

China Biologic Products, Inc.  
Form 424B5  
June 05, 2015

**The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

*Filed pursuant to Rule 424(b)(5)  
Registration No. 333-204761*

***PROSPECTUS SUPPLEMENT (Subject to Completion)  
Issued June 5, 2015  
(To Prospectus dated June 5, 2015)***

*2,500,000 Shares*

*China Biologic Products, Inc.*

*Common Stock*

*China Biologic Products, Inc. is offering 700,000 shares of its common stock. The selling stockholders identified in this prospectus supplement are offering an additional 1,800,000 shares of common stock. We will not receive any proceeds from the sale of shares by the selling stockholders.*

*Our common stock is listed on the NASDAQ Global Select Market under the symbol CBPO. The last reported sale price of our common stock on the NASDAQ Global Select Market on June 4, 2015 was \$119.54 per share.*

*Investing in our common stock involves certain risks. See the Risk Factors section beginning on page S-8 of this prospectus supplement.*

*Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.*

***PRICE \$ A SHARE***

|                  | <i>Price to<br/>Public</i> | <i>Underwriting<br/>Discounts and<br/>Commissions<sup>(1)</sup></i> | <i>Proceeds to<br/>Company</i> | <i>Proceeds to<br/>Selling<br/>Stockholders</i> |
|------------------|----------------------------|---------------------------------------------------------------------|--------------------------------|-------------------------------------------------|
| <i>Per Share</i> | \$                         | \$                                                                  | \$                             | \$                                              |
| <i>Total</i>     | \$                         | \$                                                                  | \$                             | \$                                              |

(1) See section titled *Underwriting* for a description of the compensation payable to the underwriters.

We have granted to the underwriters an option to purchase up to an additional 105,000 shares of common stock from us and the selling stockholders have granted to the underwriters an option to purchase up to an additional 270,000 shares of common stock from them, at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement.

The underwriters expect to deliver the shares to purchasers on or about \_\_\_\_\_, 2015.

**MORGAN STANLEY**

**CREDIT SUISSE**

**BofA MERRILL LYNCH  
LAZARD**

**JEFFERIES**

, 2015

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## ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus dated June 5, 2015, included in the registration statement on Form S-3 (No. 333-204761), which provides more general information. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference in this prospectus supplement or the accompanying prospectus, on the other hand, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus provided in connection with this offering. Neither we nor any of the underwriters have authorized anyone to provide you with any information other than the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus provided in connection with this offering. Neither we nor any of the underwriters are making an offer to sell securities in any jurisdiction where the offer or sale is not permitted. The information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus is accurate only as of the respective dates thereof, regardless of the time of delivery of this prospectus supplement, the accompanying prospectus or any free writing prospectus, or of any sale of our securities. It is important for you to read and consider all the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus in making your investment decision.

In this prospectus supplement, unless otherwise indicated or unless the context otherwise requires, all references to:

China Biologic, we, us, our company, or our are to the combined business of China Biologic Products, Inc., a Delaware corporation, and its direct and indirect subsidiaries;

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

Exchange Act are to the Securities Exchange Act of 1934, as amended;

GMP are to good manufacturing practice;

Guizhou Taibang are to our majority owned subsidiary Guizhou Taibang Biological Products Co., Ltd., a PRC company;

Huitian are to Xi'an Huitian Blood Products Co., Ltd., a PRC company in which we hold a minority equity interest;

RMB are to the legal currency of China;

SEC are to the U.S. Securities and Exchange Commission;

Securities Act are to the Securities Act of 1933, as amended;

Shandong Taibang are to our majority owned subsidiary Shandong Taibang Biological Products Co. Ltd., a PRC company;

Taibang Biological are to Taibang Biological Ltd, a British Virgin Islands company;

Taibang Holdings are to Taibang Holdings (Hong Kong) Limited, a Hong Kong company; and

U.S. dollars or \$ are to the legal currency of the United States.

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## PROSPECTUS SUPPLEMENT SUMMARY

*This summary highlights selected information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before deciding to invest in our common stock. Before making an investment decision, you should read carefully this entire prospectus supplement, the accompanying prospectus and the documents that we have filed with the SEC that are incorporated by reference into this prospectus supplement and the accompanying prospectus, including the Risk Factors section beginning on page S-8 of this prospectus supplement and the financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2014 and in our Quarterly Report on Form 10-Q for the three months ended March 31, 2015.*

## About China Biologic Products, Inc.

### 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 the largest non-state-owned producer of plasma products and the second largest producer in China in terms of 2014 sales, based on published market data. We operate our business through two majority owned subsidiaries, Shandong Taibang, a company based in Tai'an, Shandong Province and Guizhou Taibang, a company based in Guiyang, Guizhou Province. We also hold a minority equity interest in Huitian, a company based in Xi'an, Shaanxi Province.

We have a strong product portfolio with over 20 different dosage forms of plasma products across nine categories. 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 38.2% and 42.3% of our total sales for the three months ended March 31, 2015 and 2014, respectively, and 39.3%, 44.1% and 44.6% of our total sales for 2014, 2013 and 2012, respectively. Sales of IVIG products represented approximately 46.7% and 36.5% of our total sales for the three months ended March 31, 2015 and 2014, respectively, and 40.4%, 38.0% and 39.0% of our total sales for 2014, 2013 and 2012, 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 the three months ended March 31, 2015, we generated sales of \$70.4 million, an increase of 25.0% from the same period in 2014, and recorded net income attributable to our company of \$23.2 million, an increase of 26.8% from the same period in 2014. In 2014, we generated sales of \$243.3 million, an increase of 19.6% from 2013, and recorded net income attributable to our company of \$70.9 million, an increase of 29.9% from 2013.

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 Competitive Strengths

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

We are a leading producer of plasma products in China with strong growth potential.

We maintain a stable and growing supply of plasma with strategically located collection stations.

We have a robust near-term product pipeline to capture full plasma value chain backed by strong research and development capabilities.

We hold a leading position in China's fast-growing IVIG products market.

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We have a flexible and effective sales and distribution model aimed to maximize penetration.  
We have an experienced and committed management team.

## **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;  
further strengthening research and development capabilities;  
developing the market and expanding our sales network; and  
growing organically complemented by acquisition of competitors and/or other biologic related companies.

## **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.

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The following chart reflects our current corporate organizational structure as of the date of this prospectus supplement:

- (1) Pursuant to an investment entrustment agreement, Shandong Taibang holds the 35% equity interest in Huitian as a nominee for the benefit of Taibang Biological.
- (2) In February 2015, Taibang Holdings transferred its 82.76% equity interest in Shandong Taibang to Taibang Biotech (Shandong) Co., Ltd.

## **Corporate Information**

Our principal executive offices are located at 18<sup>th</sup> 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 prospectus supplement or incorporated by reference herein.

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## The Offering

### Common stock offered by us

700,000 shares (or 805,000 shares if the underwriters exercise their option to purchase additional shares in full).

### Common stock offered by the selling stockholders

1,800,000 shares (or 2,070,000 shares if the underwriters exercise their option to purchase additional shares in full).

### Common stock outstanding immediately after this offering

25,557,801 shares (or 25,662,801 shares if the underwriters exercise their option to purchase additional shares from us in full).

### Option to purchase additional shares

We have granted to the underwriters an option to purchase up to an additional 105,000 shares of common stock from us and the selling stockholders have granted to the underwriters an option to purchase up to an additional 270,000 shares of common stock from them, at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement.

### Use of proceeds

We intend to use the net proceeds from this offering primarily for general corporate purposes, which may include working capital, capital expenditures and other corporate expenses. In addition, if appropriate opportunities arise to acquire or invest in complementary products, technologies or businesses, we may use a portion of the net proceeds for such acquisition or investment. However, we have no present commitments or agreements to enter into any such acquisitions or investments. We will not receive the proceeds of the sale of shares by the selling stockholders. See

Use of Proceeds.

### Risk factors

See Risk Factors beginning on page S-8 of this prospectus supplement for a discussion of factors you should consider carefully before deciding to invest in our common stock.

### NASDAQ Global Select Market symbol

CBPO

### Lock-up

We, the selling stockholders, a certain other existing stockholder, and each of our directors and officers have agreed with the underwriters not to sell, transfer or dispose of any common stock or similar securities for a period of 90 days after the date of this prospectus supplement, subject to certain limited exceptions. See Shares Eligible for Future Sale and Underwriting.

The number of shares of our common stock to be outstanding immediately after this offering is based on 24,857,801 shares of our common stock outstanding as of March 31, 2015, and excludes:

1,386,445 shares of common stock issuable upon the exercise of options outstanding as of March 31, 2015 at a weighted average exercise price of \$10.17 per share;

549,000 shares of common stock issuable upon the vesting of outstanding restricted stock as of March 31, 2015; and

1,486,045 shares of common stock reserved for future issuance under our 2008 Equity Incentive Plan, or the 2008 Plan, as of March 31, 2015.

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The summary consolidated statement of comprehensive income data for 2014, 2013 and 2012 and the summary balance sheet data as of December 31, 2014 and 2013 are derived from our audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2014, which is incorporated by reference into this prospectus supplement and the accompanying prospectus. The summary consolidated statement of comprehensive income data for the three months ended March 31, 2015 and 2014 and the summary consolidated balance sheet data as of March 31, 2015 are derived from our unaudited interim condensed consolidated financial statements contained in our Quarterly Report on Form 10-Q for the three months ended March 31, 2015, which is also incorporated by reference into this prospectus supplement and the accompanying prospectus.

You should read the summary consolidated financial data below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement and our consolidated financial statements and related notes thereto incorporated by reference in this prospectus supplement and the accompanying prospectus. Our historical results are not necessarily indicative of results to be expected in future periods.

|                                                                                             | Year Ended<br>December 31,<br>2014 |                        | 2013    | 2012   |                        | Three Months Ended<br>March 31,<br>2015 |                        | 2014   |                        |       |
|---------------------------------------------------------------------------------------------|------------------------------------|------------------------|---------|--------|------------------------|-----------------------------------------|------------------------|--------|------------------------|-------|
|                                                                                             | Amount                             | % of<br>Total<br>Sales |         | Amount | % of<br>Total<br>Sales | Amount                                  | % of<br>Total<br>Sales | Amount | % of<br>Total<br>Sales |       |
| (U.S. dollars in thousands, except per share data)                                          |                                    |                        |         |        |                        |                                         |                        |        |                        |       |
| Summary Consolidated<br>Statement of Comprehensive<br>Income Data:                          |                                    |                        |         |        |                        |                                         |                        |        |                        |       |
| Sales                                                                                       | 243,252                            | 100.0                  | 203,357 | 100.0  | 184,813                | 100.0                                   | 70,354                 | 100.0  | 56,267                 | 100.0 |
| Cost of sales                                                                               | 80,026                             | 32.9                   | 65,484  | 32.2   | 58,836                 | 31.8                                    | 24,462                 | 34.8   | 17,715                 | 31.5  |
| Gross margin                                                                                | 163,226                            | 67.1                   | 137,873 | 67.8   | 125,977                | 68.2                                    | 45,892                 | 65.2   | 38,552                 | 68.5  |
| Operating expenses:                                                                         |                                    |                        |         |        |                        |                                         |                        |        |                        |       |
| Selling expenses                                                                            | 10,707                             | 4.4                    | 10,643  | 5.2    | 14,421                 | 7.8                                     | 1,951                  | 2.8    | 2,282                  | 4.1   |
| General and administrative<br>expenses                                                      | 32,130                             | 13.2                   | 36,074  | 17.7   | 34,034                 | 18.4                                    | 7,853                  | 11.2   | 7,217                  | 12.8  |
| Research and development<br>expenses                                                        | 4,162                              | 1.7                    | 4,223   | 2.1    | 3,033                  | 1.6                                     | 1,342                  | 1.9    | 1,074                  | 1.9   |
| Provision for other receivables in<br>respect of an employee housing<br>development project | 5,068                              | 2.1                    |         |        |                        |                                         |                        |        |                        |       |
| Total operating expenses                                                                    | 52,067                             | 21.4                   | 50,940  | 25.0   | 51,488                 | 27.9                                    | 11,146                 | 15.8   | 10,573                 | 18.8  |
| Income from operations                                                                      | 111,159                            | 45.7                   | 86,933  | 42.7   | 74,489                 | 40.3                                    | 34,746                 | 49.4   | 27,979                 | 49.7  |
| Other income (expenses):                                                                    |                                    |                        |         |        |                        |                                         |                        |        |                        |       |
| Equity in income of equity<br>method investee                                               | 8,646                              | 3.6                    | 2,170   | 1.1    | 2,666                  | 1.4                                     | (95 )                  | (0.1 ) | 337                    | 0.6   |
| Change in fair value of<br>derivative liabilities                                           |                                    |                        |         |        | 1,769                  | 1.0                                     |                        |        |                        |       |

