

China Biologic Products, Inc.  
Form 10-Q  
May 03, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended: March 31, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34566

**CHINA BIOLOGIC PRODUCTS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**75-2308816**

(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, Zip Code)

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

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

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 " (Do not check if a smaller reporting company) Smaller reporting company "

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

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The number of shares outstanding of each of the issuer's classes of common stock, as of May 3, 2017 is as follows:

| Class of Securities              | Shares Outstanding |
|----------------------------------|--------------------|
| Common Stock, \$0.0001 par value | 27,201,477         |

**Quarterly Report on Form 10-Q**  
**Three Months Ended March 31, 2017**

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**PART I**

**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

**INDEX TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

|  | Note | March 31, 2017<br>USD | December 31,<br>2016<br>USD |
|--|------|-----------------------|-----------------------------|
| <b>ASSETS</b>  |      |                       |                             |
| <b>Current Assets</b>  |      |                       |                             |
| Cash and cash equivalents  |      | 197,357,368           | 183,765,533                 |
| Accounts receivable, net of allowance for doubtful accounts                  | 2    | 51,647,936            | 33,918,796                  |
| Inventories  | 3    | 166,380,493           | 156,412,674                 |
| Prepayments and other current assets, net of allowance for doubtful accounts |      | 17,732,312            | 15,320,913                  |
| Total Current Assets   |      | 433,118,109           | 389,417,916                 |
| <b>Property, plant and equipment, net</b>                                    |      |                       |                             |
| Land use rights, net   | 4    | 138,037,731           | 132,091,923                 |
| Equity method investment   |      | 23,362,992            | 23,389,384                  |
| Loan receivable  |      | 11,582,725            | 10,614,755                  |
| Other non-current assets   | 5    | 43,482,000            | 43,245,000                  |
| Total Assets   |      | 5,838,184             | 6,198,531                   |
|  |      | 655,421,741           | 604,957,509                 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                  |      |                       |                             |
| <b>Current Liabilities</b>   |      |                       |                             |
| Short-term bank loan   | 6    | 8,696,400             | -                           |
| Accounts payable   |      | 6,570,475             | 6,158,601                   |
| Income tax payable   |      | 9,391,380             | 7,484,366                   |
| Other payables and accrued expenses  | 7    | 59,648,041            | 59,798,145                  |
| Total Current Liabilities  |      | 84,306,296            | 73,441,112                  |
| Deferred income  |      | 3,655,387             | 3,755,648                   |
| Other liabilities  |      | 6,602,255             | 6,623,926                   |
| Total Liabilities  |      | 94,563,938            | 83,820,686                  |
| <b>Stockholders' Equity</b>  |      |                       |                             |
| <b>Common stock:</b>   |      |                       |                             |
| par value \$0.0001;  |      |                       |                             |
| 100,000,000 shares authorized;   |      |                       |                             |
| 29,456,181 and 29,427,609 shares issued at March 31, 2017 and                |      |                       |                             |
| December 31, 2016, respectively;   |      |                       |                             |
| 27,201,477 and 27,172,905 shares outstanding at March 31, 2017 and           |      |                       |                             |
| December 31, 2016, respectively  |      | 2,946                 | 2,943                       |
| Additional paid-in capital   |      | 113,630,172           | 105,459,610                 |
| Treasury stock: 2,254,704 shares at March 31, 2017 and December 31,          |      | (56,425,094           | (56,425,094                 |
| 2016, at cost  |      | )                     | )                           |

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|  |               |               |
|--|---------------|---------------|
| Retained earnings  | 468,475,250   | 438,483,401   |
| Accumulated other comprehensive loss                       | (22,903,225 ) | (25,320,271 ) |
| Total equity attributable to China Biologic Products, Inc. | 502,780,049   | 462,200,589   |
| Noncontrolling interest                                    | 58,077,754    | 58,936,234    |
| Total Stockholders' Equity                                 | 560,857,803   | 521,136,823   |
| Commitments and contingencies                              | 12 -          | -             |
| Total Liabilities and Stockholders' Equity                 | 655,421,741   | 604,957,509   |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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

|  |      | For the Three Months Ended |                |
|--|------|----------------------------|----------------|
|  | Note | March 31,<br>2017          | March 31, 2016 |
|  |      | USD                        | USD            |
| Sales  | 11   | 91,453,112                 | 85,587,711     |
| Cost of sales  |      | 32,215,473                 | 34,043,435     |
| Gross profit   |      | 59,237,639                 | 51,544,276     |
| Operating expenses   |      |                            |                |
| Selling expenses   |      | 3,807,552                  | 1,227,670      |
| General and administrative expenses                              |      | 15,256,766                 | 11,328,013     |
| Research and development expenses                                |      | 1,357,363                  | 1,094,723      |
| Income from operations   |      | 38,815,958                 | 37,893,870     |
| Other income (expenses)  |      |                            |                |
| Equity in income (loss) of an equity method investee             |      | 911,743                    | (216,315 )     |
| Interest income  |      | 1,623,839                  | 1,751,140      |
| Interest expense   |      | (62,510 )                  | (88,550 )      |
| Total other income, net  |      | 2,473,072                  | 1,446,275      |
| Income before income tax expense                                 |      | 41,289,030                 | 39,340,145     |
| Income tax expense   | 8    | 6,950,539                  | 6,607,103      |
| Net income   |      | 34,338,491                 | 32,733,042     |
| Less: Net income attributable to noncontrolling interest         |      | 4,346,642                  | 6,535,787      |
| Net income attributable to China Biologic Products, Inc.         |      | 29,991,849                 | 26,197,255     |
| Earnings per share of common stock:                              | 13   |                            |                |
| Basic  |      | 1.07                       | 0.96           |
| Diluted  |      | 1.06                       | 0.94           |
| Weighted average shares used in computation:                     | 13   |                            |                |
| Basic  |      | 27,183,733                 | 26,585,926     |
| Diluted  |      | 27,465,414                 | 27,126,838     |
| Net income   |      | 34,338,491                 | 32,733,042     |
| Other comprehensive income:                                      |      |                            |                |
| Foreign currency translation adjustment, net of nil income taxes |      | 2,720,968                  | 2,569,752      |



