equipment | 52,467,764 | 54,640,502 |
| Furniture, fixtures, office equipment and vehicles | 7,843,567 | 7,859,951 |
| Total property, plant and equipment, gross | 94,442,363 | 94,005,586 |

| | | |
|---|---|---|
| Accumulated depreciation | (39,315,011) | (31,521,859) |
| Total property, plant and equipment, net | 55,127,352 | 62,483,727 |
| Construction in progress | 61,825,470 | 26,115,927 |
| Prepayment for property, plant and equipment | 15,139,101 | 16,764,597 |
| Property, plant and equipment, net | 132,091,923 | 105,364,251 |

Depreciation expense for the years ended December 31, 2016, 2015 and 2014 was $11,962,983, $8,179,376 and $6,989,222, respectively. No interest expenses were capitalized into construction in progress for the years ended December 31, 2016, 2015 and 2014.

**NOTE 8 – DEPOSITS RELATED TO LAND USE RIGHTS**

In 2012, Guizhou Taibang made a refundable payment of RMB83,400,000 (approximately $12,022,110) to the local government in connection with the public bidding for a land use right in Guizhou Province. Given the decrease of the land area to be provided by the local government, RMB13,000,000 (approximately $1,873,950) and RMB 10,000,000 (approximately $1,441,500) was refunded by the local government in December 2013 and January 2014, respectively. Guizhou Taibang completed the bidding and purchased the land use right in December 2015. For the year ended December 31, 2016, RMB59,665,759 (approximately $8,600,819) was refunded by the local government. The remaining deposit is expected to be refunded in 2017.

**NOTE 9 – EQUITY METHOD INVESTMENT**

The Company's equity method investment as of December 31, 2016 and 2015 represented 35% equity interest investment in Xi'an Huitian Blood Products Co., Ltd. ("Huitian").

In October 2008, Shandong Taibang entered into an equity purchase agreement with one of the equity owners of Huitian ("Seller") to acquire 35% equity interest in Huitian. In connection with this transaction, in October 2008, Taibang Biological Limited ("Taibang Biological") entered into an entrust agreement (the "Entrust Agreement") with Shandong Taibang and the noncontrolling interest holder of Shandong Taibang, pursuant to which, Taibang Biological would pay the cash consideration, including interest, of $6,502,901 (or RMB44,327,887) to the Seller, and would bear the risks and benefits as a 35% equity owner in Huitian. In addition, Taibang Biological would pay Shandong Taibang RMB120,000 (approximately $19,548) per year as compensation for the administrative costs of Shandong Taibang's holding of the 35% equity interest in Huitian on behalf of Taibang Biological. Such amount paid and received is eliminated upon consolidation. Taibang Biological agreed to indemnify the noncontrolling interest holder of Shandong Taibang for any loss arising from the Entrust Agreement and has pledged the Company's equity interest in Shandong Taibang as collateral against such loss.

The excess of carrying amount over the Company's share of net assets of equity method investees, which represented goodwill, is $1,179,637 and $1,260,243 at December 31, 2016 and 2015, respectively. The equity method goodwill is not amortized; however, the investment is reviewed for impairment.

**NOTE 10 –LOAN RECEIVABLE**

(a) Current

In June 2016, the Company entered into a RMB40,000,000 (approximately $5,766,000) loan agreement with Xinjiang Deyuan. Pursuant to the agreement, Guizhou Taibang agreed to provide Xinjiang Deyuan with interest-bearing loans at an interest rate of 6% per annum. The loan is unsecured and due on the earlier of 1) within five days after Xinjiang Deyuan obtaining other loans from financial institutions, or 2) September 20, 2016. Interest will be paid on the last day of each month. On July 1, 2016, RMB40,000,000 (approximately $5,766,000) was lent to Xinjiang Deyuan.

On October 18, 2016, the Company entered into a supplemental agreement to the loan agreement with Xinjiang Deyuan, pursuant to which the principal of the loan was agreed to offset accounts payable for the purchase of plasma from Xinjiang Deyuan in two installments, with the remaining principal of the loan, if any, being repaid by Xinjiang

Deyuan no later than December 20, 2016. The Company has the right to charge an interest rate of 9% per annum for any overdue loan since September 21, 2016 according to loan agreement.

In the fourth quarter of 2016, the principal of the loan was completely offset by accounts payable for the purchase of plasma from Xinjiang Deyuan. Furthermore, as agreed between the Company and Xinjiang Deyuan, interest receivable amounting to $35,723 and $675,933 for the foregoing loan and the loans as described in Note 10(b), respectively, was also offset by accounts payable for the purchase of plasma from Xinjiang Deyuan.

Interest income of $160,878 was recognized by Guizhou Taibang for the year ended December 31, 2016. $125,155 was received by Guizhou Taibang and $35,723 was offset as discussed above for the year ended December 31, 2016.

(b) Non-current

In August 2015, the Company entered into a cooperation agreement with Xinjiang Deyuan and the controlling shareholder of Xinjiang Deyuan. Pursuant to the agreement, Guizhou Taibang agreed to provide Xinjiang Deyuan with interest-bearing loans at an interest rate of 6% per annum with an aggregate principal amount of RMB300,000,000 (approximately $43,245,000). The loans are due July 31, 2018 and secured by a pledge of Deyuan Shareholder's 58.02% equity interest in Xinjiang Deyuan. Interest will be paid on the 20th day of the last month of each quarter. For the year ended December 31, 2015, RMB258,663,461 (approximately $37,286,338) was lent to Xinjiang Deyuan. The remaining RMB41,336,539 (approximately $5,958,662) was lent during the three months period ended March 31, 2016.

Interest income of $2,661,700 was recognized by Guizhou Taibang for the year ended December 31, 2016. $1,985,767 was received by Guizhou Taibang and $675,933 was offset as described in Note 10(a) for the year ended December 31, 2016.

Interest income of $496,170 was recognized by Guizhou Taibang for the year ended December 31, 2015 and received by Guizhou Taibang for the year ended December 31, 2016.

**NOTE 11 – OTHER PAYABLES AND ACCRUED EXPENSES**

Other payables and accrued expenses at December 31, 2016 and 2015 consisted of the following:

| | December 31, 2016 USD | December 31, 2015 USD |
|---|---|---|
| Payables to potential investors [1] | 7,941,013 | 9,550,588 |
| Payable to Guizhou Eakan Investing Corp. [2] | 2,098,824 | 2,242,240 |
| Payable to Guizhou Jie'an Company[3] | - | 1,565,052 |
| Salaries and bonuses payable | 16,740,846 | 13,520,721 |
| Accruals for selling commission and promotion fee | 4,391,160 | 2,360,933 |
| Dividends payable to noncontrolling interest | 7,952,467 | 5,309,920 |
| Payables for construction work | 5,364,441 | 7,257,489 |

| | | |
|---|---|---|
| Other tax payables | 1,918,248 | 3,855,405 |
| Advance from customers | 3,976,832 | 1,934,321 |
| Deposits received | 2,541,420 | 3,615,143 |
| Others | 6,872,894 | 6,250,751 |
| Total | 59,798,145 | 57,462,563 |

(1) The payables to potential investors comprise deposits received from potential investors of $4,924,164 and $6,123,040 as of December 31, 2016 and 2015, respectively, and related interest plus penalty on these deposits totaling $3,016,849 and $3,427,548 as of December 31, 2016 and 2015, respectively.