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|                                                           |          |        |          |        |          |        |        |        |        |        |
|-----------------------------------------------------------|----------|--------|----------|--------|----------|--------|--------|--------|--------|--------|
| Interest expense                                          | (3,698 ) | (1.5 ) | (1,135 ) | (0.6 ) | (1,270 ) | (0.7 ) | (757 ) | (1.1 ) | (621 ) | (1.1 ) |
| Interest income                                           | 6,645    | 2.7    | 4,433    | 2.2    | 2,910    | 1.6    | 1,377  | 2.0    | 1,596  | 2.8    |
| Other income, net                                         |          |        |          |        | 571      | 0.3    |        |        |        |        |
| Total other income, net                                   | 11,593   | 4.8    | 5,468    | 2.7    | 6,646    | 3.6    | 525    | 0.7    | 1,312  | 2.3    |
| Earnings before income tax expense                        | 122,752  | 50.5   | 92,401   | 45.4   | 81,135   | 43.9   | 35,271 | 50.1   | 29,291 | 52.1   |
| Income tax expense                                        | 26,639   | 11.0   | 15,540   | 7.6    | 15,163   | 8.2    | 5,616  | 8.0    | 5,338  | 9.5    |
| Net income                                                | 96,113   | 39.5   | 76,861   | 37.8   | 65,972   | 35.7   | 29,655 | 42.2   | 23,953 | 42.6   |
| Less: Net income attributable to non-controlling interest | 25,196   | 10.3   | 22,259   | 10.9   | 20,750   | 11.2   | 6,493  | 9.2    | 5,679  | 10.1   |
| Net income attributable to company                        | 70,917   | 29.2   | 54,602   | 26.9   | 45,222   | 24.5   | 23,162 | 32.9   | 18,274 | 32.5   |
| Net income per share of common stock                      |          |        |          |        |          |        |        |        |        |        |
| Basic                                                     | 2.85     |        | 2.05     |        | 1.73     |        | 0.91   |        | 0.72   |        |
| Diluted                                                   | 2.71     |        | 1.96     |        | 1.62     |        | 0.87   |        | 0.69   |        |

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|                                                                          | Year Ended<br>December 31,  |         | Three Months Ended<br>March 31, |                                            |
|--------------------------------------------------------------------------|-----------------------------|---------|---------------------------------|--------------------------------------------|
|                                                                          | 2014                        | 2013    | 2015                            | Pro Forma<br>As<br>Adjusted <sup>(1)</sup> |
|                                                                          | (U.S. dollars in thousands) |         |                                 |                                            |
| Summary Consolidated Balance Sheets Data:                                |                             |         |                                 |                                            |
| Cash and cash equivalents                                                | 80,820                      | 144,138 | 85,988                          | 166,070                                    |
| Restricted deposit                                                       | 63,678                      |         | 71,891                          | 71,891                                     |
| Accounts receivable, net of allowance for doubtful accounts              | 19,403                      | 17,270  | 28,539                          | 28,539                                     |
| Total current assets                                                     | 279,987                     | 264,293 | 308,416                         | 388,498                                    |
| Total assets                                                             | 446,847                     | 403,781 | 439,996                         | 520,078                                    |
| Short-term bank loans, including current portion of long-term bank loans | 57,903                      | 9,822   | 66,300                          | 66,300                                     |
| Total current liabilities                                                | 120,682                     | 63,439  | 122,715                         | 122,715                                    |
| Long-term bank loans, excluding current portion                          | 40,000                      | 30,000  |                                 |                                            |
| Total liabilities                                                        | 171,585                     | 99,812  | 133,514                         | 133,514                                    |
| Total stockholders equity                                                | 275,262                     | 303,970 | 306,482                         | 386,564                                    |

The pro forma as adjusted balance sheet data above reflects the sale of shares by us of our common stock in this offering and application of the net proceeds of approximately \$80.1 million at an assumed public offering price of (1) \$119.54 per share, the closing trading price of our common stock on June 4, 2015, after deducting the estimated underwriting discount and estimated offering expenses payable by us.

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## RISK FACTORS

*You should carefully consider the risks described below, and all of the other information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus we may provide you in connection with this offering before deciding to invest in our common stock. If any of these risks actually occurs, it could have a material and adverse effect on our business, financial condition and results of operations. In addition, such risks are not the only risks facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial could, in the future, also materially and adversely affect our business, financial condition or results of operations. As a result, the trading price of our common stock could decline and you may lose all or part of your investment.*

### 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 and adverse effect on our operations, revenues and profitability.**

The principal raw material of our existing and planned biopharmaceutical products is human source plasma, which, due to its unique nature, is subject to various quality and safety control risks which include, but are not limited to, 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 currently commercially available, which could result in a widespread epidemic due to blood infusion. As a result, 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 blood products to comply strictly with certain hygienic standards and specifications promulgated by the government. In the event that human plasma is discovered to be not compliant with the government's hygienic standards and specifications, the health department may revoke its approval of the blood product, or otherwise limit the use of such blood product. Changes in these laws and regulations, including banning or limiting plasma products, could have a material and 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.**

We currently obtain plasma from human donations to our plasma stations in Shandong, Guangxi and Guizhou Provinces. 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. If such contaminated plasma is not appropriately screened out, our entire plasma supply for the relevant plasma station may become contaminated. If the plasma from our collection is found to be contaminated and we sell biopharmaceutical products made from that 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.**

The production of plasma products relies on the supply of plasma of suitable quality. For the three months ended March 31, 2015 and the years ended December 31, 2014, 2013 and 2012, the cost of plasma we used for production accounted for approximately 77%, 80%, 74% and 74%, 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 impact 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.

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**We may not be able to carry on our business if we lose any of the required permits and licenses. Moreover, Huitian has suspended the production at its production facilities for technical upgrade and will apply for a new GMP certificate upon the completion of the upgrade; however, it may not be able to obtain the certificate, which would prevent it from carrying on its business at these facilities and harm our profitability.**

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 China Food and Drug Administration, or the CFDA, enacted a new GMP standard, or the New GMP Standard, which has significantly increased standards for quality control, documentation, and overall manufacturing processes that applied to us and each of our production facilities as of December 31, 2013. In order for us to meet the New GMP Standard, we have upgraded the related production facilities in 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. However, Huitian suspended its production in late 2013 and is constructing a new production facility to meet the New GMP Standard. The suspension of Huitian's production may have a negative effect on its business and profitability, which may in turn affect the income we derive from our minority investment in Huitian and materially and adversely affect our financial condition and results of operations.

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, there is no 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 failed 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 render it more restrictive for us to conduct our business 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.

**We may fail to obtain, maintain or renew required licenses and permits for our plasma stations. In addition, if we fail to adequately monitor our plasma stations, follow proper procedures or comply with safety requirements, we may be subject to sanctions by the government, civil and criminal liability. Any of these events could have a material and adverse effect on our business, reputation and prospects.**

If our supply of quality plasma is interrupted, our results of operations and profitability will be adversely affected.



We currently operate 10 plasma stations through Shandong Taibang and two plasma stations through Guizhou Taibang. Huitian, a company in which we hold a minority interest, operates three plasma stations in Shaanxi Province.

To enable growth in our sales, we are seeking opportunities to build more plasma stations. In October 2014, we received government approval to build two plasma stations in Hebei Province. The operation of plasma stations, however, is highly regulated and there is no assurance that we will be able to continue to obtain, maintain and renew the required licenses and permits for existing and new plasma 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 station in Pu Bei, Guangxi Province and five existing plasma 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 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

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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 percentage of 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 the NICBPB, for testing, and the process ends when the products are given final approval by the 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.

**We face risks relating to general domestic and global economic conditions. Disruptions in the capital and credit markets could adversely affect our results of operations, cash flows and financial condition, or those of our customers, suppliers and creditors.**

We currently generate sufficient operating cash flows, which, coupled with access to the credit markets, provide us with significant working capital. However, any uncertainty arising out of domestic and global economic conditions, including any disruption in credit markets, may impact our ability to manage normal relationships with our customers, suppliers and creditors and adversely impact our results of operations, cash flows and financial condition, or those of our customers, suppliers and creditors. Disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation or failures of significant financial institutions could adversely affect our access to capital needed to conduct or expand our business or conduct acquisitions or make other investments. Such disruptions may also adversely impact our customers and suppliers, which, in turn, could adversely affect our results of operations, cash flows and financial condition.

In addition, despite the positive impact of insurance schemes, our products are still not affordable to many patients and fewer patients can afford these products when economic conditions worsen in China. As the PRC economy grows, we expect more PRC citizens will become consumers of medical treatments and procedures, including procedures requiring human plasma. However, any potential global economic slowdown may result in slower economic growth in China and an unfavorable economic environment, which in turn may make our products less affordable to more patients and result in an overall decreased demand for our products. Such reductions and disruptions could have a material and adverse effect on our business operations.

**If we are unable to obtain additional capital or if we experience any shortage of raw materials in future years, 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.**

We anticipate that we may seek additional working capital to support our long-term business plan, which includes identifying suitable targets for horizontal or vertical mergers or acquisitions, so as to enhance the overall productivity and benefit from economies of scale. Our working capital requirements and the cash flow provided by future operating activities, if any, will vary greatly from quarter to quarter, depending on the volume of business during the period and payment terms with our customers. We may not be able to obtain adequate levels of additional financing, whether through equity financing, debt financing or other sources, especially during times of market contraction. To raise funds, we may need to issue new securities which could result in additional dilution to our stockholders. Additional financings could result in significant dilution to our earnings per share or the issuance of securities with rights superior to our current outstanding securities or that contain covenants that would limit our operations and strategy. If we are unable to raise additional financing, we may be unable to implement our long-term business plan, develop or enhance our products and

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services, take advantage of future opportunities or respond to competitive pressures on a timely basis. In addition, a lack of additional financing could force us to substantially curtail or cease operations.

In addition, our production volume, capacity utilization and future expansion are affected by a contraction in the supply of raw materials, especially plasma. 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.

**Our cash flow could be negatively affected as a result of our extension of relatively long payment terms to customers that we believe are credit worthy.**

As is customary in our industry, we extend relatively long payment terms (up to six months) to customers that we believe are credit worthy. Our accounts receivable, net of our allowance for doubtful accounts, as of March 31, 2015 and December 31, 2014, 2013 and 2012 were approximately \$28.5 million, \$19.4 million, \$17.3 million and \$11.2 million, respectively. A majority of our accounts receivable are due from hospitals and clinics. In the three months ended March 31, 2015, we also granted credit terms ranging from two to three months to specialized distributors to assist their bidding efforts with provincial centers for disease control and prevention. Although we attempt to establish appropriate reserves for our receivables, those reserves may not prove to be adequate in view of actual levels of bad debts. The failure of our customers to pay us timely would negatively affect our cash flow and working capital, which could in turn adversely affect our business.

**If the distributors on whom we rely do not purchase our products, our business and results of operations will be adversely affected.**

We sell over a third of our plasma products in China through our network of approximately 90 distributors as of March 31, 2015, located in about 28 provinces, municipalities and autonomous regions throughout China. While we have established working relationships with many of our distributors and strictly regulate their sales and marketing activities by annual distribution agreements, there are no restrictions in these distribution agreements preventing our distributors from also sourcing products produced by our competitors. Our own marketing and sales staff work to develop and maintain relationships with our distributors, but there can be no assurance that we will be able to maintain such relationships. For the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013, and 2012, sales to distributors represented approximately 38.4%, 33.3%, 34.6%, 33.2%, and 33.6%, respectively, of our total plasma products sales. If a number of our distributors cease to purchase our products and we are unable to find suitable replacements, our business and results of operations will be materially and adversely affected.

**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 Certificate of New Medicine from the CFDA and subsequent procedures may take approximately three to five years. There is no assurance that our future research and development projects will be successful or that they will be completed within the anticipated time frame or budget. Also, there is no

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, there is no assurance that they will be accepted by the market as anticipated.

**Significant uncertainties remain with respect to the implementation of the recently announced deregulation on price controls over drug products, and we may not have discretion to increase the prices of our products until implementation rules are in place. Our ability to increase the prices of our products is also subject to ongoing government supervision and limited by general market conditions and intense competition.**

Effective on June 1, 2015, the PRC National Development and Reform Commission, or the NDRC, removed the retail price ceilings for all drug products (except for anesthetics and category I antipsychotics) in China.