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|  |            |            |
|--|------------|------------|
| Comprehensive income   | 37,059,459 | 35,302,794 |
| Less: Comprehensive income attributable to noncontrolling interest | 4,650,562  | 6,978,683  |
| Comprehensive income attributable to China Biologic Products, Inc. | 32,408,897 | 28,324,111 |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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

|   | For the Three Months Ended |                          |
|---|----------------------------|--------------------------|
|   | March 31,<br>2017<br>USD   | March 31,<br>2016<br>USD |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                            |                          |
| Net income  | 34,338,491                 | 32,733,042               |
| Adjustments to reconcile net income to net cash provided by operating activities: |                            |                          |
| Depreciation  | 3,052,133                  | 2,267,623                |
| Amortization  | 428,028                    | 216,971                  |
| Loss on sale of property, plant and equipment                                     | 63,425                     | 90,261                   |
| Allowance (reversal) for doubtful accounts - accounts receivable, net             | (10,168 )                  | -                        |
| Write-down of obsolete inventories  | -                          | 59,560                   |
| Deferred tax expense (benefit)  | 266,804                    | (887,184 )               |
| Share-based compensation  | 8,072,065                  | 4,569,395                |
| Equity in (income) loss of an equity method investee                              | (911,743 )                 | 216,315                  |
| Change in operating assets and liabilities:                                       |                            |                          |
| Accounts receivable   | (17,570,606 )              | (5,267,385 )             |
| Inventories   | (9,130,101 )               | (3,869,727 )             |
| Prepayments and other current assets  | (2,281,491 )               | 2,554,632                |
| Accounts payable  | 378,931                    | (3,696,808 )             |
| Income tax payable  | 1,869,988                  | 3,654,815                |
| Other payables and accrued expenses   | (5,411,627 )               | (8,282,055 )             |
| Deferred income   | (121,102 )                 | (127,705 )               |
| Net cash provided by operating activities   | 13,033,027                 | 24,231,750               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                            |                          |
| Payment for property, plant and equipment   | (8,936,981 )               | (13,672,613 )            |
| Payment for land use rights   | (151,326 )                 | (967,636 )               |
| Refund of deposits related to land use right                                      | -                          | 994,815                  |
| Proceeds from sale of property, plant and equipment                               | 3,626                      | 63,397                   |
| Long-term loan lent to a third party  | -                          | (6,331,518 )             |
| Net cash used in investing activities   | (9,084,681 )               | (19,913,555 )            |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

|   | For the Three Months Ended |                          |
|---|----------------------------|--------------------------|
|   | March 31,<br>2017<br>USD   | March 31,<br>2016<br>USD |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                          |                            |                          |
| Proceeds from stock option exercised                                  | 98,500                     | -                        |
| Proceeds from short-term bank loan                                    | 8,715,000                  | -                        |
| Maturity of deposit as security for bank loans                        | -                          | 37,756,405               |
| Dividend paid by subsidiaries to noncontrolling interest shareholders | -                          | (7,921,952 )             |
| Net cash provided by financing activities                             | 8,813,500                  | 29,834,453               |
| <br><b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH</b>            | <br>829,989                | <br>1,026,211            |
| <br><b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                  | <br>13,591,835             | <br>35,178,859           |
| <br>Cash and cash equivalents at beginning of period                  | <br>183,765,533            | <br>144,937,893          |
| <br>Cash and cash equivalents at end of period                        | <br>197,357,368            | <br>180,116,752          |
| <br><b>Supplemental cash flow information</b>                         |                            |                          |
| Cash paid for income taxes  | 4,969,712                  | 3,867,715                |
| <b>Noncash investing and financing activities:</b>                    |                            |                          |
| Acquisition of property, plant and equipment included in payables     | 1,863,464                  | 3,087,289                |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

CHINA BIOLOGIC PRODUCTS INC. AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2017 AND 2016

**NOTE 1 – BASIS OF PRESENTATION, SIGNIFICANT CONCENTRATION AND RISKS**

(a)

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). The December 31, 2016 consolidated balance sheet was derived from the audited consolidated financial statements of China Biologic Products, Inc. (the “Company”). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the December 31, 2016 audited consolidated financial statements of the Company included in the Company’s annual report on Form 10-K for the year ended December 31, 2016.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the financial position as of March 31, 2017, the results of operations for the three months ended March 31, 2017 and 2016 and cash flows for the three months ended March 31, 2017 and 2016, have been made.

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. 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 unaudited condensed 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.

*Recently Adopted Accounting Pronouncements*

Effective January 1, 2017, on a retrospective basis, the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). This update required that deferred tax assets and liabilities be classified as noncurrent. As a result of adoption of this guidance, the Company reclassified current deferred income tax assets in the amount of \$4,625,996, which had been included in prepayments and other current assets, to other noncurrent assets as of December 31, 2016. There was no impact on results of operations or cash flows as a result of the adoption of this guidance.