In 2007, Guizhou Taibang received an aggregate amount of RMB50,960,000 (approximately $7,345,884) from certain potential investors in connection with their subscription to purchase shares in Guizhou Taibang. In 2010, the Company refunded RMB11,200,000 (approximately $1,614,480) to one of the potential investors. In 2016, the Company refunded RMB5,600,000 (approximately $807,240) to another potential investor pursuant to a settlement agreement entered into by Guizhou Taibang and this potential investor in August 2016.

(2) Guizhou Taibang has payables to Guizhou Eakan Investing Corp., amounting to approximately $2,098,824 and $2,242,240 as of December 31, 2016 and 2015, respectively. The Company borrowed this interest free advance for working capital purpose for Guizhou Taibang. The balance is due on demand.

(3) Guizhou Taibang has payables to Jie'an, a former noncontrolling interest shareholder of Guizhou Taibang, amounting to nil and $1,565,052 as of December 31, 2016 and 2015, respectively. In 2007, Guizhou Taibang received additional contributions from Jie'an of RMB6,480,000 (approximately $997,920) to subscribe for 1,800,000 shares in Guizhou Taibang. As a result of the capital withdrawal by Jie'an, these additional contributions were refunded to Jie'an by Guizhou Taibang in 2016. (see Note 18)

**NOTE 12 – INCOME TAX**

The Company and each of its subsidiaries file separate income tax returns.

***The United States of America***

The Company is incorporated in the State of Delaware in the U.S., and is subject to U.S. federal corporate income tax at gradual rates of up to 35%.

***British Virgin Islands***

Taibang Biological is incorporated in the British Virgin Islands. Under the current laws of the British Virgin Islands (BVI), Taibang Biological is not subject to tax on income or capital gains. In addition, upon payments of dividends by Taibang Biological, no British Virgin Islands withholding tax is imposed.

***Hong Kong***

Taibang Holdings (Hong Kong) Limited ("Taibang Holdings", formerly known as "Logic Holdings (Hong Kong) Limited") is incorporated in Hong Kong and is subject to Hong Kong's profits tax rate of 16.5% for the years ended December 31, 2016, 2015 and 2014. Taibang Holdings did not earn any income that was derived in Hong Kong for the years ended December 31, 2016, 2015 and 2014. The payments of dividends by Hong Kong companies are not

subject to any Hong Kong withholding tax.

***PRC***

The PRC's statutory income tax rate is 25%. The Company's PRC subsidiaries are subject to income tax at 25% unless otherwise specified.

On February 12, 2009, Shandong Taibang received the High and New Technology Enterprise certificate from the Shandong provincial government. This certificate entitled Shandong Taibang to pay income taxes at a 15% preferential income tax rate for a period of three years from 2008 to 2010. On October 31, 2011, Shandong Taibang obtained a notice from the Shandong provincial government that the High and New Technology Enterprise qualification has been renewed for an additional three years from 2011 to 2013. In October 2014, Shandong Taibang obtained a notice from the Shandong provincial government that granted it the High and New Technology Enterprise certificate. This certificate entitled Shandong Taibang to enjoy a preferential income tax rate of 15% for a period of three years from 2014 to 2016. Shandong Taibang will apply for a renewal of an additional three years from 2017 to 2019 upon the expiration of such certificate.

According to CaiShui [2011] No. 58 dated July 27, 2011, Guizhou Taibang, being a qualified enterprise located in the western region of the PRC, enjoys a preferential income tax rate of 15% effective retroactively from January 1, 2011 to December 31, 2020.

The components of earnings (losses) before income tax expense by jurisdictions are as follows:

| | For the Years Ended December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| | USD | USD | USD |
| PRC, excluding Hong Kong | 170,830,607 | 147,580,488 | 122,116,071 |
| U.S. | (19,408,283) | (11,711,102) | (8,032,150) |
| BVI | 2,498,629 | (1,336,183) | 8,625,859 |
| Hong Kong | (1,712) | 565,228 | 42,381 |
| Total | 153,919,241 | 135,098,431 | 122,752,161 |

Income tax expense for the years ended December 31, 2016, 2015 and 2014 represents current income tax expense and deferred tax (benefit) expense:

| | For the Years Ended December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| | USD | USD | USD |
| Current income tax expense | 28,132,361 | 21,163,258 | 23,155,637 |
| Deferred tax (benefit) expense | (3,006,541) | (170,345) | 3,483,890 |
| Total income tax expense | 25,125,820 | 20,992,913 | 26,639,527 |

The effective income tax rate based on income tax expense and earnings before income taxes reported in the consolidated statements of comprehensive income differs from the PRC statutory income tax rate of 25% due to the following:

| | For the Years Ended December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| | (in percentage to earnings before income tax expense) | | |
| PRC statutory income tax rate | 25.0 % | 25.0 % | 25.0 % |
| Non-deductible expenses: | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Share-based compensation | - | | 1.3 | % | 0.5 | % |
| Others | 1.6 | % | 0.1 | % | 0.5 | % |
| Tax rate differential | (3.6 | )% | - | | (2.2 | )% |
| Effect of PRC preferential tax rate | (10.9 | )% | (10.5 | )% | (9.7 | )% |
| Bonus deduction on research and development expenses | (1.5 | )% | (1.5 | )% | (1.4 | )% |
| Change in valuation allowance | 5.3 | % | 1.3 | % | (0.7 | )% |
| PRC dividend withholding tax | - | | - | | 7.3 | % |
| Tax effect of equity method investment | 0.4 | % | (0.2 | )% | 2.4 | % |
| Effective income tax rate | 16.3 | % | 15.5 | % | 21.7 | % |

The PRC tax rate has been used because the majority of the Company's consolidated pre-tax earnings arise in the PRC.