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Prior to the deregulation of price controls, 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 PRC Ministry of Health (now the PRC National Health and Family Planning Commission) had the authority to regulate retail prices for controlled plasma products. In addition, retail prices of pharmaceutical products fully or partially covered under the national insurance system were also subject to retail price ceilings set out in the National (Medical) Insurance Catalog, or the NIC. The hospitals which are participants of the national insurance program could not sell the products to patients at prices exceeding such retail price ceilings. In addition, provincial governments often established a tender price ceiling for products sold to hospitals based on, among other things, regional living standards, cost of production of the manufacturers and the corresponding retail price ceiling. Due to these regulations, the prices at which we sold directly to hospitals and distributors and the distributor's wholesale prices could not exceed the applicable tender price ceiling. Five of our principal products, including human albumin, IVIG, human rabies immunoglobulin, human tetanus immunoglobulin and factor VIII, were included in the NIC and were also subject to tender price ceilings. Two of our principal products, placenta polypeptide and human hepatitis B immunoglobulin, although not included in the NIC, were also subject to tender price ceilings in certain PRC provinces. See Business Regulation for further details.

As of the date of this prospectus supplement, no implementation rules with respect to the recent deregulation of price controls were promulgated by the local regulators that enforce such deregulation, and it remains unclear how and to what extent such deregulation will have a positive impact on our pricing strategies and ultimately our revenue and profitability. Until implementation rules are in place to enforce the deregulation, we still may not have discretion to increase the prices we charge our customers and distributors for price-controlled products above the relevant controlled tender price ceiling under the former regulatory regime, which may adversely affect our revenue and profitability. In addition, despite the announced deregulation on price controls, the PRC government continues to closely supervise and monitor drug products pricing. For example, on May 4, 2015, the NDRC issued a notice to local regulators, or the NDRC Supervision Notice, in order to strengthen the supervision of pricing activities in the drug products market. Among other objectives, the NDRC Supervision Notice aims to monitor price inflations and fraudulent pricing practices, promote a transparent market pricing system, and establish a multi-tiered supervisory system to maintain an orderly drug products market. Although we believe that the deregulation on price controls should be a favorable policy development for our industry and business in the long term, we cannot assure you that the retail prices of our products will increase in the absence of price ceilings due to such ongoing government supervision and monitoring.

In addition, 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.

### **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 are in the process of completing the proper land grant procedures and paying the land grant fee for the land owned by one of our plasma collection stations, and are in the process of obtaining the construction permits for the buildings owned by another

Significant uncertainties remain with respect to the implementation of the recently announced deregulation on price

plasma collection station. 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, although such title defects and non-compliance have not adversely affected, and are not expected to adversely affect, our business operations. In addition, we use properties built on collectively owned rural land for two of our plasma collection stations. Under PRC laws, collectively owned rural land may not be used for commercial purposes

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and we may be required to vacate and seek other space to house our collection facilities. We plan to construct facilities on a new site and relocate one of the two collection stations. For the other collection station, 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 the PRC may incur liability for loss and injury caused by such products. Pursuant to the General Principles of the Civil Law of the PRC, 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, manufacturers may be entitled to claim for indemnification or contribution from such third parties after having made compensation to the consumers.

We maintain two product liability insurance policies for sales in the PRC for Shandong Taibang and Guizhou Taibang's products in the amount of RMB20 million (approximately \$3.2 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 and 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,

Our financial position and operations may be materially and adversely affected if our product liability insurance does



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 three lawsuits filed by patients who were treated with our products and received blood and/or plasma transfusions. In two 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. We settled the third case and contributed a portion of compensation for the patient. The required contribution by us was immaterial in these cases. 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.

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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 PRC 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. There is no assurance 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 the future privatization of the Shandong Institute, 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 of Biological Products, or the Shandong Institute, provided us with 63 of our employees, including certain key management personnel, out of our total of approximately 1,644 employees as of March 31, 2015, pursuant to a secondment agreement, or 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.

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**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 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 March 31, 2015, we held 52 issued patents and had four 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 March 31, 2015, we also had nine 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 and adverse effect on our operations.

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There can be no assurance 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, there is no guarantee that we would be able to halt any unauthorized use of our intellectual property through litigation in a timely manner.

Furthermore, there can be no assurance 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 and 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 sales.**

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 and 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. There is no assurance that our insurance would be sufficient to cover all of our potential losses.

### **If we do not maintain strong financial controls, investors' 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, 2014. Our management has concluded that our internal controls over financial reporting as of December 31, 2014 were effective. We have in the past discovered, and may in the future discover, material weaknesses 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.

A disruption in the supply of utilities, fire or other calamity at our manufacturing plant would disrupt production of our

However, there is no 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 and 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 impact the trading price of our common stock.

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**Pending disputes regarding Guizhou Taibang's equity ownership against us, if not resolved in our favor, could result in significant dilution to our shareholding percentage in Guizhou Taibang, a significant subsidiary of our company.**

Guizhou Jie'an Company, or Jie'an, a minority shareholder of Guizhou Taibang, filed several lawsuits against Guizhou Taibang over the years, seeking to, among other requests, register 1.8 million shares in Guizhou Taibang, approximately 2% of Guizhou Taibang's registered capital, under Jie'an's name with the local administration of industry and commerce, or AIC. Some of these cases were ruled in our favor and others were still pending as of the date of this prospectus supplement. See Part II. Other Information Item 1. Legal Proceedings Dispute with Jie'an over Certain Capital Injection into Guizhou Taibang in our Quarterly Report on Form 10-Q for the three months ended March 31, 2015, which is incorporated by reference in this prospectus supplement and the accompanying prospectus, for details. In addition, as a result of the appellate court's unfavorable ruling in one of the lawsuit with Jie'an in December 2014, in February 2015, Guizhou Taibang paid RMB18.3 million (approximately \$3.0 million) to the trial court to be held in escrow pending further appeal for this case. Guizhou Taibang appealed this case to the High Court of Guizhou, which accepted the appeal in March 2015. Although we, based on our PRC litigation counsel's assessment, do not expect Jie'an to prevail in these pending litigations, we cannot assure you that the final judgment will be in our favor. If Guizhou Taibang is ordered to register the 1.8 million shares for Jie'an, our ownership interest in Guizhou Taibang will be diluted to 71%, and we may be required to pay Jie'an accumulated dividends of RMB18.3 million (approximately \$3.0 million) and related interest expenses (being its claimed share of Guizhou Taibang's accumulated dividend distributions associated with the 1.8 million shares and the accrued interest from the date when Jie'an's capital contribution was deemed effective till March 31, 2015) from Guizhou Taibang. As of March 31, 2015, we had maintained, on its balance sheet, payables to Jie'an of RMB5.0 million (approximately \$0.8 million) as received funds in respect of the 1.8 million shares in dispute, RMB1.4 million (approximately \$0.2 million) for the over-paid subscription price paid by Jie'an and RMB3.4 million (approximately \$0.6 million) for the accrued interest.

In addition, Guizhou Taibang has a pending lawsuit with an individual investor who is among certain alleged strategic investors in the Equity Purchased Agreement signed in May 2007. See Part II. Other Information Item 1. Legal Proceedings Dispute with Certain Individual Investor Over Certain Capital Injection into Guizhou Taibang in our Quarterly Report on Form 10-Q for the three months ended March 31, 2015, which is incorporated by reference in this prospectus supplement and the accompanying prospectus, for details. Such individual investor claimed for 14.35% ownership interest in Guizhou Taibang and the corresponding entitlement to share dividend distributions since 2007. Such individual investor's claims have been repeatedly denied by both the trial court and the appellate court (which is the PRC Supreme Court). He has, however, applied to the PRC Supreme Procuratorate to seek an appeal by the PRC Supreme Procuratorate to the PRC Supreme Court for an ultimate re-trial on his behalf. The PRC Supreme Procuratorate has recently accepted his application and is currently reviewing such application. We are in the process of preparing written response to such application. While we, based on our PRC litigation counsel's assessment, do not expect such investor to prevail in this pending re-trial application process, we cannot assure you that the PRC Supreme Procuratorate will decide not to appeal for re-trial or the final outcome of such ultimate re-trial by the PRC Supreme Court (if the PRC Supreme Procuratorate decides to appeal for re-trial) will continue be in our favor. In case such investor's shareholder status is established through the re-trial process, our ownership interests in Guizhou Taibang will be significantly diluted to 66.29% and our control of Guizhou Taibang may be weakened. In addition, such investor may be entitled to receive his claimed pro rata share of Guizhou Taibang's dividend distributions and the accrued interests although he has not specified the amount of the claimed damages for that in the application to the PRC Supreme Procuratorate. Moreover, if the PRC Supreme Court allows a re-trial and rules in favor of such investor, a certain other alleged strategic investor may bring claims for additional alleged equity interests in Guizhou Taibang, and if such other alleged strategic investor were to prevail, our equity interests in Guizhou Taibang would be further

Pending disputes regarding Guizhou Taibang's equity ownership against us, if not resolved in our favor, could result in significant dilution to our shareholding percentage in Guizhou Taibang, a significant subsidiary of our company.



diluted to 64.9%. As of March 31, 2015, we had maintained, on its balance sheet, payables to such investor of RMB34.2 million (approximately \$5.6 million) as originally received funds from such investor in respect of the shares in dispute, RMB16.3 million (approximately \$2.7 million) for the accrued interest, and RMB0.3 million (approximately \$55,616) 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.

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## **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 that 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 the Chinese 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. In addition, most of our executive officers and directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to affect service of process in the United States or to enforce a judgment obtained in the United States against our PRC operations and subsidiary.

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

Most of our assets are located outside 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 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 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.

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**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 PRC-based 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 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 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 U.S. dollars and RMB and between those currencies and other currencies in which our sales may be denominated. Appreciation or depreciation in the value of RMB relative to U.S. dollars 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 addition, we incur interest expense for our U.S. dollar-denominated loans. 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.

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**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% 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% of the relevant company's 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 the State Administration of Foreign Exchange, or SAFE, and became effective on July 4, 2014, (i) 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 (ii) 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. As Circular 37 was recently promulgated, it remains unclear how it will be interpreted and implemented, and how or whether SAFE will apply it to us. Therefore, 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 the 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

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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, the State Administration of Taxation, or 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 offshore entities. 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 (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) its substantial assets and properties, accounting books, corporate chops, board and shareholder minutes are kept in China; and (iv) 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% on its worldwide income and must pay a withholding tax at a rate of 10% when paying dividends to its non-PRC shareholders. However, it remains unclear as to whether the Notice is applicable to an offshore enterprise incorporated by a PRC natural person. Nor are detailed measures on imposition of tax from non-domestically incorporated resident enterprises are available.

We may be unable to complete a business combination transaction efficiently or on favorable terms due to complications



Therefore, it is unclear how 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% on our

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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%. 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% 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. Finally, it is possible that future guidance issued with respect to the resident enterprise classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC stockholders and with respect to gains derived by our non-PRC stockholders from transferring our shares. 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. We are actively monitoring the possibility of resident enterprise treatment and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

**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%.

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.

There is little guidance and practical experience regarding the application of Circular 698 and the related SAT notices. For example, while the term indirectly transfer is not defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated

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

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 and adverse effect on our financial condition and results of operations.

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**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 and 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 our 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 our 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 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 have 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

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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 been scrutinized by any local regulator.

**The Chinese member firm of the KPMG network, of which our independent registered public accounting firm is also a member, 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. Certain of our independent registered public accounting firm's audit documentation related to their audit reports included in our annual reports may be located in China, and certain audit procedures may take place within China's borders. The Public Company Accounting Oversight Board, or the PCAOB, is currently unable to conduct inspections in China or review audit documentation located within China without the approval of Chinese authorities. Like many U.S. companies with significant operations in China, our independent registered public accounting firm may rely on a Chinese member firm for assistance in completing the audit work associated with our operations 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 KPMG network, from, among other things, 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.

Our independent registered public accounting firm currently relies on the Chinese member firm of the KPMG network for assistance in completing the audit work associated with our operations in China. 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 KPMG. 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 prospect.

**Our independent registered public accounting firm's audit documentation related to their audit reports included in our Annual Report may include audit documentation 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.**

The Chinese member firm of the KPMG network, of which our independent registered public accounting firm is also

Our independent registered public accounting firm issued an audit opinion on the financial statements included in our Annual Report filed with the SEC. As auditors of companies that are traded publicly in the United States and a firm registered with 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.