Effective January 1, 2017, the Company adopted the FASB ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The standard simplified certain aspects of the accounting for share-based payment transactions, including recognition of excess tax benefits and deficiencies, classification of awards and classification in the statement of cash flows. As a result of adoption, the Company elected to adopt the change regarding income taxes on a prospective basis to recognize excess tax benefits and deficiencies from stock-based compensation as a discrete item in income tax expense, which were historically recorded as additional paid-in-capital. In addition, the Company elected to apply the change regarding classification in the statement of cash flows prospectively to record excess tax benefits from stock-based compensation from cash flows from financing activities to cash flows from operating activities. The adoption of this standard in the first quarter of this year had no material impact on the Company’s financial statements.

(b)

Significant Concentration and Risks

The Company maintains cash and deposit 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 March 31, 2017 and December 31, 2016 amounted to \$196,560,252 and \$183,078,440, respectively, of which \$2,522,387 and \$2,744,704 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.

As of March 31, 2017 and December 31, 2016, the Company maintained cash and cash equivalents at banks in the following locations:

|                          | March 31, 2017 | December 31, 2016 |
|--------------------------|----------------|-------------------|
|                          | USD            | USD               |
| PRC, excluding Hong Kong | 185,589,171    | 171,539,309       |
| U.S.                     | 10,971,081     | 11,539,131        |
| Total                    | 196,560,252    | 183,078,440       |

The Company's two major products are human albumin and human immunoglobulin for intravenous injection ("IVIG"). Human albumin accounted for 40.3% and 38.1% of the total sales for the three months ended March 31, 2017 and 2016, respectively. IVIG accounted for 34.8% and 39.9% of the total sales for the three months ended March 31, 2017 and 2016, 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 the total sales during the three months ended March 31, 2017 and 2016. No individual customer represented 10% or more of accounts receivables as at March 31, 2017 and December 31, 2016, respectively. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

There was one supplier, namely, Xinjiang Deyuan Bioengineering Co., Ltd. ("Xinjiang Deyuan"), that comprised 10% or more of the total purchases for the three months ended March 31, 2017 and 2016. Chongqing Sanda Great Exploit

Pharmaceutical Co, Ltd. represented more than 10% of accounts payables as at March 31, 2017 and December 31, 2016.

## NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable at March 31, 2017 and December 31, 2016 consisted of the following:

|                                       | March 31, 2017 | December 31, 2016 |
|---------------------------------------|----------------|-------------------|
|                                       | USD            | USD               |
| Accounts receivable                   | 52,174,311     | 34,452,392        |
| Less: Allowance for doubtful accounts | (526,375)      | (533,596)         |
| Total                                 | 51,647,936     | 33,918,796        |

The activity in the allowance for doubtful accounts-accounts receivable for the three months ended March 31, 2017 and 2016 are as follows:

|   | For the Three Months Ended |                |
|---|----------------------------|----------------|
|   | March 31,<br>2017          | March 31, 2016 |
|   | USD                        | USD            |
| Beginning balance                       | 533,596                    | 443,624        |
| Recoveries                              | (10,168 )                  | -              |
| Foreign currency translation adjustment | 2,947                      | 2,218          |
| Ending balance                          | 526,375                    | 445,842        |

### NOTE 3 – INVENTORIES

Inventories at March 31, 2017 and December 31, 2016 consisted of the following:

|                 | March 31, 2017 | December 31, 2016 |
|-----------------|----------------|-------------------|
|                 | USD            | USD               |
| Raw materials   | 89,471,190     | 80,781,903        |
| Work-in-process | 28,318,425     | 24,994,839        |
| Finished goods  | 48,590,878     | 50,635,932        |
| Total           | 166,380,493    | 156,412,674       |

Provisions to write-down the carrying amount of obsolete inventory to its estimated net realizable value amounted to nil and \$59,560 during the three months ended March 31, 2017 and 2016, respectively, and were recorded as cost of sales in the unaudited condensed consolidated statements of comprehensive income.

### NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2017 and December 31, 2016 consisted of the following:

|                         | March 31, 2017 | December 31, 2016 |
|-------------------------|----------------|-------------------|
|                         | USD            | USD               |
| Buildings               | 34,405,242     | 34,131,032        |
| Machinery and equipment | 53,101,963     | 52,467,764        |



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|  |               |               |
|--|---------------|---------------|
| Furniture, fixtures, office equipment and vehicles | 7,988,472     | 7,843,567     |
| Total property, plant and equipment, gross         | 95,495,677    | 94,442,363    |
| Accumulated depreciation                           | (42,441,592 ) | (39,315,011 ) |
| Total property, plant and equipment, net           | 53,054,085    | 55,127,352    |
| Construction in progress                           | 72,190,032    | 61,825,470    |
| Prepayment for property, plant and equipment       | 12,793,614    | 15,139,101    |
| Property, plant and equipment, net                 | 138,037,731   | 132,091,923   |

Depreciation expense for the three months ended March 31, 2017 and 2016 was \$3,052,133 and \$2,267,623, respectively. No interest expenses were capitalized into construction in progress for the three months ended March 31, 2017 and 2016.

#### NOTE 5 – LOAN RECEIVABLE

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 an interest-bearing loan at an interest rate of 6% per annum with an aggregate principal amount of RMB300,000,000 (approximately \$47,160,000). The loan is 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.

Interest income of \$608,180 and \$652,306 was recognized and received by Guizhou Taibang for the three months ended March 31, 2017 and 2016, respectively.

**NOTE 6 – SHORT-TERM BANK LOAN**

In March 2017, the Company obtained a one-year unsecured loan of RMB60,000,000 (approximately \$8,715,000) from Bank of China (Taishan Branch) at an interest rate of 4.5675%. The loan is due March 21, 2018 and interest will be paid on the 21th day of each month.