As of December 31, 2016 and 2015, significant temporary differences between the tax basis and financial statement basis of assets and liabilities that gave rise to deferred taxes were principally related to the following:

| | December 31, 2016 USD | December 31, 2015 USD |
|---|---|---|
| Deferred tax assets arising from: | | |
| -Accrued expenses | 3,954,375 | 3,225,045 |
| -Deferred income | 275,687 | - |
| -Property, Plant and Equipment | 257,550 | - |
| -Other non-current assets | 138,384 | - |
| -Tax loss carryforwards | 27,783,051 | 8,669,632 |
| Gross deferred tax assets | 32,409,047 | 11,894,677 |
| Less: valuation allowance | (26,629,179) | (8,160,611) |
| Net deferred tax assets | 5,779,868 | 3,734,066 |
| Deferred tax liabilities arising from: | | |
| - Intangible assets | (235,217) | (314,109) |
| - Equity method investment | (1,153,872) | (509,021) |
| - Dividend withholding tax | (6,085,290) | (7,351,023) |
| Deferred tax liabilities | (7,474,379) | (8,174,153) |
| Classification on consolidated balance sheets: | | |
| Deferred tax assets – current, net (included in prepayments and other current assets) | 3,954,375 | 3,225,045 |
| Deferred tax assets – non-current, net (included in other non-current assets) | 671,621 | - |
| Deferred tax liabilities - non-current, net (included in other liabilities) | (6,320,507) | (7,665,132) |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax loss carryforwards are utilized. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryforwards periods), projected future taxable income, and tax planning strategies in making this assessment.

The deferred tax assets of $27,783,051 for tax loss carry forwards as of December 31, 2016, of which $6,139,906 and $21,643,145 relate to tax loss carryforwards of certain PRC subsidiaries and CBP, respectively. For PRC income tax purposes, certain of the Company's PRC subsidiaries had tax loss carryforwards of $24,559,624, of which $6,322,563, $4,727,663, $4,755,017, $4,159,639 and $4,594,742 would expire by 2017, 2018, 2019, 2020 and 2021, respectively, if unused. For United States federal income tax purposes, CBP had tax loss carryforwards of approximately $63,656,308, of which $162,235, $3,382,154, $978,837, $1,296,319, $384,754, nil and $57,452,009 would expire by 2030, 2031, 2032, 2033, 2034 and 2035, 2036, respectively, if unused. In view of their cumulative losses positions, management determined it is more likely than not that deferred tax assets of these PRC subsidiaries will not be realized, and therefore full valuation allowances of $6,139,906 and $6,560,170 were provided as of December 31, 2016 and 2015, respectively. For deferred tax assets of CBP, management determined it is more likely than not that some portion of the deferred tax assets of CBP will not be realized, and therefore valuation allowances of $20,489,273 and $1,600,441 were provided as of December 31, 2016 and 2015, respectively.

Management believes it is more likely than not that the Company will realize the benefits of the deferred tax assets, net of the valuation allowances, as of December 31, 2016 and December 31, 2015.

The following table presents the movement of the valuation allowance for deferred tax assets for the years ended December 31, 2016, 2015 and 2014:

| | For the Years Ended | | |
|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2014 |
| | USD | USD | USD |
| Beginning balance | 8,160,611 | 6,661,139 | 7,558,590 |
| Addition (deduction) during the year | 18,676,456 | 1,703,771 | (885,253) |
| Foreign currency translation adjustment | (207,888) | (204,299) | (12,198) |
| Ending balance | 26,629,179 | 8,160,611 | 6,661,139 |

According to the prevailing PRC income tax law and relevant regulations, dividends relating to earnings accumulated beginning on January 1, 2008 that are received by non-PRC-resident enterprises from PRC-resident enterprises are subject to withholding tax at 10%, unless reduced by tax treaties or similar arrangement. Dividends relating to undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax. Further, dividends received by the Company from its overseas subsidiaries are subject to the U.S. federal income tax at 34%, less any qualified foreign tax credits. Based on the dividend policy the Company has provided the deferred tax liabilities of $7,351,023 on undistributed earnings of $74 million, approximately 50% of Shandong Taibang's total undistributed earnings at December 31, 2014. During the year ended December 31, 2016, the deferred tax liabilities of $1,265,733 was reversed following a sum of RMB82,760,000 (approximately $11,929,854) dividend distribution to Taibang Holdings (Hong Kong) Limited by Taibang Biotech (Shandong) Co., Ltd. in 2016, which was generated from distributed earnings of Shandong Taibang. Due to the Company's plan and intention of reinvesting its earnings in its PRC business, the Company has not provided for the related deferred tax liabilities on the remaining undistributed earnings of the PRC subsidiaries totaling $388 million as of December 31, 2016.

As of January 1, 2014 and for each of the years ended December 31, 2014, 2015 and 2016, the Company and its subsidiaries did not have any unrecognized tax benefits, and therefore no interest or penalties related to unrecognized tax benefits were accrued. The Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

The Company and each of its PRC subsidiaries file income tax returns in the United States and the PRC, respectively. The Company is subject to U.S. federal income tax examination by tax authorities for tax years beginning in 2007. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the

underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than RMB100,000 (approximately $14,415). In the case of transfer pricing issues, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The PRC tax returns for the Company's PRC subsidiaries are open to examination by the PRC tax authorities for the tax years beginning in 2010.

**NOTE 13 – OPTIONS AND NONVESTED SHARES**

Options

Effective May 9, 2008, the Board of Directors adopted the China Biologic Products, Inc. 2008 Equity Incentive Plan, ("the 2008 Plan"). The 2008 Plan provides for grants of stock options, stock appreciation rights, performance units, restricted stock, restricted stock units and performance shares. A total of five million shares of the Company's common stock may be issued pursuant to the 2008 Plan. The exercise price per share for the shares to be issued pursuant to an exercise of a stock option will be no less than the fair market value per share on the grant date, except that, in the case of an incentive stock option granted to a person who holds more than 10% of the total combined voting power of all classes of the Company's stock or any of its subsidiaries, the exercise price will be no less than 110% of the fair market value per share on the grant date. No awards may be granted under the 2008 Plan after May 9, 2018, except that any award granted before then may extend beyond that date. All the options to be granted will have 10-year terms.

For the year ended December 31, 2016, 2015 and 2014, no stock options to purchase common stock were granted to any directors or employees.

A summary of stock options activity for the years ended December 31, 2016, 2015 and 2014 is as follows:

| | Number of Options | Weighted Average Exercise Price USD | Weighted Average Remaining Contractual Term in years | Aggregate Intrinsic Value USD |
|---|---|---|---|---|
| Outstanding as of January 1, 2014 | 1,882,376 | 9.98 | 7.20 | 35,518,897 |
| Granted | - | - | | |
| Exercised | (417,002) | 9.26 | | (17,529,500) |
| Forfeited and expired | (32,920) | 11.44 | | |
| Outstanding as of December 31, 2014 | 1,432,454 | 10.16 | 6.53 | 81,753,119 |
| Granted | - | - | | |
| Exercised | (780,557) | 9.92 | | (68,089,712) |
| Forfeited and expired | - | - | | |
| Outstanding as of December 31, 2015 | 651,897 | 10.44 | 5.24 | 86,064,461 |
| Granted | - | | | |
| Exercised | (337,406) | 10.55 | | (35,180,367) |
| Forfeited and expired | - | - | | |

| | | | | |
|---|---|---|---|---|
| Outstanding as of December 31, 2016 | 314,491 | 10.32 | 3.84 | 30,568,083 |
| Vested as of December 31, 2016 | 314,491 | 10.32 | 3.84 | 30,568,083 |
| Exercisable as of December 31, 2016 | 314,491 | 10.32 | 3.84 | 30,568,083 |

For the years ended December 31, 2016, 2015 and 2014, the Company recorded stock compensation expense of $649,203, $1,117,994 and $1,669,573, respectively, in general and administrative expenses.