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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 and This Offering**

**Although publicly traded, the trading market in our common stock has been substantially less liquid than the average trading market for a stock quoted on the NASDAQ Global Select Market and this low trading volume may adversely affect the price of our common stock.**

Our common stock is traded on the NASDAQ Global Select Market under the symbol CBPO. The trading market in our common stock has been substantially less liquid than the average trading market for companies trading on the NASDAQ Global Select Market. Reported average daily trading volume in our common stock for the three months immediately prior to June 5, 2015, was approximately 103,533 shares. Limited trading volume will subject our shares of common stock to greater price volatility and may make it difficult for you to sell your shares of common stock at a price that is attractive to you.

**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;

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;

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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 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% of our entire capital stock issued and outstanding and are entitled to vote to call a special meeting of the stockholders.

On January 8, 2015, 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 (i) 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% or more of our outstanding common stock or (ii) 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 a similar preferred shares rights agreement on November 19, 2012, which expired on November 20, 2014.

The provisions in our currently effective certificate of incorporation and bylaws and our preferred shares rights agree 50ts agree

**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,

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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.

**The sale or availability for sale of substantial amounts of our common stock could adversely affect their market price.**

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the market price of our common stock and could materially impair our future ability to raise capital through offerings of our common stock. As of March 31, 2015, there were 24,857,801 shares of common stock outstanding, and we will offer 700,000 shares of common stock from our treasury stock in this offering (or 805,000 shares of common stock from our treasury stock if the underwriters exercise their option to purchase additional shares in full).

Subject to certain exceptions described under the caption Underwriting, we, the selling stockholders, a certain other existing stockholder and each of our directors and officers have agreed not to offer, sell or agree to sell, directly or indirectly, any shares of our common stock without the permission of the underwriters for 90 days after the date of this prospectus supplement. When the lockup period expires, we and our locked-up security holders will be able to sell shares in the public market. Moreover, the underwriters may, in their discretion, release all or some portion of the shares subject to lock-up agreements prior to the expiration of the applicable lock-up period.

Subject to the applicable restrictions and limitations under Rule 144 of the Securities Act and other than restricted shares that certain stockholders hold, all of our common stock outstanding is eligible for sale in the public market. In addition, holders of a substantial number of shares of our common stock have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for public offering of our securities. If such holders, by exercising their registration rights, cause a large number of securities to be registered and sold into the public market, these sales could have an adverse effect on the market price for our common stock. Moreover, we have contractual obligations to use commercially reasonable effort to include, upon request, up to approximately 6 million shares of our common stock in our registration statements that we may file for public offering of our securities.

We cannot predict the effect, if any, that future sales of shares of our common stock into the market, or the availability of shares of common stock for future sale, will have on the market price of our common stock. Sales of substantial amounts of common stock (including shares issued upon the exercise, conversion or exchange of other securities), or the perception that such sales could occur, may materially and adversely affect prevailing market prices for our common stock.

**You must rely on the judgment of our management as to the use of the net proceeds from this offering, and such use may not produce income or increase the price of our common stock.**

We intend to use the net proceeds from this offering primarily for general corporate purposes, which may include working capital, capital expenditures and other corporate expenses. In addition, if appropriate opportunities arise to acquire or invest in complementary products, technologies or businesses, we may use a portion of the net proceeds for such acquisition or investment. We will have significant discretion in applying the net proceeds of this offering.

Unforeseen events or changed business conditions could result in our applying the net proceeds from this offering in a manner other than as described in this prospectus supplement. You will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the net proceeds of this offering. The net proceeds may be used for corporate purposes that do not improve our profitability or increase the price of our common stock. The net proceeds from this offering may also be placed in investments that do not produce income or that may lose value.

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**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 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 impact 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 give any assurance 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 and adverse effect on our business, financial condition and results of operations.

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference into these documents contain certain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words anticipate, expect, believe, goal, plan, in estimate, project, may, will, and similar expressions and variations thereof are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Those statements appear in this prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein by reference, particularly in the sections entitled Prospectus Supplement Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business, and include statements regarding the intent, belief or current expectations of our company and management that are subject to known and unknown risks, uncertainties and assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those set forth under Risk Factors beginning on page S-8 of this prospectus supplement, under Item 1A, Risk Factors, in our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q (as amended, as applicable) to the extent not restated herein, and in our future filings made with the SEC.

This prospectus supplement, the accompanying prospectus and the information incorporated by reference in this prospectus supplement and the accompanying prospectus also contain statements that are based on management's current expectations and beliefs, including estimates and projections about our company, industry, financial condition, results of operations and other matters. These statements are not guarantees of future performance and are subject to numerous risks, uncertainties, and assumptions that are difficult to predict.

This prospectus supplement contains certain data and information that we obtained from various government, private and commercial sources and publications. Statistical data in these sources and publications also include projections based on a number of assumptions. The plasma products market may not grow at the rate projected by market data, or at all. The failure of this market to grow at the projected rate may have a material and adverse effect on our business and the market price of our common stock. In addition, the rapid development of China's plasma products market results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements obtained from such government, private and commercial sources and publications.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements contained herein after we distribute this prospectus supplement, whether as a result of any new information, future events or otherwise.





TABLE OF CONTENTS**USE OF PROCEEDS**

We estimate the net proceeds from the sale of common stock by us in this offering will be approximately \$80.1 million (or approximately \$92.1 million if the underwriters' option to purchase additional shares is exercised in full) after deducting the underwriting discount and estimated offering expenses payable by us. These estimates are based upon an assumed public offering price of \$119.54 per share, the closing trading price of our common stock on June 4, 2015.

We will not receive any proceeds from the sale of shares by the selling stockholders.

We intend to use the net proceeds from this offering primarily for general corporate purposes, which may include working capital, capital expenditures and other corporate expenses. In addition, if appropriate opportunities arise to acquire or invest in complementary products, technologies or businesses, we may use a portion of the net proceeds for such acquisition or investment. However, we have no present commitments or agreements to enter into any such acquisitions or investments. The timing and amount of our actual expenditures will be based on many factors, including cash flows from operations and the anticipated growth of our business. As a result, our management will have broad discretion to allocate the net proceeds from this offering. Pending their ultimate use, we intend to invest the net proceeds in short-term, investment-grade, interest-bearing instruments.

**MARKET PRICE OF COMMON STOCK**

The following table sets forth the high and low trading prices of our common stock on the NASDAQ Global Select Market, for the periods indicated. The last reported sale price of our common stock on the NASDAQ Global Select Market on June 4, 2015 was \$119.54 per share.

|                                       | Price Per Share |             |
|---------------------------------------|-----------------|-------------|
|                                       | High<br>(\$)    | Low<br>(\$) |
| 2013                                  |                 |             |
| First Quarter                         | 31.15           | 13.07       |
| Second Quarter                        | 28.54           | 19.10       |
| Third Quarter                         | 29.86           | 21.86       |
| Fourth Quarter                        | 30.38           | 26.50       |
| 2014                                  |                 |             |
| First Quarter                         | 38.60           | 26.66       |
| Second Quarter                        | 50.00           | 33.49       |
| Third Quarter                         | 58.00           | 43.21       |
| Fourth Quarter                        | 71.13           | 47.23       |
| 2015                                  |                 |             |
| First Quarter                         | 96.80           | 64.36       |
| Second Quarter (through June 4, 2015) | 121.22          | 94.44       |

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TABLE OF CONTENTS**EXCHANGE RATE INFORMATION**

We use U.S. dollars as our reporting currency in our financial statements and in this prospectus supplement. In other parts of this prospectus supplement, any RMB denominated amounts are accompanied by translations. Prior to January 1, 2015, when reporting the operating results and financial position of our PRC subsidiaries, we used the monthly average exchange rate for the year and the exchange rate at the balance sheet date, respectively, published by OANDA Corporation, an Internet-based currency information provider. Beginning on January 1, 2015, when reporting the operating results and financial position of our PRC subsidiaries, we use the monthly average exchange rate for the year and the exchange rate at the balance sheet date, respectively, published by the People's Bank of China. With respect to amounts not recorded in our consolidated financial statements included elsewhere in this prospectus supplement, all translations from RMB to U.S. dollars were made at the noon buying rate in the City of New York for cable transfers in RMB per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars have been made at RMB6.1990 to \$1.00, the noon buying rate in effect as of March 31, 2015. We make no representation that the RMB or U.S. dollar amounts referred to in this prospectus supplement could have been or could be converted into U.S. dollars or RMB, as the case may be, at any particular rate or at all. The PRC government restricts or prohibits the conversion of RMB into foreign currency and foreign currency into RMB for certain types of transactions. On May 29, 2015, the noon buying rate was RMB6.1980 to \$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this prospectus supplement or will use in the preparation of any other information to be provided to you.

| Period        | Noon buying rate |                        |        |        |
|---------------|------------------|------------------------|--------|--------|
|               | Period end       | Average <sup>(1)</sup> | High   | Low    |
|               | (RMB per \$1.00) |                        |        |        |
| 2010          | 6.6000           | 6.7696                 | 6.6000 | 6.8330 |
| 2011          | 6.2939           | 6.4475                 | 6.2939 | 6.6364 |
| 2012          | 6.2301           | 6.2990                 | 6.2221 | 6.3879 |
| 2013          | 6.0537           | 6.1478                 | 6.0537 | 6.2438 |
| 2014          | 6.2046           | 6.1620                 | 6.2591 | 6.0402 |
| December 2015 | 6.2046           | 6.1886                 | 6.1490 | 6.2256 |
| January       | 6.2495           | 6.2181                 | 6.1870 | 6.2535 |
| February      | 6.2695           | 6.2518                 | 6.2399 | 6.2695 |
| March         | 6.1990           | 6.2386                 | 6.1955 | 6.2741 |
| April         | 6.2018           | 6.2010                 | 6.1927 | 6.2185 |
| May           | 6.1980           | 6.2035                 | 6.1958 | 6.2086 |

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

## **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.

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TABLE OF CONTENTS**CAPITALIZATION**

The following table sets forth our capitalization as of March 31, 2015:

on an actual basis; and

on an as adjusted basis to reflect our receipt of the net proceeds of approximately \$80.1 million from our sale of 700,000 shares of common stock, which, as of March 31, 2015, were recorded as treasury stock at a cost of approximately \$17.5 million, in this offering, assuming the underwriters do not exercise their option to purchase additional shares of common stock from us, at an assumed public offering price of \$119.54 per share, which was the closing price of our common stock as reported on the NASDAQ Global Select Market on June 4, 2015, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus supplement and our consolidated financial statements and the related notes appearing in our Quarterly Report on Form 10-Q for the three months ended March 31, 2015, which is incorporated by reference in this prospectus supplement. This table does not include our short-term bank loans (including the current portion of long-term bank loans), which were \$66.3 million as of March 31, 2015.

|                                                                                                                                                                                                                                             | March 31, 2015                 |                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------------|
|                                                                                                                                                                                                                                             | Actual                         | As<br>Adjusted |
|                                                                                                                                                                                                                                             | (U.S. dollars in<br>thousands) |                |
| Long-term bank loans, excluding current portion                                                                                                                                                                                             |                                |                |
| Common stock (par value \$0.0001; 100,000,000 shares authorized; 27,917,505 shares issued as of March 31, 2015 and as adjusted; and 24,857,801 shares and 25,557,801 shares outstanding as of March 31, 2015 and as adjusted, respectively) | 3                              | 3              |
| Additional paid-in capital                                                                                                                                                                                                                  | 26,428                         | 88,989         |
| Treasury stock: 3,059,704 shares as of March 31, 2015 at cost; and 2,359,704 shares as adjusted                                                                                                                                             | (76,571)                       | (59,050)       |
| Retained earnings                                                                                                                                                                                                                           | 267,824                        | 267,824        |
| Accumulated other comprehensive income                                                                                                                                                                                                      | 19,168                         | 19,168         |
| Noncontrolling interest                                                                                                                                                                                                                     | 69,630                         | 69,630         |
| Total shareholders' equity                                                                                                                                                                                                                  | 306,482                        | 386,564        |
| Total capitalization <sup>(1)</sup>                                                                                                                                                                                                         | 306,482                        | 386,564        |

(1) Total capitalization is the sum of long-term bank loans, excluding current portion, and total shareholders' equity.