**NOTE 7 – OTHER PAYABLES AND ACCRUED EXPENSES**

Other payables and accrued expenses at March 31, 2017 and December 31, 2016 consisted of the following:

|   | March 31, 2017 | December 31, 2016 |
|---|----------------|-------------------|
|   | USD            | USD               |
| Payables to a potential investor <sup>(1)</sup>             | 8,042,523      | 7,941,013         |
| Payable to Guizhou Eakan Investing Corp. <sup>(2)</sup>     | 2,110,326      | 2,098,824         |
| Salaries and bonuses payable                                | 10,642,788     | 16,740,846        |
| Accruals for sales commission and promotion fee             | 5,873,077      | 4,391,160         |
| Dividends payable to noncontrolling interest <sup>(3)</sup> | 13,493,334     | 7,952,467         |
| Payables for construction in progress                       | 4,810,353      | 5,364,441         |
| Other tax payables  | 2,518,384      | 1,918,248         |
| Advance from customers                                      | 1,816,158      | 3,976,832         |
| Deposits received   | 2,856,823      | 2,541,420         |
| Others  | 7,484,275      | 6,872,894         |
| Total   | 59,648,041     | 59,798,145        |

The payables to a potential investor comprises deposits received from a potential investor of \$4,951,150 and \$4,924,164 as of March 31, 2017 and December 31, 2016, respectively, and related interest plus penalty on these deposits totaling \$3,091,373 and \$3,016,849 as of March 31, 2017 and December 31, 2016, respectively. See note 12.

Guizhou Taibang has payables to Guizhou Eakan Investing Corp., in the amount of approximately \$2,110,326 and \$2,098,824 as of March 31, 2017 and December 31, 2016, respectively. The Company borrowed this interest free advance for working capital purpose. The balance is due on demand.

On March 2, 2017, Shandong Taibang declared a cash dividend distribution amounting RMB220,000,000 (approximately \$31,955,000), of which RMB37,928,000 (approximately \$5,509,042) represented the dividends payable to a noncontrolling interest shareholder.

## **NOTE 8 – INCOME TAX**

The Company's effective income tax rates were 17% for the three months ended March 31, 2017 and 2016, respectively. The difference between the effective income tax rates and statutory income tax rate of 25% for the three months ended March 31, 2017 and 2016 was primarily due to preferential tax rate of 15% applicable to both Guizhou Taibang and Shandong Taibang in 2017 and 2016, which was partially offset by valuation allowances against the deferred tax assets of China Biologic in the U.S. relating to operating losses.

As of and for the three months ended March 31, 2017, the Company did not have any unrecognized tax benefits and thus no interest and penalties related to unrecognized tax benefits were recorded. In addition, the Company does not expect that the amount of unrecognized tax benefits to change significantly within the next 12 months.

## **NOTE 9 – OPTIONS AND NONVESTED SHARES**

### Options

A summary of stock options activity for the three months ended March 31, 2017 is as follow:

|                                     | Number of<br>Options | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term in Years | Aggregate<br>Intrinsic<br>Value |
|-------------------------------------|----------------------|---------------------------------------|--|---------------------------------|
|                                     |                      | USD                                   |  | USD                             |
| Outstanding as of December 31, 2016 | 314,491              | 10.32                                 | 3.84   | 30,568,083                      |
| Granted                             | -                    |                                       |  |                                 |
| Exercised                           | (10,000 )            | 9.85                                  |  | (888,100 )                      |
| Forfeited and expired               | -                    |                                       |  |                                 |
| Outstanding as of March 31, 2017    | 304,491              | 10.34                                 | 3.53   | 27,341,194                      |
| Vested as of March 31, 2017         | 304,491              | 10.34                                 | 3.53   | 27,341,194                      |
| Exercisable as of March 31, 2017    | 304,491              | 10.34                                 | 3.53   | 27,341,194                      |

For the three months ended March 31, 2017 and 2016, the Company recorded stock compensation expense of nil and \$243,577, respectively, in general and administrative expenses.

#### Nonvested shares

A summary of nonvested shares activity for the three months ended March 31, 2017 is as follows:

|                                  | Number of<br>nonvested<br>shares | Grant date<br>weighted average<br>fair value |
|----------------------------------|----------------------------------|--|
|                                  |                                  | USD  |
| Outstanding at December 31, 2016 | 912,650                          | 104.51                                       |
| Granted                          | 25,800                           | 98.20  |
| Vested                           | (18,572 )                        | 79.48  |
| Forfeited                        | -                                | -  |
| Outstanding at March 31, 2017    | 919,878                          | 104.84                                       |

For the three months ended March 31, 2017 and 2016, the Company recorded stock compensation expense of \$8,072,065 and \$4,325,818 respectively in general and administrative expenses.

At March 31, 2017, approximately \$76,128,493 of stock compensation expense with respect to nonvested shares is expected to be recognized over weighted average period of approximately 2.76 years.

#### **NOTE 10 – 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, accounts receivable, other receivables, accounts payable, short-term bank loan 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 borrowing rates for similar borrowing.

## NOTE 11 – SALES

The Company's sales by products for the three months ended March 31, 2017 and 2016 are as follows:

|  | For the three months ended |                |
|--|----------------------------|----------------|
|  | March 31,<br>2017          | March 31, 2016 |
|  | USD                        | USD            |
| Human Albumin                                  | 36,858,291                 | 32,628,855     |
| Immunoglobulin products:                       |                            |                |
| Human Immunoglobulin for Intravenous Injection | 31,752,986                 | 34,157,762     |
| Other Immunoglobulin products                  | 8,293,667                  | 8,900,316      |
| Placenta Polypeptide                           | 10,246,969                 | 5,708,405      |
| Others   | 4,301,199                  | 4,192,373      |
| Total  | 91,453,112                 | 85,587,711     |

## NOTE 12 – COMMITMENTS AND CONTINGENCIES

### Commitments

As of March 31, 2017, commitments outstanding for operating lease approximated \$0.9 million.