Nonvested shares

For the years ended December 31, 2016, 2015 and 2014, nonvested shares were granted to certain directors and employees (collectively, the “Participant”). Pursuant to the nonvested share grant agreements between the Company and the Participant, the Participant will have all the rights of a stockholder with respect to the nonvested shares. The nonvested shares granted to directors generally vest in one or two years. The nonvested shares granted to employees generally vest in four years.

A summary of nonvested shares activity for the year ended December 31, 2016, 2015 and 2014 is as follow:

| | Number of nonvested shares | Grant date weighted average fair value USD |
|---|---|---|
| Outstanding as of January 1, 2014 | 362,750 | 20.91 |
| Granted | 299,000 | 51.88 |
| Vested | (107,125) | 20.66 |
| Forfeited | (2,500) | 9.85 |
| Outstanding as of December 31, 2014 | 552,125 | 37.78 |
| Granted | 313,100 | 120.62 |
| Vested | (188,625) | 34.78 |
| Forfeited | (7,500) | 28.80 |
| Outstanding as of December 31, 2015 | 669,100 | 77.49 |
| Granted | 511,200 | 119.75 |
| Vested | (255,150) | 66.04 |
| Forfeited | (12,500) | 66.74 |
| Outstanding as of December 31, 2016 | 912,650 | 104.51 |

For the years ended December 31, 2016, 2015 and 2014, the Company recorded stock compensation expense of $23,756,308, $10,996,278 and $3,726,698 in general and administrative expenses, respectively.

As of December 31, 2016, approximately $81,666,998 of stock compensation expense with respect to nonvested shares is to be recognized over weighted average period of approximately 2.79 years.

**NOTE 14 – STATUTORY RESERVES**

The Company’s PRC subsidiaries are required to allocate at least 10% of its after tax profits as determined under generally accepted accounting principal in the PRC to its statutory surplus reserve until the reserve balance reaches 50% of respective registered capital. The accumulated balance of the statutory reserve as of December 31, 2016 and 2015 was $34,508,737 and $34,160,154, respectively.

**NOTE 15 – SHARE REPURCHASE**

On January 27, 2014, the Company entered into a repurchase agreement with an individual shareholder, pursuant to which the Company repurchased 2,500,000 shares of common stock for a consideration of $70,000,000. The transaction was completed on February 28, 2014.

**NOTE 16 – FAIR VALUE MEASUREMENTS**

Management used the following methods and assumptions to estimate the fair value of financial instruments at the relevant balance sheet dates:

· Short-term financial instruments (including cash and cash equivalents, time deposits, accounts receivable, other receivables, accounts payable, and other payables and accrued expenses) – The carrying amounts of the short-term financial instruments approximate their fair values because of the short maturity of these instruments.

· Loan receivable – The carrying amounts of loan receivable approximate their fair value. The fair value is estimated using discounted cash flow analysis based on the Company’s incremental borrowing rates for similar borrowing.

**NOTE 17 – SALES**

The Company's sales are primarily derived from the manufacture and sale of Human Albumin and Immunoglobulin products. The Company's sales by significant types of product for the years ended December 31, 2016, 2015 and 2014 are as follows:

| | For the Years Ended | | |
|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2014 |
| | USD | USD | USD |
| Human Albumin | 133,712,663 | 111,422,258 | 95,547,952 |
| Immunoglobulin products: | | | |
| Human Immunoglobulin for Intravenous Injection | 117,891,410 | 125,136,104 | 98,389,729 |
| Other Immunoglobulin products | 40,105,561 | 22,518,554 | 19,736,027 |
| Placenta Polypeptide | 32,178,681 | 27,194,800 | 24,029,706 |
| Others | 17,281,111 | 10,186,186 | 5,548,244 |
| Total | 341,169,426 | 296,457,902 | 243,251,658 |

**NOTE 18 – COMMITMENTS AND CONTINGENCIES**

Commitments

As of December 31, 2016, commitments outstanding for the purchase of property, plant and equipment approximated $27.3 million.

As of December 31, 2016, commitments outstanding for the purchase of plasma from 2017 to 2018 approximated $44.7 million.

Legal proceedings

***Dispute with Jie'an over Certain Capital Injection into Guizhou Taibang***

In May 2007, a 91% majority of Guizhou Taibang's shareholders approved a plan to raise additional capital from qualified strategic investors through the issuance of an additional 20,000,000 shares of Guizhou Taibang. The plan required all existing Guizhou Taibang shareholders to waive their rights of first refusal to subscribe for the additional shares. The remaining 9% minority shareholder of Guizhou Taibang's shares, Guizhou Jie'an Company, or Jie'an, did not support the plan and did not waive its right of first refusal. In May 2007, Guizhou Taibang signed an Equity Purchase Agreement with certain alleged strategic investors (who concealed their background), pursuant to which such investors agreed to invest an aggregate of RMB50,960,000 (approximately $7,345,884) in exchange for 21.4% of Guizhou Taibang's equity interests. Such Equity Purchase Agreement was not approved or ratified by over two-thirds supermajority of Guizhou Taibang's shareholders, which approval or ratification is required under the PRC Company Law. At the same time, as an existing shareholder, Jie'an also subscribed for 1,800,000 shares, representing its pro rata share of the 20,000,000 shares being offered. In total, Guizhou Taibang received RMB50,960,000 (approximately $7,345,884) from the investors and RMB6,480,000 (approximately $934,092) from Jie'an.

In June 2007, Jie'an brought a lawsuit against Guizhou Taibang, alleging that it had a right to acquire the 18,200,000 shares offered to the investors under the Equity Purchase Agreement. The trial court denied Jie'an's request, and the PRC Supreme Court ultimately sustained the original ruling in May 2009 and denied the rights of first refusal of Jie'an over the 18,200,000 shares.

During the second quarter of 2010, Jie'an requested that Guizhou Taibang register its 1.8 million shares of additional capital injection with the local administration of industry and commerce, or AIC. Guizhou Taibang's board of directors withheld its required ratification of Jie'an's request, pending the outcome of the ongoing litigation. In March 2012, Jie'an brought another lawsuit against Guizhou Taibang for refusing to register the shares. In July 2013, the trial court dismissed the lawsuit for lack of jurisdiction. Jie'an did not appeal the dismissal.