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# 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 included in our Annual Report on Form 10-K for the year ended December 31, 2014 and our Quarterly Report on Form 10-Q for the three months ended March 31, 2015, both of which are incorporated by reference in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion contains certain forward-looking information. See Special Note Regarding Forward-Looking Statements included elsewhere in this prospectus supplement 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 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 38.2% and 42.3% of our total sales for the three months ended March 31, 2015 and 2014, respectively, and 39.3%, 44.1%, and 44.6% of our total sales for 2014, 2013 and 2012, respectively. Sales of IVIG products represented approximately 46.7% and 36.5% of our total sales for the three months ended March 31, 2015 and 2014, respectively, and 40.4%, 38.0%, and 39.0% of our total sales for 2014, 2013 and 2012, 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 the three months ended March 31, 2015, we generated sales of \$70.4 million, an increase of 25.0% from the same period in 2014, and recorded net income attributable to our company of \$23.2 million, an increase of 26.8% from the same period in 2014. In 2014, we generated sales of \$243.3 million, an increase of 19.6% from 2013, and recorded net income attributable to our company of \$70.9 million, an increase of 29.9% from 2013.

## Recent Development

### Approval to Purchase Raw Materials

Guizhou Taibang has received a one-time special approval from the CFDA to purchase up to approximately 143 tonnes of source plasma and plasma pastes from Xinjiang Deyuan Bioengineering Co., Ltd., or Xinjiang Deyuan, for a total consideration of up to approximately RMB139 million (approximately \$22.6 million) pursuant to certain agreements entered into between Guizhou Taibang and Xinjiang Deyuan. Source plasma and plasma pastes are raw materials for producing human albumin and IVIG products.

These raw materials are expected to be delivered during the second quarter of 2015, and the final purchase volume is contingent upon our quality inspection of these raw materials. We expect that the final products made from such purchased raw materials will be released to market in 2015 and 2016.

## Removal of Retail Price Ceilings for Drug Products

In an announcement published on May 5, 2015, the NDRC removed the retail price ceilings for all drug products (except for anesthetics and category I antipsychotics), which will come into effect on June 1, 2015. Although we are still assessing the impact of the price ceiling removal on our plasma products, we believe that this deregulation move should be a favorable policy development for our industry and business in the long term. See also Risk Factors Risks

Relating to Our Business Significant uncertainties remain with respect to the implementation of the recently announced deregulation on price controls over drug products, and we may not have discretion to increase the prices of our products until implementation rules are in place. Our ability to increase the prices of our products is also subject to ongoing government supervision and limited by general market conditions and intense competition above.

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## **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 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 10 plasma collection stations through Shandong Taibang and two plasma stations through Guizhou Taibang. These plasma 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 operation 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 China. 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, product 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 **Business Competition** for more information regarding this factor.

## **Taxation**

China Biologic is subject to United States tax at gradual rates of up to 35%. 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 British Virgin Islands, but is not subject to taxation in that jurisdiction.

Taibang Holdings was incorporated in Hong Kong and under the current laws of Hong Kong, are 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.

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According to the PRC government policy, new or high technology companies may enjoy a preferential income tax rate of 15%, instead of 25% under the EIT Law. In 2011, Shandong Taibang renewed its high and new technology enterprise qualification, which entitled it to the preferential income tax rate of 15% from 2011 to 2013. In October 2014, Shandong provincial government granted Shandong Taibang the high and new technology enterprise certificate, which entitled Shandong Taibang to enjoy a preferential income tax rate of 15% for a period of three years from 2014 to 2016. Shandong Taibang may apply for a renewal for an additional three years from 2017 to 2019 upon its expiration. According to Notice on Issues Concerning Relevant Tax Policies in Deepening the Implantation 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, Guizhou Taibang, being a qualified enterprise located in the western region of China, enjoys a preferential income tax rate of 15% effective from January 1, 2011 to December 31, 2020. All of our other PRC subsidiaries are subject to the regular income tax rate of 25%.

## 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.

|                                                                                       | Year Ended December 31, |                  |          |                  | Three Months Ended March 31, |                  |        |                  |        |                  |
|---------------------------------------------------------------------------------------|-------------------------|------------------|----------|------------------|------------------------------|------------------|--------|------------------|--------|------------------|
|                                                                                       | 2014                    |                  | 2013     |                  | 2012                         |                  | 2015   |                  | 2014   |                  |
|                                                                                       | Amount                  | % of Total Sales | Amount   | % of Total Sales | Amount                       | % of Total Sales | Amount | % of Total Sales | Amount | % of Total Sales |
| (U.S. dollars in thousands, except per share data)                                    |                         |                  |          |                  |                              |                  |        |                  |        |                  |
| Sales                                                                                 | 243,252                 | 100.0            | 203,357  | 100.0            | 184,813                      | 100.0            | 70,354 | 100.0            | 56,267 | 100.0            |
| Cost of sales                                                                         | 80,026                  | 32.9             | 65,484   | 32.2             | 58,836                       | 31.8             | 24,462 | 34.8             | 17,715 | 31.5             |
| Gross margin                                                                          | 163,226                 | 67.1             | 137,873  | 67.8             | 125,977                      | 68.2             | 45,892 | 65.2             | 38,552 | 68.5             |
| Operating expenses:                                                                   |                         |                  |          |                  |                              |                  |        |                  |        |                  |
| Selling expenses                                                                      | 10,707                  | 4.4              | 10,643   | 5.2              | 14,421                       | 7.8              | 1,951  | 2.8              | 2,282  | 4.1              |
| General and administrative expenses                                                   | 32,130                  | 13.2             | 36,074   | 17.7             | 34,034                       | 18.4             | 7,853  | 11.2             | 7,217  | 12.8             |
| Research and development expenses                                                     | 4,162                   | 1.7              | 4,223    | 2.1              | 3,033                        | 1.6              | 1,342  | 1.9              | 1,074  | 1.9              |
| Provision for other receivables in respect of an employee housing development project | 5,068                   | 2.1              |          |                  |                              |                  |        |                  |        |                  |
| Total operating expenses                                                              | 52,067                  | 21.4             | 50,940   | 25.0             | 51,488                       | 27.9             | 11,146 | 15.8             | 10,573 | 18.8             |
| Income from operations                                                                | 111,159                 | 45.7             | 86,933   | 42.7             | 74,489                       | 40.3             | 34,746 | 49.4             | 27,979 | 49.7             |
| Other income (expenses):                                                              |                         |                  |          |                  |                              |                  |        |                  |        |                  |
| Equity in income of equity method investee                                            | 8,646                   | 3.6              | 2,170    | 1.1              | 2,666                        | 1.4              | (95 )  | (0.1 )           | 337    | 0.6              |
| Change in fair value of derivative liabilities                                        |                         |                  |          |                  | 1,769                        | 1.0              |        |                  |        |                  |
| Interest expense                                                                      | (3,698 )                | (1.5 )           | (1,135 ) | (0.6 )           | (1,270 )                     | (0.7 )           | (757 ) | (1.1 )           | (621 ) | (1.1 )           |
| Interest income                                                                       | 6,645                   | 2.7              | 4,433    | 2.2              | 2,910                        | 1.6              | 1,377  | 2.0              | 1,596  | 2.8              |
| Other income, net                                                                     |                         |                  |          |                  | 571                          | 0.3              |        |                  |        |                  |

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|                                                           |         |      |        |      |        |      |        |      |        |      |
|-----------------------------------------------------------|---------|------|--------|------|--------|------|--------|------|--------|------|
| Total other income, net                                   | 11,593  | 4.8  | 5,468  | 2.7  | 6,646  | 3.6  | 525    | 0.7  | 1,312  | 2.3  |
| Earnings before income tax expense                        | 122,752 | 50.5 | 92,401 | 45.4 | 81,135 | 43.9 | 35,271 | 50.1 | 29,291 | 52.1 |
| Income tax expense                                        | 26,639  | 11.0 | 15,540 | 7.6  | 15,163 | 8.2  | 5,616  | 8.0  | 5,338  | 9.5  |
| Net income                                                | 96,113  | 39.5 | 76,861 | 37.8 | 65,972 | 35.7 | 29,655 | 42.2 | 23,953 | 42.6 |
| Less: Net income attributable to non-controlling interest | 25,196  | 10.3 | 22,259 | 10.9 | 20,750 | 11.2 | 6,493  | 9.2  | 5,679  | 10.1 |
| Net income attributable to company                        | 70,917  | 29.2 | 54,602 | 26.9 | 45,222 | 24.5 | 23,162 | 32.9 | 18,274 | 32.5 |
| Net income per share of common stock                      |         |      |        |      |        |      |        |      |        |      |
| Basic                                                     | 2.85    |      | 2.05   |      | 1.73   |      | 0.91   |      | 0.72   |      |
| Diluted                                                   | 2.71    |      | 1.96   |      | 1.62   |      | 0.87   |      | 0.69   |      |

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TABLE OF CONTENTSComparison of Three Months Ended March 31, 2015 and 2014**Sales**

Our sales increased by \$14.1 million, or 25.0%, to \$70.4 million for the three months ended March 31, 2015, compared to \$56.3 million for the same period in 2014. The increase in sales for the three months ended March 31, 2015 was primarily attributable to the sales volume increases in major plasma-based products and placenta polypeptide.

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

|                                               | Three Months Ended March 31, |       |        |       | Change |         |
|-----------------------------------------------|------------------------------|-------|--------|-------|--------|---------|
|                                               | 2015                         |       | 2014   |       | Amount | %       |
|                                               | Amount                       | %     | Amount | %     | Amount | %       |
| (U.S. dollars in millions, except percentage) |                              |       |        |       |        |         |
| Human Albumin                                 | 26.9                         | 38.2  | 23.8   | 42.3  | 3.1    | 13.0    |
| Immunoglobulin products:                      |                              |       |        |       |        |         |
| IVIG                                          | 32.9                         | 46.7  | 20.5   | 36.5  | 12.4   | 60.5    |
| Other Immunoglobulin products                 | 4.3                          | 6.2   | 8.3    | 14.7  | (4.0 ) | (48.2 ) |
| Placenta Polypeptide                          | 4.6                          | 6.5   | 2.6    | 4.6   | 2.0    | 76.9    |
| Others                                        | 1.7                          | 2.4   | 1.1    | 1.9   | 0.6    | 54.5    |
| Totals                                        | 70.4                         | 100.0 | 56.3   | 100.0 | 14.1   | 25.0    |

During the three months ended March 31, 2015 as compared with the three months ended March 31, 2014:

the average price for our approved human albumin products, which accounted for 38.2% of our total sales for the three months ended March 31, 2015, increased by 0.3% in U.S. dollars and, excluding the foreign exchange translation effect, their average price in RMB increased by 0.7%; and

the average price for our approved IVIG products, which accounted for 46.7% of our total sales for the three months ended March 31, 2015, increased by 1.9% in U.S. dollars and, excluding the foreign exchange translation effect, their average price in RMB increased by 2.3%.

The average sales price for our human albumin products and IVIG products increased slightly for the three months ended March 31, 2015 as compared to the same period in 2014, as a result of the combined effect of the reduced value added tax, or VAT, rate and our sales effort to increase market shares in tier-one cities and new markets. On the one hand, the VAT rate on sales of plasma products was reduced from 6% to 3%, effective on July 1, 2014, pursuant to a notice jointly promulgated by the PRC Ministry of Finance and SAT in June 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 would increase our sales price of plasma products by 2.9%. On the other hand, to improve brand recognition, we increased the market share of our human albumin products and IVIG products in tier-one cities and new markets through distributors by lowering the invoiced prices during the three months ended March 31, 2015.

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 quarter to quarter.

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The sales volume of our human albumin products increased by 13% for the three months ended March 31, 2015 as compared to the same period in 2014, as a result of the increased sales volume at Guizhou Taibang. Guizhou Taibang resumed production in March 2014 and shipped its first batch of products for sales in July 2014 after the completion of government batch approval. The sales volume of our IVIG products increased by 57% for the three months ended March 31, 2015 as compared to the same period in 2014. The increase in sales volume of IVIG was primarily 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. Further, in anticipation of a favorable market environment and our increased sales capabilities this year, we reserved a large volume of the prior years' IVIG pastes to be processed and sold throughout 2015, which also contributed to our increased sales volume during the three months ended March 31, 2015.

The sales decrease of other immunoglobulin products in the three months ended March 31, 2015 as compared to the same period in 2014 was mainly attributable to the decrease in sales volume of human rabies immunoglobulin products. The decrease in sales volume of human rabies immunoglobulin was primarily a result of decreased production volume during this period. We adjusted the supply of various hyper-immune vaccinated plasma and their production in response to the market demand. For the three months ended March 31, 2015, we decreased our sales of human rabies immunoglobulin products by \$3.9 million as compared to the same period in 2014.