As of March 31, 2017, commitments outstanding for the purchase of property, plant and equipment approximated \$22.8 million.

As of March 31, 2017, commitments outstanding for the purchase of plasma from April 1, 2017 to 2018 approximated \$34.9 million.

Legal proceedings

***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 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 RMB34,160,000 (approximately \$5,011,272) 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 \$1,699,040) 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 March 31, 2017, Guizhou Taibang had maintained, on its balance sheet, payables to the investor of RMB34,160,000 (approximately \$4,951,150) as originally received funds from such individual investor in respect of the shares in dispute, RMB20,987,035 (approximately \$3,041,861) for the interest expenses, and RMB341,600 (approximately \$49,512) 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.

### NOTE 13 - EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

|   | For the three months ended |                |
|---|----------------------------|----------------|
|   | March 31,<br>2017          | March 31, 2016 |
|   | USD                        | USD            |
| Net income attributable to China Biologic Products, Inc.                    | 29,991,849                 | 26,197,255     |
| Earnings allocated to participating nonvested shares                        | (982,612 )                 | (648,471 )     |
| Net income used in basic/diluted earnings per common stock                  | 29,009,237                 | 25,548,784     |
| Weighted average shares used in computing basic earnings per common stock   | 27,183,733                 | 26,585,926     |
| Dilutive effect of outstanding stock options                                | 281,681                    | 540,912        |
| Weighted average shares used in computing diluted earnings per common stock | 27,465,414                 | 27,126,838     |
| Basic earnings per common stock   | 1.07                       | 0.96           |
| Diluted earnings per common stock   | 1.06                       | 0.94           |

During the three months ended March 2017 and 2016, no potential ordinary shares outstanding were excluded from the calculation of diluted earnings per common stock.



## **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **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, and Section 21E of the Exchange Act. We use words such as “believe,” “expect,” “anticipate,” “project,” “target,” “plan,” “optimistic,” “intend,” “aim,” “will” or similar 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, including those identified in Item 1A “Risk Factors” described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as well as assumptions, which, if they were to ever materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements.

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, financial condition and results of operations and prospects. 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,” the “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;
- “Exchange Act” are to the Securities Exchange Act of 1934, as amended;

“Guizhou Taibang” are to Guizhou Taibang Biological Products Co., Ltd., a PRC company indirectly wholly owned by us;  
“Huitian” are to Xi’an Huitian Blood Products Co., Ltd., a PRC company in which we hold an indirect minority equity interest;  
“RMB” are to the legal currency of China;  
“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; and  
“U.S. dollars,” “USD” and “\$” are to the legal currency of the United States of America.

## Overview of Our Business

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 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 40.3% and 38.1% of our total sales for the three months ended March 31, 2017 and 2016, respectively. Sales of IVIG products represented approximately 34.8% and 39.9% of our total sales for the three months ended March 31, 2017 and 2016, respectively.

Our sales model focuses on direct sales to hospitals and inoculation centers and is complemented by distributor sales. For the three months ended March 31, 2017 and 2016, our top five customers accounted for approximately 20.1% and 17.5%, respectively, of our total sales.

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.

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.

### First Quarter Financial Performance Highlights

The following are some financial highlights for the three months ended March 31, 2017:

**Sales:** Sales increased by \$5.9 million, or 6.9%, to \$91.5 million for the three months ended March 31, 2017, from \$85.6 million for the same period in 2016.

**Gross profit:** Gross profit increased by \$7.7 million, or 15.0%, to \$59.2 million for the three months ended March 31, 2017, from \$51.5 million for the same period in 2016.

**Income from operations:** Income from operations increased by \$0.9 million, or 2.4%, to \$38.8 million for the three months ended March 31, 2017, from \$37.9 million for the same period in 2016.

**Net income attributable to our company:** Net income increased by \$3.8 million, or 14.5%, to \$30.0 million for the three months ended March 31, 2017, from \$26.2 million for the same period in 2016.

**Diluted earnings per share:** Diluted earnings per share was \$1.06 for the three months ended March 31, 2017, as compared to \$0.94 for the same period in 2016.

**Results of Operations****Comparison of Three Months Ended March 31, 2017 and March 31, 2016**

The following table sets forth key components of our results of operations in thousands of U.S. dollars for the periods indicated.

|   | For the Three Months Ended March 31,<br>2017 |                     | 2016   |                     |
|---|--|---------------------|--------|---------------------|
|   | Amount                                       | % of Total<br>Sales | Amount | % of Total<br>Sales |
| (U.S. dollars in thousands, except percentage and per share data) |  |                     |        |                     |
| Sales   | 91,453                                       | 100.0               | 85,588 | 100.0               |
| Cost of sales   | 32,215                                       | 35.2                | 34,043 | 39.8                |
| Gross profit  | 59,238                                       | 64.8                | 51,545 | 60.2                |
| Operating expenses:   |  |                     |        |                     |
| Selling expenses  | 3,808  | 4.2                 | 1,228  | 1.4                 |
| General and administrative expenses                               | 15,257                                       | 16.7                | 11,328 | 13.2                |
| Research and development expenses                                 | 1,357  | 1.5                 | 1,095  | 1.3                 |
| Total operating expenses  | 20,422                                       | 22.4                | 13,651 | 15.9                |
| Income from operations  | 38,816                                       | 42.4                | 37,894 | 44.3                |
| Other income (expenses):  |  |                     |        |                     |
| Equity in income (loss) of an equity method investee              | 912  | 1.0                 | (216)  | (0.3)               |
| Interest expense  | (63)   | (0.1)               | (89)   | (0.1)               |
| Interest income   | 1,624  | 1.8                 | 1,751  | 2.0                 |
| Total other income, net   | 2,473  | 2.7                 | 1,446  | 1.6                 |
| Income before income tax expense                                  | 41,289                                       | 45.1                | 39,340 | 45.9                |
| Income tax expense  | 6,951  | 7.6                 | 6,607  | 7.7                 |
| Net income  | 34,338                                       | 37.5                | 32,733 | 38.2                |
| Less: Net income attributable to noncontrolling interest          | 4,346  | 4.7                 | 6,536  | 7.6                 |
| Net income attributable to our company                            | 29,992                                       | 32.8                | 26,197 | 30.6                |
| Earnings per share of common stock                                |  |                     |        |                     |
| Basic   | 1.07   |                     | 0.96   |                     |
| Diluted   | 1.06   |                     | 0.94   |                     |