In December 2013, Jie'an brought a third lawsuit against Guizhou Taibang, requesting Guizhou Taibang to register 1.8 million shares under its name with the local AIC. In July 2014, the trial court denied Jie'an's request to register such shares. Despite the denial of Jie'an's share registration request, the trial court, however, in its ruling, ordered Guizhou Taibang to pay accumulated dividends of RMB13,809,197 (approximately $1,990,595) associated with these shares and the related interest expenses to Jie'an. Guizhou Taibang and Jie'an subsequently filed a cross-appeal. In December 2014, the appellate court ruled in favor of Jie'an supporting its request to register 1.8 million shares and ordered Guizhou Taibang to pay Jie'an its share of accumulated dividends of RMB18,339,227 (approximately $2,643,600) associated with these shares plus the related interest expenses to Jie'an. In the first half of 2015, Guizhou Taibang paid an aggregate of RMB22,639,227 (approximately $3,263,445) to the trial court held in escrow pending further appeal of this case. Guizhou Taibang appealed to the High Court of Guizhou in June 2015 which overruled the decision of the appellate court and remanded the case to the trial court for retrial in September 2015. In August 2016, the trial court granted Jie'an's petition to withdraw the lawsuit as Jie'an sought to withdraw its capital contribution in Guizhou Taibang pursuant to an agreement dated July 31, 2016. The funds held in escrow were credited to the consideration payable to Jie'an for the capital withdrawal as described below.

In November 2013, Guizhou Taibang held a shareholders meeting and the shareholders passed resolutions, or the November 2013 Resolutions, that, inter alia, (i) determined that it was no longer necessary for Guizhou Taibang to obtain additional capital from investors; (ii) rejected Jie'an's request that Jie'an subscribe for additional shares of Guizhou Taibang alone and one or more other shareholders reduce their shareholding in Guizhou Taibang; and (iii) approved the issuance of a total of 20,000,000 new shares to all existing shareholders on a pro rata basis. Jie'an subsequently filed a fourth lawsuit against Guizhou Taibang in December 2013, requesting that the court declare the November 2013 Resolutions void. Both the trial court and the appellate court denied Jie'an's request.

In March 2014, Guizhou Taibang held another shareholders meeting and the shareholders passed resolutions, or the March 2014 Resolutions, that, inter alia, re-calculated the ownership percentage in Guizhou Taibang based on the November 2013 Resolutions and the additional capital injections from existing shareholders. Guizhou Taibang subsequently updated the registration with the local AIC regarding the additional capital injections in August 2014. In September 2014, Jie'an and Shenzhen Yigong Shengda Technology Co., Ltd., or Yigong Shengda, another minority shareholder of Guizhou Taibang filed a lawsuit against Guizhou Taibang, requesting that the court declare both the November 2013 Resolutions and the March 2014 Resolutions void and instruct Guizhou Taibang to withdraw the AIC registration. In November 2014, the trial court suspended this case pending the final outcome of the third lawsuit filed by Jie'an. In October 2015, the trial court denied their request. In May 2016, the appellate court vacated the trial court's decision to uphold Guizhou Taibang's shareholders resolution, and remanded the case for retrial. In August 2016, the trial court granted the petitions by Jie'an and Yigong Shengda to withdraw the lawsuit as Jie'an and Yigong Shengda sought to withdraw their respective capital contributions in Guizhou Taibang pursuant to an agreement dated July 31,

2016.

On July 31, 2016, Guiyang Dalin Biologic Technologies Co., Ltd., or Guiyang Dalin, Guizhou Taibang, Jie'an and Yigong Shengda entered into an agreement, pursuant to which Jie'an and Yigong Shengda agreed to withdraw their respective capital contributions in Guizhou Taibang for an aggregate consideration of RMB415,000,000 (approximately $59,822,250). In August 2016, Guizhou Taibang paid the first installment of RMB90,000,000 (approximately $12,973,500) of the consideration to Jie'an and Yigong Shengda. Guizhou Taibang completed the AIC registration for the foregoing capital withdrawal in October 2016 and paid the balance of the consideration to Jie'an and Yigong Shengda in November 2016. As a result of the capital withdrawal, Guiyang Dalin has become the sole shareholder of Guizhou Taibang.

***Dispute with Certain Individual Investors over Certain Capital Injection into Guizhou Taibang***

In part due to the invalidity of the Equity Purchase Agreement with certain alleged strategic investors in May 2007, which was never approved or ratified by Guizhou Taibang's shareholders, such investors' equity ownership in Guizhou Taibang and the related increase in registered capital of Guizhou Taibang have never been registered with the local AIC. In January 2010, one individual among such investors brought a lawsuit against Guizhou Taibang requesting to register his 14.35% ownership interest in Guizhou Taibang with the local AIC and seeking the distribution of his share of Guizhou Taibang's dividends declared since 2007.

In October 2010, the trial court denied such individual investor's right as shareholders of Guizhou Taibang and his entitlement to share the dividends, which ruling was reaffirmed after a re-trial by the same trial court in December 2012. After such ruling, Guizhou Taibang attempted to return the originally received fund of RMB34,160,000 (approximately $4,924,164) to such investor by wiring the fund back to his bank account but was unable to do so due to the closure of his bank account. Another investor, however, accepted the returned fund of RMB11,200,000 (approximately $1,614,480) from Guizhou Taibang in November 2010. In 2013, the same individual investor appealed the case to the PRC Supreme Court, which also denied his claims for shareholder status in Guizhou Taibang and the related dividend distribution and accrued interest in September 2013. Such investor subsequently attempted to seek a re-trial by the PRC Supreme Court, which request was denied by the PRC Supreme Court in January 2014. He then applied to the PRC Supreme Procuratorate to request for a review of the PRC Supreme Court's decision and seek an appeal by the PRC Supreme Procuratorate to the PRC Supreme Court for an ultimate re-trial on his behalf. In July 2015, the PRC Supreme Procuratorate rejected his request for review.

As of December 31, 2016, Guizhou Taibang had maintained, on its balance sheet, payables to the investors of RMB34,160,000 (approximately $4,924,164) as originally received funds from such individual investor in respect of the shares in dispute, RMB20,586,941 (approximately $2,967,608) for the interest expenses, and RMB341,600 (approximately $49,241) for the 1% penalty imposed by the Equity Purchase Agreement for any breach in the event that Guizhou Taibang is required to return the original investment amount to such investor.

F-27

**NOTE 19 – NET INCOME PER SHARE**

The following table sets forth the computation of basic and diluted net income per share of common stock for the periods indicated:

| | For the Years Ended | | |
|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2014 |
| | USD | USD | USD |
| Net income attributable to China Biologic Products, Inc. | 104,779,307 | 89,042,703 | 70,916,840 |
| Earnings allocated to participating nonvested shares | (2,987,429) | (2,070,762) | (1,210,895) |
| Net income allocated to common stockholders used in computing basic and diluted net income per common stock | 101,791,878 | 86,971,941 | 69,705,945 |
| Weighted average shares used in computing basic net income per common stock | 26,848,445 | 25,599,153 | 24,427,196 |
| Diluted effect of stock option | 400,699 | 968,213 | 1,257,868 |
| Weighted average shares used in computing diluted net income per common stock | 27,249,144 | 26,567,366 | 25,685,064 |
| Net income per common stock – basic | 3.79 | 3.40 | 2.85 |
| Net income per common stock – diluted | 3.74 | 3.27 | 2.71 |

During the year ended December 31, 2016, 2015 and 2014, no option was antidilutive or excluded from the calculation of diluted net income per common stock. Further, rights issued pursuant to the stockholder rights plan (see Note 23) were excluded from the calculation of diluted net income per common stock since they were antidilutive.