The sales increase of placenta polypeptide products was generally in line with the volume increase for the three months ended March 31, 2015 as compared to the same period in 2014. The sales volume of placenta polypeptide products increased by 74% for the three months ended March 31, 2015 as compared to the same period in 2014. This increase was due to the ramp-up of placenta polypeptide at Guizhou Taibang after its receipt of the GMP certification for the upgraded production facilities in January 2014.

**Cost of sales and gross profit**

|                                | Three Months Ended<br>March 31,                  |        | Change |         |
|--------------------------------|--------------------------------------------------|--------|--------|---------|
|                                | 2015                                             | 2014   | Amount | %       |
|                                | (U.S. dollars in millions, except<br>percentage) |        |        |         |
| Cost of sales                  | 24.5                                             | 17.7   | 6.8    | 38.4 %  |
| as a percentage of total sales | 34.8 %                                           | 31.5 % |        | 3.3 %   |
| Gross profit                   | 45.9                                             | 38.6   | 7.3    | 18.9 %  |
| Gross margin                   | 65.2 %                                           | 68.5 % |        | (3.3 )% |

Our cost of sales was \$24.5 million, or 34.8% of our sales for the three months ended March 31, 2015, compared to \$17.7 million, or 31.5% of our sales for the same period in 2014. Our gross profit was \$45.9 million and \$38.6 million for the three months ended March 31, 2015 and 2014, respectively, representing gross margins of 65.2% and 68.5%, respectively. Our cost of sales and gross margin are affected by the volume and pricing of our sold products, raw material costs, production mix and respective yields, inventory impairments, production cycles and routine maintenance costs.

The increase in cost of sales in the three month ended March 31, 2015 as compared to the same period in 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 expected the nutrition fees to be paid to donors 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 and volume, product mix, yields and manufacturing efficiency. The increase in cost of sales as a percentage of sales for the three months ended March 31, 2015 as compared to the same period in 2014 was mainly due to the increase in cost of plasma partially offset by the change of our product mix to include products with higher margins.

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|                                | Three Months Ended |        | Change |         |
|--------------------------------|--------------------|--------|--------|---------|
|                                | March 31,<br>2015  | 2014   | Amount | %       |
| Operating expenses             | 11.1               | 10.6   | 0.5    | 4.7 %   |
| as a percentage of total sales | 15.8 %             | 18.8 % |        | (3.0 )% |

Our total operating expenses increased by \$0.5 million, or 4.7%, to \$11.1 million for the three months ended March 31, 2015, from \$10.6 million for the same period in 2014. As a percentage of sales, total expenses decreased by 3.0% to 15.8% for the three months ended March 31, 2015, from 18.8% for the same period in 2014. The increase of the total operating expenses was a combined effect of the decrease of the selling expenses and the increase of research and development expenses and general and administrative expenses as discussed below.

**Selling expenses**

|                                | Three Months Ended |       | Change |          |
|--------------------------------|--------------------|-------|--------|----------|
|                                | March 31,<br>2015  | 2014  | Amount | %        |
| Selling expenses               | 2.0                | 2.3   | (0.3 ) | (13.0 )% |
| as a percentage of total sales | 2.8 %              | 4.1 % |        | (1.3 )%  |

Our selling expenses decreased by \$0.3 million, or 13.0%, to \$2.0 million for the three months ended March 31, 2015, from \$2.3 million for the same period in 2014. As a percentage of sales, our selling expenses for the three months ended March 31, 2015 decreased by 1.3% to 2.8%, from 4.1% for the same period in 2014. The decrease was mainly due to the decreased per unit selling expense of placenta polypeptide for the three months ended March 31, 2015 as compared to the same period in 2014. We shifted to utilizing internal resources for our promotional efforts, instead of engaging a third-party service provider to promote sales of placenta polypeptide products, and did not renew the third-party engagement upon its expiration in May 2014.

**General and administrative expenses**

|                                     | Three Months Ended |        | Change |         |
|-------------------------------------|--------------------|--------|--------|---------|
|                                     | March 31,<br>2015  | 2014   | Amount | %       |
| General and administrative expenses | 7.9                | 7.2    | 0.7    | 9.7 %   |
| as a percentage of total sales      | 11.2 %             | 12.8 % |        | (1.6 )% |

Our general and administrative expenses increased by \$0.7 million, or 9.7%, to \$7.9 million for the three months ended March 31, 2015, from \$7.2 million for the same period in 2014. General and administrative expenses as a

percentage of sales decreased by 1.6% to 11.2% for the three months ended March 31, 2015, from 12.8% for the same period in 2014. The increase in general and administrative expenses was mainly due to the increase of share-based compensation expenses.

**Research and development expenses**

|                                                                     | Three Months Ended |       | Change |        |
|---------------------------------------------------------------------|--------------------|-------|--------|--------|
|                                                                     | March 31,<br>2015  | 2014  | Amount | %      |
| Research and development expenses<br>as a percentage of total sales | 1.3                | 1.1   | 0.2    | 18.2 % |
|                                                                     | 1.9 %              | 1.9 % |        |        |

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Our research and development expenses increased by \$0.2 million, or 18.2%, to \$1.3 million for the three months ended March 31, 2015, from \$1.1 million for the same period in 2014. As a percentage of sales, our research and development expenses for the three months ended March 31, 2015 and 2014 were 1.9% and 1.9%, respectively. The increase in research and development expenses was mainly due to the expenditure paid for certain clinical trial programs and the raw materials consumed for certain pipeline products for the three months ended March 31, 2015.

**Income tax**

|                                | Three Months Ended<br>March 31,               |       | Change |        |
|--------------------------------|-----------------------------------------------|-------|--------|--------|
|                                | 2015                                          | 2014  | Amount | %      |
|                                | (U.S. dollars in millions, except percentage) |       |        |        |
| Income tax                     | 5.6                                           | 5.3   | 0.3    | 5.7%   |
| as a percentage of total sales | 8.0 %                                         | 9.5 % |        | (0.5)% |

Our provision for income taxes increased by \$0.3 million, or 5.7%, to \$5.6 million for the three months ended March 31, 2015, from \$5.3 million for the same period in 2014. Our effective income tax rates were 15.9% and 18.2% for the three months ended March 31, 2015 and 2014, respectively. Tax rate applicable to our major operating subsidiaries in China for 2015 and 2014 is 15%. Since 2015, we no longer accrue dividend withholding income tax in respect of Shandong Taibang due to internal corporate restructuring, which contributed to the decrease in effective income tax rate.

Comparison of 2014 and 2013**Sales**

Our total sales increased by 19.6%, or \$39.9 million, to \$243.3 million for 2014, compared to \$203.4 million for 2013, primarily due to increases in the sales volumes of human albumin, IVIG and placenta polypeptide products. In addition, the effect resulted from the foreign exchange appreciation of RMB against U.S. dollars contributed 0.9% of the sales increase in U.S. dollars.

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

|                               | Year Ended December 31,                       |       |       |       | Change |      |
|-------------------------------|-----------------------------------------------|-------|-------|-------|--------|------|
|                               | 2014                                          |       | 2013  |       | Amount | %    |
|                               | \$                                            | %     | \$    | %     |        |      |
|                               | (U.S. dollars in millions, except percentage) |       |       |       |        |      |
| Human albumin                 | 95.6                                          | 39.3  | 89.7  | 44.1  | 5.9    | 6.6  |
| Immunoglobulin products:      |                                               |       |       |       |        |      |
| IVIG                          | 98.4                                          | 40.4  | 77.3  | 38.0  | 21.1   | 27.3 |
| Other immunoglobulin products | 19.7                                          | 8.1   | 19.7  | 9.7   |        |      |
| Placenta polypeptide          | 24.0                                          | 9.9   | 12.2  | 6.0   | 11.8   | 96.7 |
| Others                        | 5.6                                           | 2.3   | 4.5   | 2.2   | 1.1    | 24.4 |
| Totals                        | 243.3                                         | 100.0 | 203.4 | 100.0 | 39.9   | 19.6 |

For 2014 as compared to 2013:

the average price for our approved human albumin products, which represented 39.3% of our total sales, increased by approximately 1.4% and, excluding the foreign exchange effect, their average price in RMB increased by approximately 0.6%; and the average price for our approved IVIG products, which represented 40.4% of our total sales, decreased by approximately 0.2%, and excluding the foreign exchange effect, their average price in RMB decreased by approximately 0.9%.

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The average sales price of human albumin products increased slightly for 2014 as compared to 2013, as a result of the combined effects of the higher government-imposed retail price ceiling, the reduced VAT rate and our sales effort to increase market shares in tier-one cities and new markets. The reduction of VAT rate from 6% to 3% effective on July 1, 2014 also had a positive impact on our sales price of plasma products as our sales are recognized as the invoiced price of the products sold minus VAT. We lowered sales price of human albumin products, however, in order to expand our market shares in tier-one cities and certain new markets in 2014. The price decrease of IVIG products was mainly attributable to the increased sales through distributors in tier-one cities and new markets, partially offset by the reduced VAT rate. To improve our brand recognition and the market share of IVIG products in tier-one cities and new markets, we reduced our sales prices to distributors in 2014.

The sales volumes of our products depend on market demand and our production volume. The production volumes of our human albumin products depend on the plasma supply. The production volumes of our IVIG products depend primarily on the plasma supply and, to a lesser extent, on our allocation of production capacity among various human immunoglobulin products, which include IVIG and other hyper-immune products. The production volumes of our hyper-immune products, which include human rabies immunoglobulin, human hepatitis B immunoglobulin and human tetanus immunoglobulin products, are 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. Depending on the market demand and profit margins of IVIG products and hyper-immune products at any given period, we also adjust the production volume of IVIG products from time to time to optimize our product mix.

The sales volume of our human albumin products increased by 5.1% for 2014 as compared to 2013, mainly due to the sales volume increase in Shandong Taibang, partially offset by the sales volume decrease in Guizhou Taibang as a result of the planned production suspension at Guizhou Taibang from June 2013 to March 2014. The sales volume of our IVIG products increased by 27.4% for 2014 as compared to 2013, mainly due to the increased market demand resulted from the outbursts of Hand, Foot and Mouth Disease and the increased sales through distributors in tier-one cities and new markets during 2014. In anticipation of a favorable market environment and our increased sales capabilities in 2014, we had reserved a large volume of our 2013 IVIG inventories to be sold throughout 2014.

The sales increase of placenta polypeptide products was generally in line with the volume increase for 2014 as compared to 2013. The sales volume of placenta polypeptide products increased by 101.0% for 2014 as compared to 2013, primarily due to the expanded production of placenta polypeptide at Guizhou Taibang after its receipt of the GMP certification for the upgraded production facilities in January 2014.

**Cost of sales and gross profit**

|                                | Year Ended                                    |          | Change  |         |
|--------------------------------|-----------------------------------------------|----------|---------|---------|
|                                | December 31,                                  |          |         |         |
|                                | 2014                                          | 2013     | Amount  | %       |
|                                | (U.S. dollars in millions, except percentage) |          |         |         |
| Cost of sales                  | \$ 80.0                                       | \$ 65.5  | \$ 14.5 | 22.1 %  |
| as a percentage of total sales | 32.9 %                                        | 32.2 %   |         | 0.7 %   |
| Gross profit                   | \$ 163.2                                      | \$ 137.9 | \$ 25.3 | 18.3 %  |
| Gross margin                   | 67.1 %                                        | 67.8 %   |         | (0.7 )% |

Our cost of sales was \$80.0 million, or 32.9% of our sales, for 2014, as compared to \$65.5 million, or 32.2% of our sales for 2013. Our gross profit was \$163.2 million and \$137.9 million for 2014 and 2013, respectively, representing gross margins of 67.1% and 67.8%, respectively. Our cost of sales and gross margin are affected by the volume and pricing of our finished products, raw material costs, production mix and respective yields, inventory impairments, production cycles and routine maintenance costs.

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The increase in cost of sales for 2014 as compared to 2013 was primarily due to the increases in sales volume, cost of plasma and overhead. 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 that the nutrition fees to be paid to donors will continue to increase as a result of the rising living standards in China. Consequently, future improvements on margins will need to be derived from increases in product pricing and volume, product mix, yields and manufacturing efficiency. The increase in cost of sales as a percentage of sales for 2014 as compared to 2013 was mainly due to the increase in cost of plasma and the increase in overhead, especially depreciation expenses, at Guizhou Taibang after its production resumption, partially offset by the change of our product mix to include more products with higher margins.