## Sales

Our sales increased by \$5.9 million, or 6.9%, to \$91.5 million for the three months ended March 31, 2017, compared to \$85.6 million for the same period in 2016. In RMB terms, our total sales increased by 12.7% for the three months ended March 31, 2017 as compared to the same period in 2016. The increase in sales for the three months ended March 31, 2017 was primarily attributable to the sales volume increase in human albumin products and placenta polypeptide products.

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

|                               | For the Three Months Ended                    |       |        |       | Change |        |
|-------------------------------|---|-------|--------|-------|--------|--------|
|                               | March 31,<br>2017                             |       | 2016   |       |        |        |
|                               | Amount  | %     | Amount | %     | Amount | %      |
|                               | (U.S. dollars in millions, except percentage) |       |        |       |        |        |
| Human albumin                 | 36.9  | 40.3  | 32.6   | 38.1  | 4.3    | 13.2   |
| Immunoglobulin products:      |   |       |        |       |        |        |
| IVIG                          | 31.8  | 34.8  | 34.2   | 39.9  | (2.4)  | (7.0 ) |
| Other immunoglobulin products | 8.3   | 9.1   | 8.9    | 10.4  | (0.6)  | (6.7 ) |
| Placenta polypeptide          | 10.2  | 11.1  | 5.7    | 6.7   | 4.5    | 78.9   |
| Others                        | 4.3   | 4.7   | 4.2    | 4.9   | 0.1    | 2.4    |
| Totals                        | 91.5  | 100.0 | 85.6   | 100.0 | 5.9    | 6.9    |

During the three months ended March 31, 2017 as compared to the three months ended March 31, 2016:

the average price for our approved human albumin products, which accounted for 40.3% of our total sales for the three months ended March 31, 2017, decreased by 1.2% and 6.3% in RMB term and in USD term, respectively, mainly due to lower sales proportion from the higher-unit-price dosages; and

the average price for our approved IVIG products, which accounted for 34.8% of our total sales for the three months ended March 31, 2017, increased by 3.2% in RMB term and decreased by 2.1% in USD term mainly due to an increase in price to the company's major distributors; and

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 availabilities 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 quarter to quarter.

The sales volume of human albumin products increased by 20.6% for the three months ended March 31, 2017 as compared to the same period in 2016, primarily due to enhanced production and sales volume at Guizhou Taibang as a result of increased plasma supply volume. The sales volume of IVIG products decreased by 5% for the three months ended March 31, 2017 as compared to the same period in 2016, primarily due to a high comparison base in the first quarter of 2016 when we sold the IVIG products processed from the approximately 143 tonnes of source plasma and plasma pastes outsourced from Xinjiang Deyuan in 2015.

Revenue from hyper-immune products, which were included in other immunoglobulin products, decreased by 6.7% in USD term for the three months ended March 31, 2017 as compared to the same period in 2016.

Revenue from placenta polypeptide products increased by 89.3% and 78.9% in RMB term and USD term, respectively, reaching 11.1% of total sales, for the three months ended March 31, 2017 as compared to the same period in 2016, attributable to higher-than-normal product sales volume in the first quarter possibly in anticipation of the nationwide implementation of a two-invoice policy system which will potentially result in higher billing price for distributors in the future.

Revenue from other plasma products including human coagulation factor VIII and human prothrombin complex concentrate increased by 8.2% and 2.4% in RMB term and USD term, respectively, for the three months ended March 31, 2017 as compared to the same period in 2016, representing at 4.7% of total sales for the three months period ended March 31, 2017.

### *Cost of sales and gross profit*

|                                | For the Three<br>Months Ended<br>March 31,    |        | Change |        |
|--------------------------------|---|--------|--------|--------|
|                                | 2017  | 2016   | Amount | %      |
|                                | (U.S. dollars in millions, except percentage) |        |        |        |
| Cost of sales                  | 32.3  | 34.1   | (1.8 ) | (5.3 ) |
| as a percentage of total sales | 35.2 %  | 39.8 % |        | (4.6 ) |
| Gross Profit                   | 59.2  | 51.5   | 7.7    | 15.0   |
| Gross Margin                   | 64.8 %  | 60.2 % |        | 4.6    |

Our cost of sales was \$32.3 million, or 35.2% of our sales for the three months ended March 31, 2017, as compared to \$34.1 million, or 39.8% of our sales for the same period in 2016. Our gross profit was \$59.2 million and \$51.5 million for the three months ended March 31, 2017 and 2016, respectively, representing gross margins of 64.8% and 60.2%, 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 decrease in cost of sales as a percentage of sales for the three months ended March 31, 2017 as compared to the same period in 2016 was mainly due to the lower sales proportion of the high-cost outsourced raw plasma, as well as greater sales proportion of the higher-margin placenta polypeptide products.