**NOTE 20 – CHINA BIOLOGIC PRODUCTS, INC. (PARENT COMPANY)**

The following represents condensed unconsolidated financial information of the Parent Company only:

**Condensed Balance Sheets:**

| | December 31, 2016 | December 31, 2015 |
|---|---|---|

| | USD | USD |
|---|---|---|
| Cash | 11,539,131 | 13,939,319 |
| Prepayments and prepaid expenses | 85,879 | 86,404 |
| Property, plant and equipment, net | 211 | 211 |
| Investment in and amounts due from subsidiaries | 454,309,702 | 372,035,937 |
| Total Assets | 465,934,923 | 386,061,871 |
| | | |
| Other payables and accrued expenses | 3,734,334 | 3,718,747 |
| Total Liabilities | 3,734,334 | 3,718,747 |
| | | |
| Total Equity | 462,200,589 | 382,343,124 |
| | | |
| Total Liabilities and Equity | 465,934,923 | 386,061,871 |

**Condensed Statements of Comprehensive Income:**

| | For the Years Ended | | |
|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2014 |
| | USD | USD | USD |
| Equity in income of subsidiaries | 124,187,590 | 100,753,805 | 78,948,990 |
| General and administrative expenses | (19,408,283 ) | (10,693,991 ) | (6,008,852 ) |
| Other expenses, net | - | (1,017,111 ) | (2,023,298 ) |
| Earnings before income tax expense | 104,779,307 | 89,042,703 | 70,916,840 |
| Income tax expense | - | - | - |
| Net Income | 104,779,307 | 89,042,703 | 70,916,840 |

**Condensed Statements of Cash Flows:**

| | For the Years Ended | | |
|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2014 |
| | USD | USD | USD |
| Net cash used in operating activities | (2,400,188 ) | (3,904,038 ) | (444,755 ) |
| Net cash used in investing activities | - | - | - |
| Net cash provided by financing activities | - | 15,192,269 | 2,416,821 |
| Net (decrease) increase in cash | (2,400,188 ) | 11,288,231 | 1,972,066 |
| Cash at beginning of year | 13,939,319 | 2,651,088 | 679,022 |
| Cash at end of year | 11,539,131 | 13,939,319 | 2,651,088 |

**NOTE 21 – FOLLOW-ON OFFERING OF COMMON STOCK**

On June 15, 2015, the Company completed a follow-on offering of 3,450,000 shares of common stock at a price of $105.00 per share, less the underwriting discounts and commissions and offering expenses. In this June 2015 follow-on offering, the Company sold 805,000 shares (including 105,000 shares sold pursuant to the exercise by the underwriters of their option to purchase additional shares from the Company) and certain selling stockholders sold 2,645,000 shares (including 345,000 shares sold pursuant to the exercise by the underwriters of their option to purchase additional shares from such selling stockholders). The Company raised net proceeds of approximately $80.6 million from this offering, after deducting the underwriting discounts and commissions and offering expenses payable by the Company. The Company did not receive any proceeds from the sale of the shares by the selling stockholders.

On July 2, 2014, the Company completed a follow-on offering of 1,782,500 shares of common stock at a price of $38.00 per share, less the underwriting discounts and commissions and offering expenses. In this July 2014 follow-on offering, the Company sold 920,000 shares (including 120,000 shares sold pursuant to the exercise by the underwriters of their option to purchase additional shares from the Company) and a selling stockholder sold 862,500 shares (including 112,500 shares sold pursuant to the exercise by the underwriters of their option to purchase additional shares from such selling stockholder). The Company raised net proceeds of approximately $33.2 million from this offering, after deducting the underwriting discounts and commissions and offering expenses payable by the Company. The Company did not receive any proceeds from the sale of the shares by the selling stockholder.

**NOTE 22 – CAPITAL WITHDRAWAL BY TWO FORMER NONCONTROLLING INTEREST SHAREHOLDRERS OF GUIZHOU TAIBANG**

On October 26, 2016, Guizhou Taibang completed the requisite legal and administrative procedures, through which two former minority shareholders, holding a combined 15.3% equity interest in Guizhou Taibang, withdrew their respective capital contributions in Guizhou Taibang for an aggregate consideration of RMB415,000,000 (approximately $59,822,250) pursuant to an agreement dated July 31, 2016. (see Note 18)

**NOTE 23 – STOCKHOLDER RIGHTS PLAN**

On February 22, 2017, the Board of Directors (the "Board") adopted a stockholder rights plan (the "Rights Agreement"). Pursuant to the Rights Agreement, the Board of Directors authorized and declared a dividend distribution of one right (a "Right") for each outstanding share of the common stock, par value $0.0001 per share (the "Common Shares"), of the Company to stockholders of record at the close of business on March 6, 2017 (the "Record Date"). Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Series A Participating Preferred Stock, par value $0.0001 per share (the "Preferred Shares"), of the Company at an exercise price of $550.00 per one one-thousandth of a Preferred Share, subject to adjustment (the "Exercise Price"). However, the Rights are not immediately exercisable and will become exercisable only upon the occurrence of certain events. In particular, after February 22, 2017:

- if a person or group acquires 15% or more of the Company's Common Shares (including through derivatives), then the Rights will become exercisable and each Right will entitle its holder (except the acquiring person or group) to purchase, at the Exercise Price, a number of the Company's Common Shares having a then-current market value of twice the Exercise Price;

- if after a person or group acquires 15% or more of the Company's Common Shares, the Company merges into another company, an acquiring entity merges into the Company or the Company sells or transfers more than 50% of its assets, cash flow or earning power, then each Right will entitle its holder (except the acquiring person or group) to purchase, for the Exercise Price, a number of shares of common stock of the person engaging in the transaction having a then-current market value of twice the Exercise Price; or

- after a person or group acquires 15% or more of the Company's Common Shares, the Board may, at its option, exchange the Rights (except for Rights held by the acquiring person or group), in whole or in part, for Common Shares at an exchange ratio of one Common Share per Right (subject to adjustment).

The Board adopted the Rights Agreement to protect stockholders from coercive or otherwise unfair takeover tactics. In general terms, it works by imposing a significant penalty upon any person or group that acquires 15% or more of the Common Shares without the approval of the Board after February 22, 2017. As a result, the overall effect of the Rights Agreement and the issuance of the Rights may be to render more difficult or discourage a merger, tender or exchange offer or other business combination involving the Company that is not approved by the Board. However, neither the Rights Agreement nor the Rights should interfere with any merger, tender or exchange offer or other business combination approved by the Board. The Board of Directors may redeem the rights for $0.001 per right at any time before an event that causes the rights to become exercisable. If not redeemed, the right will expire on February 22, 2019. The Board had previously adopted similar preferred shares rights agreements on November 19, 2012, which expired on November 20, 2014, and on January 8, 2015, which expired on January 8, 2017.