**Operating expenses**

|                                | Year Ended                                    |         | Change |         |
|--------------------------------|-----------------------------------------------|---------|--------|---------|
|                                | December 31,                                  |         |        |         |
|                                | 2014                                          | 2013    | Amount | %       |
|                                | (U.S. dollars in millions, except percentage) |         |        |         |
| Operating expenses             | \$ 52.1                                       | \$ 50.9 | \$ 1.2 | 2.4 %   |
| as a percentage of total sales | 21.4 %                                        | 25.0 %  |        | (3.6 )% |

Our total operating expenses increased by \$1.2 million, or 2.4%, to \$52.1 million for 2014 from \$50.9 million for 2013. As a percentage of total sales, total expenses decreased by 3.6% to 21.4% for 2014 from 25.0% for 2013. The operating expenses for 2014 included a provision of \$5.1 million for all the receivables in respect of the employee housing development project at Shandong Taibang. Excluding the effect of this provision, our operating expenses decreased by \$3.9 million, or 7.7%, for 2014 as compared to 2013, primarily due to the decrease in general and administrative expenses.

**Selling expenses**

|                                | Year Ended                                    |         | Change |         |
|--------------------------------|-----------------------------------------------|---------|--------|---------|
|                                | December 31,                                  |         |        |         |
|                                | 2014                                          | 2013    | Amount | %       |
|                                | (U.S. dollars in millions, except percentage) |         |        |         |
| Selling expenses               | \$ 10.7                                       | \$ 10.6 | \$ 0.1 | 0.9 %   |
| as a percentage of total sales | 4.4 %                                         | 5.2 %   |        | (0.8 )% |

For 2014, our selling expenses increased by \$0.1 million, or 0.9%, to \$10.7 million from \$10.6 million for 2013. As a percentage of total sales, our selling expenses for 2014 decreased by 0.8% to 4.4% from 5.2% for 2013. This decrease was mainly due to a decrease in the per-unit selling expenses of placenta polypeptide during 2014. We shifted to utilizing internal resources for promotional efforts in May 2014, instead of engaging a third-party service provider to promote sales of placenta polypeptide products, which contributed to the decrease in our selling expenses.

**General and administrative expenses**

|  | Year Ended   |      | Change |   |
|--|--------------|------|--------|---|
|  | December 31, |      |        |   |
|  | 2014         | 2013 | Amount | % |

|                                     |                                               |         |          |         |
|-------------------------------------|-----------------------------------------------|---------|----------|---------|
|                                     | (U.S. dollars in millions, except percentage) |         |          |         |
| General and administrative expenses | \$ 32.1                                       | \$ 36.1 | \$ (4.0) | (11.1)% |
| as a percentage of total sales      | 13.2 %                                        | 17.7 %  |          | (4.5)%  |

For 2014, our general and administrative expenses decreased by \$4.0 million, or 11.1%, to \$32.1 million from \$36.1 million for 2013. As a percentage of total sales, general and administrative expenses decreased by 4.5% to 13.2% for 2014 from 17.7% for 2013, mainly due to a decrease in legal expenses and the amortization expenses of intangible assets. In 2013, we incurred legal expenses in relation to the take-over defense against a competitor in China and the legal disputes regarding the shares of Guizhou Taibang. We did not incur similar legal expenses for 2014. In addition, we incurred amortization expenses in 2013 in relation to the acquisition of GMP certificates and other intangible assets when we acquired a majority stake in Guizhou Taibang in 2008. Because these intangible assets had been fully amortized by the end of 2013, we did not incur corresponding expenses in 2014.

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TABLE OF CONTENTS**Research and development expenses**

|                                   | Year Ended<br>December 31,                    |        | Change |         |
|-----------------------------------|-----------------------------------------------|--------|--------|---------|
|                                   | 2014                                          | 2013   | Amount | %       |
|                                   | (U.S. dollars in millions, except percentage) |        |        |         |
| Research and development expenses | \$ 4.2                                        | \$ 4.2 | \$     |         |
| as a percentage of total sales    | 1.7 %                                         | 2.1 %  |        | (0.4 )% |

For 2014, our research and development expenses remained stable, as compared to 2013. In 2014, we received government grants totaling \$2.1 million and recognized them as a reduction of research and development expenses. Excluding this impact, our research and development expenses increased by \$2.1 million for 2014 from 2013. As a percentage of total sales, our research and development expenses, excluding the impact of the government grants, increased by 0.5% to 2.6% for 2014 from 2.1% for 2013. The increase was mainly due to the expenditures paid for certain clinical trial programs and the engagement of external experts for certain pipeline products in 2014.

**Income tax expense**

|                           | Year Ended<br>December 31,                    |         | Change  |        |
|---------------------------|-----------------------------------------------|---------|---------|--------|
|                           | 2014                                          | 2013    | Amount  | %      |
|                           | (U.S. dollars in millions, except percentage) |         |         |        |
| Income tax expense        | \$ 26.6                                       | \$ 15.5 | \$ 11.1 | 71.6 % |
| Effective income tax rate | 21.7 %                                        | 16.8 %  |         | 4.9 %  |

Our provision for income taxes increased by \$11.1 million, or 71.6%, to \$26.6 million for 2014 from \$15.5 million for 2013. For 2014, the dividend withholding income tax attributable to Shandong Taibang increased by \$6.2 million, as compared to 2013, due to an increase in dividend distribution in Shandong Taibang. The dividends from Shandong Taibang are subject to withholding tax at a rate of 10%.

Excluding the impact of dividend withholding income tax, our effective income tax rates were 14.4% and 13.9% for 2014 and 2013, respectively. The statutory tax rate applicable to our major operating subsidiaries in China for 2014 and 2013 was 15%.

**Comparison of 2013 and 2012****Sales**

Our total sales increased by 10.1%, or \$18.6 million, to \$203.4 million for 2013, compared to \$184.8 million for 2012. The increase in sales during 2013 was primarily attributable to a mix of price and volume increases in certain of our plasma based products. In addition, the effect resulted from the foreign exchange appreciation of RMB against U.S. dollars contributed 2.0% of the sales increase in U.S. dollars.

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

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|                               | Year Ended December 31,                       |       |       |       | Change |       |
|-------------------------------|-----------------------------------------------|-------|-------|-------|--------|-------|
|                               | 2013                                          |       | 2012  |       | Amount | %     |
|                               | \$                                            | %     | \$    | %     |        |       |
|                               | (U.S. dollars in millions, except percentage) |       |       |       |        |       |
| Human albumin                 | 89.7                                          | 44.1  | 82.5  | 44.6  | 7.2    | 8.7   |
| Immunoglobulin products:      |                                               |       |       |       |        |       |
| IVIG                          | 77.3                                          | 38.0  | 72.0  | 39.0  | 5.3    | 7.4   |
| Other immunoglobulin products | 19.7                                          | 9.7   | 19.4  | 10.5  | 0.3    | 1.5   |
| Placenta polypeptide          | 12.2                                          | 6.0   | 10.1  | 5.5   | 2.1    | 20.8  |
| Others                        | 4.5                                           | 2.2   | 0.8   | 0.4   | 3.7    | 462.5 |
| Totals                        | 203.4                                         | 100.0 | 184.8 | 100.0 | 18.6   | 10.1  |

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For 2013 as compared to 2012:

the average price for our approved human albumin products, which represented 44.1% of our total sales, increased by approximately 10.1% and, excluding the foreign exchange effect, their average price in RMB term increased by approximately 8.1%; and

the average price for our approved IVIG products, which represented 38.0% of our total sales, increased by approximately 1.3%, and excluding the foreign exchange effect, their average price in RMB term remained relatively stable.

The price increase of human albumin products was due to the higher retail price ceiling announced by the NDRC that came into effect on February 1, 2013. This higher retail price ceiling provided us with more flexibility in pricing our human albumin products and allowed us to increase our ex-factory prices in certain regional markets. The NDRC also adjusted retail price ceilings for IVIG effective on October 8, 2012, and the ceilings were lower than the prevailing market prices in some of our regional markets. As a result, some local governments revised tender price ceilings for

IVIG products. We sought approval from local governments for favorable pricing policies in selective regional markets and successfully gained support from certain provincial governments in lifting the tender price ceilings for IVIG products. Therefore, the average price of our IVIG products remained relatively stable in 2013 as compared to 2012.

Sales volume for our human albumin products decreased by 1.2% in 2013 as compared to 2012. The decrease in sales volumes of human albumin products was primarily due to the production suspension in Guizhou Taibang that commenced in June 2013. Sales volume for our IVIG products increased by 6.0% in 2013 as compared to 2012. In 2013, we strengthened our marketing efforts of IVIG promotion and engaged new distributors to sell IVIG in new territories. Consequently, we experienced a 65.0% growth in IVIG sales volume for the first quarter of 2013 as compared to the same quarter in 2012. However, such substantial growth in IVIG sales were partially offset by the impact of production suspension of Guizhou Taibang's plasma production facility.

For 2013 as compared to 2012, the sales increase of other products was mainly attributable to the newly-launched human coagulation factor VIII (200IU) in Shandong Taibang, which accounted for 2.1% of our total sales in 2013.

**Cost of sales and gross profit**

|                                | Year Ended                                    |          | Change  |         |
|--------------------------------|-----------------------------------------------|----------|---------|---------|
|                                | December 31,                                  |          |         |         |
|                                | 2013                                          | 2012     | Amount  | %       |
|                                | (U.S. dollars in millions, except percentage) |          |         |         |
| Cost of sales                  | \$ 65.5                                       | \$ 58.8  | \$ 6.7  | 11.4 %  |
| as a percentage of total sales | 32.2 %                                        | 31.8 %   |         | 0.4 %   |
| Gross profit                   | \$ 137.9                                      | \$ 126.0 | \$ 11.9 | 9.4 %   |
| Gross margin                   | 67.8 %                                        | 68.2 %   |         | (0.4 )% |

Our total cost of sales was \$65.5 million, or 32.2% of our sales, for 2013, as compared to \$58.8 million, or 31.8% of our sales for 2012. Our gross profit was \$137.9 million and \$126.0 million for 2013 and 2012, respectively, representing gross margins of 67.8% and 68.2%, respectively. Our cost of sales and gross margin are affected by the volume and pricing of our finished products, raw material costs, production mix and respective yields, inventory impairments, production cycles and routine maintenance costs.

The increase in cost of sales as a percentage of sales and the decrease of gross margin were mainly due to the increase

in cost of plasma, which was the largest component of our cost of sales. In an effort to increase plasma collection volume and expand our donor base, we increased the nutrition fees paid to donors in 2013 consistent with the industry practice.

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|                                | Year Ended                                    |         | Change    |         |
|--------------------------------|-----------------------------------------------|---------|-----------|---------|
|                                | December 31,                                  |         | Amount    | %       |
|                                | 2013                                          | 2012    |           |         |
|                                | (U.S. dollars in millions, except percentage) |         |           |         |
| Operating expenses             | \$ 50.9                                       | \$ 51.5 | \$ (0.6 ) | (1.2 )% |
| as a percentage of total sales | 25.0 %                                        | 27.9 %  |           | (2.9 )% |

Our total operating expenses decreased by \$0.6 million, or 1.2%, to \$50.9 million for 2013, from \$51.5 million for 2012. As a percentage of total sales, total expenses decreased by 2.9% to 25.0% for 2013 from 27.9% for 2012. The decrease of the total operating expenses was primarily due to the decrease of the selling expenses, partially offset by the increase of the general and administrative expenses.

**Selling expenses**

|                                | Year Ended                                    |         | Change    |          |
|--------------------------------|-----------------------------------------------|---------|-----------|----------|
|                                | December 31,                                  |         | Amount    | %        |
|                                | 2013                                          | 2012    |           |          |
|                                | (U.S. dollars in millions, except percentage) |         |           |          |
| Selling expenses               | \$ 10.6                                       | \$ 14.4 | \$ (3.8 ) | (26.4 )% |
| as a percentage of total sales | 5.2 %                                         | 7.8 %   |           | (2.6 )%  |

For 2013, our selling expenses decreased by \$3.8 million, or 26.4%, to \$10.6 million from \$14.4 million for 2012. As a percentage of total sales, our selling expenses for 2013 decreased by 2.6% to 5.2% from 7.8% for 2012. The decrease was mainly due to more stringent control on selling expenses implemented in the second half of 2012.