*Operating expenses*

|                                | For the Three<br>Months Ended<br>March 31,       |        | Change |      |
|--------------------------------|--|--------|--------|------|
|                                | 2017   | 2016   | Amount | %    |
|                                | (U.S. dollars in millions, except<br>percentage) |        |        |      |
| Operating expenses             | 20.4   | 13.6   | 6.8    | 50.0 |
| as a percentage of total sales | 22.4 %   | 15.9 % |        | 6.5  |

Our total operating expenses increased by \$6.8 million, or 50.0%, to \$20.4 million for the three months ended March 31, 2017, from \$13.6 million for the same period in 2016. As a percentage of sales, total operating expenses increased by 6.5% to 22.4% for the three months ended March 31, 2017, from 15.9% for the same period in 2016. The increase of the total operating expenses was mainly due to the increase of the selling expenses and general and administrative expenses as discussed below.



Selling expenses

|                                | For the Three<br>Months Ended<br>March 31,    |       | Change |       |
|--------------------------------|---|-------|--------|-------|
|                                | 2017  | 2016  | Amount | %     |
|                                | (U.S. dollars in millions, except percentage) |       |        |       |
| Selling expenses               | 3.8   | 1.2   | 2.6    | 216.7 |
| as a percentage of total sales | 4.2 %   | 1.4 % |        | 2.8   |

Our selling expenses increased by \$2.6 million, or 216.7%, to \$3.8 million for the three months ended March 31, 2017, from \$1.2 million for the same period in 2016. As a percentage of sales, our selling expenses increased by 2.8% to 4.2% for the three months ended March 31, 2017, from 1.4% for the same period in 2016 primarily due to higher marketing and promotion costs related to certain hyper-immune products and placenta polypeptide products.

General and administrative expenses

|                                     | For the Three<br>Months Ended<br>March 31,    |        | Change |      |
|-------------------------------------|---|--------|--------|------|
|                                     | 2017  | 2016   | Amount | %    |
|                                     | (U.S. dollars in millions, except percentage) |        |        |      |
| General and administrative expenses | 15.2  | 11.3   | 3.9    | 34.5 |
| as a percentage of total sales      | 16.7 %  | 13.2 % |        | 3.5  |

Our general and administrative expenses increased by \$3.9 million, or 34.5%, to \$15.2 million for the three months ended March 31, 2017, from \$11.3 million for the same period in 2016. General and administrative expenses as a percentage of sales increased by 3.5% to 16.7% for the three months ended March 31, 2017, from 13.2% for the same period in 2016. The increase in general and administrative expenses was mainly due to the increase of share-based compensation expenses totaling \$3.5 million.

Research and development expenses

|  | For the Three<br>Months Ended<br>March 31,    |      | Change |   |
|--|---|------|--------|---|
|  | 2017  | 2016 | Amount | % |
|  | (U.S. dollars in millions, except percentage) |      |        |   |

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|                                   |     |   |     |   |     |      |
|-----------------------------------|-----|---|-----|---|-----|------|
| Research and development expenses | 1.4 |   | 1.1 |   | 0.3 | 27.3 |
| as a percentage of total sales    | 1.5 | % | 1.3 | % |     | 0.2  |

Our research and development expenses increased by \$0.3 million, or 27.3%, to \$1.4 million for the three months ended March 31, 2017, from \$1.1 million for the same period in 2016.

### *Income tax*

|                                | For the Three<br>Months Ended<br>March 31,       |      | Change |        |
|--------------------------------|--|------|--------|--------|
|                                | 2017   | 2016 | Amount | %      |
|                                | (U.S. dollars in millions, except<br>percentage) |      |        |        |
| Income tax                     | 7.0  | 6.6  | 0.4    | 6.1    |
| as a percentage of total sales | 7.6  | 7.7  |        | (0.1 ) |

Our provision for income taxes increased by \$0.4 million, or 6.1%, to \$7.0 million for the three months ended March 31, 2017, from \$6.6 million for the same period in 2016. Our effective income tax rate was 16.8% for the three months ended March 31, 2017 and 2016, respectively. The difference between the effective income tax rates and statutory income tax rate of 25% for the three months ended March 31, 2017 and 2016 was primarily due to preferential tax rate of 15% applicable to both Guizhou Taibang and Shandong Taibang in 2017 and 2016, which was partially offset by valuation allowances against the deferred tax assets of China Biologic in the U.S. relating to operating losses.

### **Liquidity and Capital Resources**

To date, we have financed our operations primarily through cash flows from operations, supplemented by bank borrowings and equity contributions by our stockholders. As of March 31, 2017, we had \$197.4 million in cash and cash equivalents, primarily consisting of demand deposits.

The following table provides the summary of our cash flows for the periods indicated:

|  | For the Three Months Ended March 31, |        |
|--|--------------------------------------|--------|
|  | 2017                                 | 2016   |
|  | (U.S. dollars in millions)           |        |
| Net cash provided by operating activities            | 13.1                                 | 24.2   |
| Net cash used in investing activities                | (9.1)                                | (19.9) |
| Net cash provided by financing activities            | 8.8                                  | 29.8   |
| Effects of exchange rate change on cash              | 0.8                                  | 1.1    |
| Net increase in cash and cash equivalents            | 13.6                                 | 35.2   |
| Cash and cash equivalents at beginning of the period | 183.8                                | 144.9  |
| Cash and cash equivalents at end of the period       | 197.4                                | 180.1  |

### *Operating Activities*

Net cash provided by operating activities for the three months ended March 31, 2017 was \$13.1 million, as compared to \$24.2 million for the same period in 2016. The decrease in net cash provided by operating activities was primarily due to the increases in accounts receivable and inventories.