**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
| 2.1 | Share Exchange Agreement between the registrant, Logic Express Limited and the selling stockholders signatory thereto, dated July 18, 2006 (incorporated by reference to Exhibit 2 of the registration statement on Form SB-2 filed by the registrant on September 5, 2007) |
| 3.1 | Second Amended and Restated Certificate of Incorporation of China Biologic Products, Inc. (incorporated by reference to Exhibit 3.1 of the quarterly report on Form 10-Q filed by the registrant on August 5, 2014) |
| 3.2 | Third Amended and Restated Bylaws of China Biologic Products, Inc. as filed with the Secretary of State of the State of Delaware on June 23, 2014 (incorporated by reference to Amendment No. 1 as filed with the SEC on November 2, 2016 to Form 8-K as filed with the SEC on June 20, 2016) |
| 3.1.1 | Certificate of Correction to Certificate of Incorporation of China Biologic Products, Inc. as filed with the Secretary of State of the State of Delaware on October 31, 2016 (incorporated by reference to Amendment No. 1 as filed with the SEC on November 2, 2016 to Form 8-K as filed with the SEC on June 20, 2016) |
| 3.1.2 | Certificate of Change of Registered Office of China Biologic Products, Inc. as filed with the Secretary of State of the State of Delaware on November 1, 2016 |
| 4.1 | Form of Registration Rights Agreement, dated June 5, 2009 (incorporated by reference to Exhibit 4.1 of the current report on Form 8-K filed by the registrant on June 5, 2009) |
| 4.2 | Form of 3.8% Convertible Senior Secured Note due 2011 (incorporated by reference to Exhibit 4.2 of the current report on Form 8-K filed by the registrant on June 5, 2009) |
| 4.3 | Form of Warrant (incorporated by reference to Exhibit 4.3 of the current report on Form 8-K filed by the registrant on June 5, 2009) |
| 4.4 | Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of China Biologic Products, Inc. (incorporated by reference to Exhibit 3.1 of the registration form on Form 8-A12B filed by the registrant on November 21, 2012) |
| 4.5* | Preferred Shares Rights Agreement, between the registrant and Securities Transfer Corporation, dated as of February 22, 2017 |
| 10.1 | China Biologic Products, Inc. 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed by the registrant on May 13, 2008) |
| 10.2 | Form of Stock Option Award Agreement of China Biologic Products, Inc. (incorporated by reference to Exhibit 10.5 of the current report on Form 8-K filed by the registrant on May 13, 2008) |

80

| | |
|---|---|
| 10.3 | Form of Restricted Stock Award Agreement of China Biologic Products, Inc. (incorporated by reference to Exhibit 3.3 of the current report on Form 8-K filed by the registrant on August 6, 2011) |
| 10.4 | Group Secondment Agreement, dated October 28, 2002, between Shandong Taibang and the Shandong Institute (English Translation) (incorporated by reference to Exhibit 10.1 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.5 | Amended and Restated Joint Venture Agreement, between Logic Express Limited and the Shandong Institute, dated as of March 12, 2006 (English Translation) (incorporated by reference to Exhibit 10.2 of the registration statement on Form SB-2 filed by the registrant on September 5, 2007) |
| 10.6 | Letter of Intent for Equity Transfer, between Logic Express Limited and the Shandong Institute, dated as of June 10, 2006 (English Translation) (incorporated by reference to Exhibit 10.3 of the registration statement on Form SB-2 filed by the registrant on September 5, 2007) |
| 10.7 | Joint Venture and Cooperation Agreement between Mr. Fan Qingchun, Shandong Taibang and Shaanxi Power Construction Corporation, dated September 12, 2008 (incorporated by reference to Exhibit 10.2 of the current report on Form 8-K filed by the registrant on October 16, 2008) |
| 10.8 | Agreement on Equity Transfer, Acquisition, Joint Venture and Cooperation, among Shandong Taibang, Shaanxi Power Construction Corporation and Mr. Fan Qingchun, dated September 12, 2008 (incorporated by reference to Exhibit 10.3 of the current report on Form 8-K filed by the registrant on October 16, 2008) |
| 10.9 | (Shareholder) Agreement among Shandong Taibang, Logic Express Limited and Biological Institute dated September 12, 2008 (incorporated by reference to Exhibit 10.4 of the current report on Form 8-K, filed by the registrant on October 16, 2008) |
| 10.10 | Equity Transfer Agreement, dated September 26, 2008, among Logic Express Limited, Chongqing Dalin Biologic Technologies Co., Ltd. and certain shareholders of Chongqing Dalin Biologic Technologies Co., Ltd. (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed by the registrant on October 2, 2008) |
| 10.11 | Equity Transfer Agreement, between Shandong Taibang and Mr. Fan Qingchun, dated October 10, 2008 (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed by the registrant on October 16, 2008) |
| 10.12 | Supplemental Agreement, dated November 3, 2008, among Logic Express Limited, Fan Shaowen, as representative of the shareholders of Chongqing Dalin Biologic Technologies Co., Ltd. and Chongqing Dalin Biologic Technologies Co., Ltd. (English Translation) (incorporated by reference to Exhibit 10.2 of the current report on Form 8-K filed by the registrant on November 7, 2008) |

| | |
|---|---|
| 10.13 | Second Supplemental Agreement, dated November 14, 2008, among Logic Express Limited, Fan Shaowen as representative of the shareholders of Chongqing Dalin Biologic Technologies Co., Ltd. and Chongqing Dalin Biologic Technologies Co., Ltd. (English Translation) (incorporated by reference to exhibit 10.3 of the current report on Form 8-K filed by the registrant on November 20, 2008) |
| 10.14 | Amended Equity Transfer Agreement, dated December 12, 2008, among Logic Express Limited, Chongqing Dalin Biologic Technologies Co., Ltd., and certain shareholders of Chongqing Dalin Biologic Technologies Co., Ltd. (English Translation) (incorporated by reference to exhibit 10.4 of the current report on Form 8-K filed by the registrant on December 18, 2008) |
| 10.15 | Equity Transfer and Entrustment Agreement, dated April 6, 2009, among Logic Express, Shandong Taibang and the Shandong Institute (English Translation) (incorporated by reference to Exhibit 10.6 of the current report on Form 8-K filed by the registrant on April 13, 2009) |
| 10.16 | Asset Purchase Agreement, between Xia Jin An Tai Plasma Collection Co., Ltd. and Xia Jin County Plasma Collection Station, dated as of October 20, 2006 (English Translation) (incorporated by reference to Exhibit 10.15 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.17 | Asset Purchase Agreement, between Liao Cheng An Tai Plasma Collection Co., Ltd. and Yang Gu County Plasma Collection Station, dated as of November 3, 2006 (English Translation) (incorporated by reference to Exhibit 10.16 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.18 | Asset Purchase Agreement, between Qi He An Tai Plasma Collection Co., Ltd. and Qi He County Plasma Collection Station, dated as of November 9, 2006 (English Translation) (incorporated by reference to Exhibit 10.14 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.19 | Asset Purchase Agreement, between He Ze An Tai Plasma Collection Co., Ltd and Yun Cheng County Plasma Collection Station, dated as of December 15, 2006 (English Translation) (incorporated by reference to Exhibit 10.22 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.20 | Asset Purchase Agreement, between Zhang Qiu An Tai Plasma Collection Co., Ltd. and Zhang Qiu Plasma Collection Station, dated as of December 31, 2006 (English Translation) (incorporated by reference to Exhibit 10.12 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.21 | Asset Purchase Agreement, between Guang Xi Huan Jiang Missile Plasma Collection Co., Ltd. and Huan Jiang Maonan Autonomous County Plasma Collection Station, dated as of April 24, 2007 (English Translation) (incorporated by reference to Exhibit 10.13 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.22 | Asset Purchase Agreement, between Fang Cheng Plasma Collection Co., Ltd. and Fang Cheng Plasma Company, dated as of April 30, 2007 (English Translation) (incorporated by reference to Exhibit 10.21 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |

| | |
|---|---|
| 10.23 | Asset Purchase Agreement, between Guang Xi Huan Jiang Missile Plasma Collection Co., Ltd. and Huan Jiang Maonan Autonomous County Plasma Collection Station, dated as of August 5, 2007 (English Translation) (incorporated by reference to Exhibit 10.13 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.24 | Trademark Licensing Agreement, dated as of February 27, 2007 (English Translation) (incorporated by reference to Exhibit 10.17 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.25 | Loan Agreement, dated as of November 30, 2006, among Shandong Taibang and the Shandong Institute and Logic Express (English Translation) (incorporated by reference to Exhibit 10.18 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.26 | Supplementary Agreement, dated as of September 1, 2007, among Shandong Taibang, the Shandong Institute and Logic Express Limited (English Translation) (incorporated by reference to Exhibit 10.19 of the registration statement on Form SB-2/A filed by the registrant on December 3, 2007) |
| 10.27 | Form of Director’s Employment Agreement (incorporated by reference to Exhibit 10.8 of the registration statement on Form SB-2 filed by the registrant on September 5, 2007) |
| 10.28 | Form of Independent Director Agreement (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed by the registrant on July 30, 2008) |
| 10.29 | Form of Indemnity Agreement (incorporated by reference to Exhibit 10.2 of the current report on Form 8-K filed by the registrant on July 30, 2008) |
| 10.30 | Form of Guarantee and Pledge Agreement, dated June 10, 2009 (incorporated by reference to Exhibit 10.2 of the current report on Form 8-K filed by the registrant on June 5, 2009). |
| 10.31 | Form of Indemnification Agreement, dated June 10, 2009 (incorporated by reference to Exhibit 10.3 of the current report on Form 8-K filed by the registrant on June 5, 2009). |
| 10.32 | Cooperation Agreement, among Guizhou Taibang, Xinjiang Deyuan and its controlling shareholder, dated August 28, 2015 (Summary English Translation) (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed by the registrant on September 2, 2015) |
| 10.33 | Supplemental Agreement, between Guizhou Taibang and Xinjiang Deyuan, dated April 16, 2015 (Summary English Translation) (incorporated by reference to Exhibit 10.2 of the current report on Form 8-K filed by the registrant on April 16, 2015) |
| 10.34 | Cooperation Agreement, between Guizhou Taibang and Xinjiang Deyuan, dated September 30, 2014 (Summary English Translation) (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed by the registrant on April 16, 2015) |
| 10.35 | Registered Equity Purchase Agreement, between Guiyang Dalin Biotechnology Co., Ltd. and Guizhou Eakan Pharmaceutical Co., Ltd., dated August 21, 2014 (Summary English Translation) (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed by the registrant on August 25, 2014) |

83

| | |
|---|---|
| 10.36 | Equity Exchange Agreement, between Guiyang Dalin Biotechnology Co., Ltd. and Guizhou Eakan Pharmaceutical Co., Ltd., dated August 21, 2014 (Summary English Translation) (incorporated by reference to Exhibit 10.2 of the current report on Form 8-K filed by the registrant on August 25, 2014) |
| 10.37 | Unregistered Equity Purchase Agreement, between Guiyang Dalin Biotechnology Co., Ltd. and Guizhou Eakan Pharmaceutical Co., Ltd., dated August 21, 2014 (Summary English Translation) (incorporated by reference to Exhibit 10.3 of the current report on Form 8-K filed by the registrant on August 25, 2014) |
| 10.38 | Summary English translation of Settlement Agreement among Guizhou Taibang Biological Products Co., Ltd., Guiyang Dalin Biologic Technologies Co., Ltd., Guizhou Jie'an Company and Shenzhen Yigong Shengda Technology Co., Ltd. dated July 31, 2016 (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed by the registrant on August 4, 2016) |
| 10.39 | Summary English translation of Guarantee Agreement among Guizhou Taibang Biological Products Co., Ltd., Guiyang Dalin Biologic Technologies Co., Ltd., Guizhou Jie'an Company and Shenzhen Yigong Shengda Technology Co., Ltd. dated July 31, 2016 (incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q filed by the registrant on August 4, 2016) |
| 10.40 | Consulting Agreement by and between Company and Mr. Hui (David) Li dated July 1, 2016 (incorporated by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q filed by the registrant on August 4, 2016) |
| 10.41 | Second Amended and Restated Employment Agreement by and between the Company and Xiaoying (David) Gao dated August 4, 2016 (incorporated by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q filed by the registrant on August 4, 2016) |
| 10.42 | Second Amended and Restated Employment Agreement between the Company and Ming Yang dated November 1, 2016 (incorporated by reference to Exhibit 10.5 of the Quarterly Report on Form 10-Q filed by the registrant on November 2, 2016) |
| 10.43 | Second Amended and Restated Employment Agreement between the Company and Ming Yin dated November 1, 2016 (incorporated by reference to Exhibit 10.6 of the Quarterly Report on Form 10-Q filed by the registrant on November 2, 2016) |
| 14 | Code of Ethics (incorporated by reference to Exhibit 14 of the annual report on Form 10-KSB filed by the registrant on March 28, 2008) |
| 21* | Subsidiaries of the registrant |
| 23.1* | Consent of KPMG, an independent registered public accounting firm |
| 31.1* | Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |

84

31.2* Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1* Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101* Interactive data files pursuant to Rule 405 of Regulation S-T

*Filed herewith.