### Accounts receivable

Accounts receivable increased by \$17.6 million during the first quarter of 2017, as compared to \$5.3 million in the same quarter of 2016. The accounts receivable turnover days for plasma products increased to 46 days during the first quarter of 2017 from 33 days in the same quarter of 2016. The increased turnover days are combined results of higher percentage of direct sales and higher concentration on large hospital customers and distributor customers that typically request longer credit terms.

### Inventories

Inventories increased by \$9.1 million in the first quarter of 2017, mainly comprising of outsourced and our own collected raw material plasma increase. This increase was higher than the inventory increase of \$3.9 million in the same quarter of 2016, mainly because we had to stockpile sufficient inventories as a preparation for the planned temporary production suspension at our Shandong facility.

***Investing Activities***

Our use of cash for investing activities is primarily for the acquisition of property, plant and equipment and long-term loan to a third party.

Net cash used in investing activities for the three months ended March 31, 2017 was \$9.1 million, as compared to \$19.9 million for the same period in 2016. During the three months ended March 31, 2017 and 2016, we paid \$9.1 million and \$14.6 million, respectively, for the acquisition of property, plant and equipment and land use rights for Shandong Taibang and Guizhou Taibang. In addition, during the three months ended March 31, 2016, we granted a loan of \$6.3 million to Xinjiang Deyuan pursuant to a cooperation agreement we entered into with Xinjiang Deyuan in August 2015.

***Financing Activities***

Net cash provided by financing activities for the three months ended March 31, 2017 was \$8.8 million, as compared to net cash provided by financing activities of \$29.8 million for the same period in 2016. The net cash provided by financing activities in the first quarter of 2017 mainly consisted of \$8.7 million short-term loan. The net cash provided by financing activities for the three months ended March 31, 2016 mainly consisted of the maturity of a \$37.8 million time deposit as a security for a 24-month loan which was fully repaid in June 2015, partially offset by dividend of \$7.9 million paid to the noncontrolling shareholder by Shandong Taibang.

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 March 31, 2017:

| Contractual Obligations    | Payments Due by Period |                               |                       |                        |                                 |
|----------------------------|------------------------|-------------------------------|-----------------------|------------------------|---------------------------------|
|                            | Total                  | <b>Less than<br/>one year</b> | One to<br>three years | Three to<br>five years | <b>More than<br/>five years</b> |
| (U.S. dollars in millions) |                        |                               |                       |                        |                                 |
| Operating lease commitment | 0.9                    | 0.4                           | 0.4                   | -                      | 0.1                             |

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|                     |      |      |      |   |     |
|---------------------|------|------|------|---|-----|
| Purchase commitment | 34.9 | 23.7 | 11.2 | - | -   |
| Capital commitment  | 22.8 | 20.5 | 2.3  | - | -   |
| Total               | 58.6 | 44.6 | 13.9 | - | 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**

Critical accounting policies are those we believe are most important to portraying our financial conditions and results of operations and also require the greatest amount of subjective or complex judgments by management. Judgments and uncertainties regarding the application of these policies may result in materially different amounts being reported under various conditions or using different assumptions. There have been no material changes to the critical accounting policies previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

## **ITEM 3. 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 revenues and costs of sales 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 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% depreciation against U.S. dollars throughout the remainder of 2015 and up to the date of this report.

## **Account Balances**

We maintain 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 and time deposits as of March 31, 2017 and December 31, 2016 amounted to \$196.6 million and \$183.1 million, respectively, \$2.5 million and \$2.7 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 40.3% and 34.8% of the total sales for the three months ended March 31, 2017, 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 4. 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). Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(e), our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer, Mr. David (Xiaoying) Gao and our Chief Financial Officer, Mr. Ming Yang, of the effectiveness of the design and operation of our disclosure controls and procedures, as of March 31, 2017. Based on that evaluation, Mr. Gao and Mr. Yang concluded that our disclosure controls and procedures were effective as of March 31, 2017.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### OTHER INFORMATION

#### **ITEM 1. 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 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 \$5.0 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 March 31 2017, Guizhou Taibang had maintained, on its balance sheet, payables to the investor of RMB34.2 million (approximately \$5.0 million) as originally received funds from such individual investor in respect of the shares in dispute, RMB21.0 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 1A. RISK FACTORS.**

As of the date of this filing, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K filed on February 23, 2017. We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially affect our operations. The risks, uncertainties and other factors set forth in the above-referenced Annual Report on Form 10-K may cause our actual results, performances and achievements to be materially different from those expressed or implied by our forward-looking statements. If any of these risks or events occurs, our business, financial condition or results of operations may be adversely affected.

#### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

We have not sold any equity securities during the three months ended March 31, 2017 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 this period. No repurchases of our common stock were made during the three months ended March 31, 2017.

#### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

#### **ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

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

## SIGNATURES

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

Date: May 3, 2017 **CHINA BIOLOGIC PRODUCTS, INC.**

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

By: /s/ Ming Yang  
Ming Yang, Chief Financial Officer  
*(Principal Financial Officer and Principal  
Accounting Officer)*

## EXHIBIT INDEX

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 2.1                | Agreement and Plan of Merger by and between China Biologic Products, Inc. and China Biologic Products Holdings, Inc. dated April 28, 2017 (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K filed by the Company on April 28, 2017) |
| 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 Company on August 5, 2014).   |
| 3.2                | Third Amended and Restated Bylaws of China Biologic Products, Inc. (incorporated by reference to Exhibit 3.2 of the Quarterly Report on Form 10-Q filed by the Company on August 5, 2014).  |
| 31.1               | Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2               | Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1               | Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2               | Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101                | Interactive data filed pursuant to Rule 405 of Regulation S-T   |