**General and administrative expenses**

|                                     | Year Ended                                    |         | Change |         |
|-------------------------------------|-----------------------------------------------|---------|--------|---------|
|                                     | December 31,                                  |         | Amount | %       |
|                                     | 2013                                          | 2012    |        |         |
|                                     | (U.S. dollars in millions, except percentage) |         |        |         |
| General and administrative expenses | \$ 36.1                                       | \$ 34.0 | \$ 2.1 | 6.2 %   |
| as a percentage of total sales      | 17.7 %                                        | 18.4 %  |        | (0.7 )% |

For 2013, our general and administrative expenses increased by \$2.1 million, or 6.2%, to \$36.1 million, from \$34.0 million for 2012. General and administrative expenses as a percentage of total sales decreased by 0.7% to 17.7% for 2013 from 18.4% for 2012. The increase in general and administrative expenses was mainly due to an increase in expenses related to payroll and employee benefits as a result of general salary increases, and an increase in non-recurring legal expenses.

**Research and development expenses**

|  | Year Ended   | Change |
|--|--------------|--------|
|  | December 31, |        |
|  | 2013         | 2012   |

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|                                   | 2013                                          | 2012   | Amount | %      |
|-----------------------------------|-----------------------------------------------|--------|--------|--------|
|                                   | (U.S. dollars in millions, except percentage) |        |        |        |
| Research and development expenses | \$ 4.2                                        | \$ 3.0 | \$ 1.2 | 40.0 % |
| as a percentage of total sales    | 2.1 %                                         | 1.6 %  |        | 0.5 %  |

For 2013, our research and development expenses increased by \$1.2 million, or 40.0%, to \$4.2 million, from \$3.0 million for 2012. As a percentage of total sales, our research and development expenses increased by 0.5% to 2.1% for 2013 from 1.6% for 2012. The increase of research and development expenses was primarily due to certain technical support services we engaged to improve the production yields on certain hyper-immune products during 2013. In addition, we started the clinical trial program on human fibrinogen in 2013.

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|                                                | Year Ended                                    |        | Change    |           |
|------------------------------------------------|-----------------------------------------------|--------|-----------|-----------|
|                                                | December 31,                                  |        | Amount    | %         |
|                                                | 2013                                          | 2012   |           |           |
|                                                | (U.S. dollars in millions, except percentage) |        |           |           |
| Change in fair value of derivative liabilities | \$                                            | \$ 1.8 | \$ (1.8 ) | (100.0 )% |
| as a percentage of total sales                 |                                               | 1.0 %  |           | (1.0 )%   |

The warrants we issued in June 2009 are classified as derivative liabilities carried at fair value. For 2013 and 2012, we recognized a gain from the change in fair value of derivative liabilities in the amounts of nil and \$1.8 million, respectively. The recognized gain from the change in the fair value of derivative liabilities for 2012 was mainly due to a decrease in the price of our common stock from \$10.46 per share as of December 31, 2011 to \$8.55 and \$9.22, respectively, as of the exercise dates for the warrants. All warrants had been fully exercised by the end of June 2012.

**Income tax expense**

|                           | Year Ended                                    |         | Change |         |
|---------------------------|-----------------------------------------------|---------|--------|---------|
|                           | December 31,                                  |         | Amount | %       |
|                           | 2013                                          | 2012    |        |         |
|                           | (U.S. dollars in millions, except percentage) |         |        |         |
| Income tax expense        | \$ 15.5                                       | \$ 15.2 | \$ 0.3 | 2.0 %   |
| Effective income tax rate | 16.8 %                                        | 18.7 %  |        | (1.9 )% |

Our provision for income taxes increased by \$0.3 million, or 2.0%, to \$15.5 million for 2013 from \$15.2 million for 2012. Our effective income tax rates were 16.8% and 18.7% for 2013 and 2012, respectively. The statutory tax rate applicable to our major operating subsidiaries in the PRC for 2013 and 2012 was 15%. The decrease of the effective income tax rate was mainly attributable to a decrease in the dividend withholding income tax with respect to Shandong Taibang.

**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 March 31, 2015, we had \$86.0 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:

|                                                     | Years Ended                |         |         | Three Months |      |
|-----------------------------------------------------|----------------------------|---------|---------|--------------|------|
|                                                     | December 31,               |         |         | Ended        |      |
|                                                     | 2014                       | 2013    | 2012    | March 31,    | 2014 |
|                                                     | (U.S. dollars in millions) |         |         |              |      |
| Net cash provided by operating activities           | 93.5                       | 74.3    | 71.1    | 16.5         | 11.5 |
| Net cash (used in) provided by investing activities | (13.4 )                    | (25.6 ) | (26.8 ) | (8.5 )       | 0.9  |

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|                                                           |         |         |        |        |         |
|-----------------------------------------------------------|---------|---------|--------|--------|---------|
| Net cash used in financing activities                     | (142.8) | (38.5 ) | (5.1 ) | (2.1 ) | (78.2 ) |
| Effects of exchange rate change in cash                   | (0.6 )  | 4.3     | 1.0    | (0.7 ) | (0.8 )  |
| Net (decrease) increase in cash and cash equivalents      | (63.3 ) | 14.5    | 40.2   | 5.2    | (66.6 ) |
| Cash and cash equivalents at beginning of the year/period | 144.1   | 129.6   | 89.4   | 80.8   | 144.1   |
| Cash and cash equivalents at end of the year/period       | 80.8    | 144.1   | 129.6  | 86.0   | 77.5    |

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### **Operating Activities**

Net cash provided by operating activities for the three months ended March 31, 2015 was \$16.5 million, as compared to \$11.5 million for the same period in 2014. The increase in net cash provided by operating activities was primarily due to the impact from changes in net income for the three months ended March 31, 2015 as compared to the same period in 2014, partially offset by the impact from changes in accounts receivable during this period. Accounts receivable increased by \$9.2 million during the three months ended March 31, 2015, as compared to \$6.4 million during the same period in 2014, primarily due to the credit terms granted to the human rabies immunoglobulin distributors. In 2015, in order to further penetrate the market for human rabies immunoglobulin product, we changed our sales strategy to collaborate more closely with specialized distributors in their bidding efforts with provincial centers for disease control and prevention to facilitate the sales of human rabies immunoglobulin products. As a result, we granted credit terms ranging from two to three months to these specialized distributors rather than requiring full prepayments prior to deliveries.

Net cash provided by operating activities was \$93.5 million for 2014, as compared to \$74.3 million and \$71.1 million for 2013 and 2012, respectively. For 2014, 2013 and 2012, our net income was \$96.1 million, \$76.9 million, and \$66.0 million, respectively.

Our net non-cash operating expense was \$11.9 million, \$10.4 million and \$11.1 million, respectively, for 2014, 2013 and 2012. Among the non-cash operating items, our depreciation and amortization expense was \$7.7 million, \$7.5 million and \$8.9 million, respectively, our stock compensation expense was \$5.4 million, \$5.1 million and \$4.5 million, respectively, the allowance for doubtful accounts was \$5.1 million, \$0.1 million and \$0.1 million, respectively, and our equity in income of an equity method investee was \$8.6 million, \$2.2 million and \$2.7 million, respectively, for 2014, 2013 and 2012.

We had a net cash outflow of working capital of 14.5 million, \$13.0 million and \$5.9 million for 2014, 2013 and 2012, respectively. Among these cash outflows, the increases in inventory for 2014, 2013 and 2012 were \$13.4 million, \$10.4 million and \$3.8 million, respectively. As compared to 2012, the increase of inventories in 2013 was mainly attributable to increase of raw materials due to the continued supply of plasma, our primary raw material, by plasma stations of Guizhou Taibang while the production of plasma products at Guizhou Taibang were suspended from June 2013 to March 2014. The increase in accounts receivable for 2014 from 2013 was \$2.2 million, which was in line with the expansion of our sales during this period. The increase in accounts receivable for 2013 from 2012 was \$5.7 million, primarily due to an increase in the relative percentage of sales to direct-sale customers (such as hospitals and inoculations centers) versus sales to distributors. We generally grant direct-sale customers payment terms of up to 90 days, with a limited number of highly creditworthy customers receiving longer payment terms of up to six months. However, we generally require distributors to pay upon delivery. Direct sales increased by 30% in the fourth quarter of 2013 compared to the same period in 2012. Further, as part of our efforts to optimize the sales program, we have increased direct sales to top class hospitals that receive such longer credit terms since mid-2013, which also contributed to the increase in direct sales and accounts receivable in the fourth quarter of 2013. Sales to top class hospitals as a percentage of total direct sales increased from 44.8% in the fourth quarter of 2012 to 59.3% in the same period in 2013.

### **Investing Activities**

Our use of cash for investing activities is primarily for the acquisition of property, plant and equipment and intangibles, and purchase of time deposits.

Net cash used in investing activities for the three months ended March 31, 2015 was \$8.5 million, as compared to net cash provided by investing activities of \$0.9 million for the same period in 2014. During the three months ended March 31, 2015 and 2014, we paid \$8.5 million and \$7.5 million, respectively, for the acquisition of property, plant and equipment, intangible assets and land use right for Shandong Taibang and Guizhou Taibang. During the three months ended March 31, 2014, we received a refund of deposit of \$1.6 million from the local government due to a decrease in the size of a land parcel that was granted to us in Guizhou, and received \$6.6 million upon the maturity of a time deposit.

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Net cash used in investing activities for 2014 was \$13.4 million, as compared to \$25.6 million and \$26.8 million for 2013 and 2012, respectively. The investing activities for 2014 mainly consisted of construction of a new production facility at Shandong Taibang, for which we paid \$17.2 million for acquisition of property, plant and equipment in 2014. In 2013 and 2012, we paid \$20.5 million and \$13.9 million, respectively, for construction and acquisition of property, plant and equipment in connection with the construction work at Shandong Taibang and the upgrade of production facilities at Guizhou Taibang. In addition, we made a refundable payment of \$13.3 million to the local government in connection with our bid for a land use right in Guizhou Province in 2012 and received a refund of \$1.6 million and \$2.1 million in 2014 and 2013, respectively, due to a decrease in the size of the land provided by the local government. Further, Guizhou Taibang made a time deposit of \$6.6 million in 2013, which matured in 2014.

## Financing Activities

Net cash used in financing activities for the three months ended March 31, 2015 totaled \$2.1 million, as compared to \$78.2 million used for the same period in 2014. The net cash used in financing activities for the three months ended March 31, 2015 mainly consisted of a repayment of \$31.6 million on a short-term bank loan and a dividend of \$3.0 million to be held in escrow by a trial court in connection with disputes with a minority shareholder of Guizhou Taibang, partially offset by the maturity of a \$32.0 million deposit as security for the same short-term bank loan. The net cash used in financing activities for the three months ended March 31, 2014 mainly consisted of a payment of \$70.0 million for share repurchase, a deposit of \$72.1 million as cash collateral for certain long-term bank loans, a repayment of \$4.9 million on a short-term bank loan, and a dividend of \$1.4 million paid by our subsidiaries to the noncontrolling interest shareholders, partially offset by proceeds of \$70.0 million from certain long-term bank loans.

Net cash used in financing activities for 2014 totaled \$142.8 million, as compared to \$38.5 million and \$5.1 million for 2013 and 2012, respectively. The net cash used in 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 the follow-on offering of our company's common stock. The net cash used in financing activities in 2013 mainly consisted of a payment of \$29.6 million for share repurchase and a dividend payment of \$16.9 million by our subsidiaries to the noncontrolling interest shareholders. The net cash used in financing activities in 2012 was mainly due to a \$14.3 million repayment of short-term bank loans and a dividend payment of \$7.1 million by our subsidiaries to a noncontrolling interest shareholder, partially offset by cash provided by new short-term loans of \$11.1 million and proceeds from the exercises of stock option and warrants totaling \$5.2 million.

Management believes that our company has sufficient cash on hand and continuing positive cash inflow from the sale of our plasma products in the PRC market for our operations.

## Obligations under Material Contracts

The following table sets forth our material contractual obligations as of December 31, 2014:

| Contractual Obligations | Payments Due by Period     |                    |                    |                     |                      |
|-------------------------|----------------------------|--------------------|--------------------|---------------------|----------------------|
|                         | Total                      | Less than one year | One to three years | Three to five years | More than five years |
|                         | (U.S. dollars in millions) |                    |                    |                     |                      |

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|                                                 |       |      |      |     |
|-------------------------------------------------|-------|------|------|-----|
| Short-term bank loans                           | 31.6  | 31.6 |      |     |
| Long-term bank loans, including current portion | 66.3  | 26.3 | 40.0 |     |
| Interest on bank loans                          | 1.9   | 1.7  | 0.2  |     |
| Operating lease commitment                      | 0.8   | 0.5  | 0.2  | 0.1 |
| Capital commitment                              | 6.4   | 5.7  | 0.7  |     |
| Total                                           | 107.0 | 65.8 | 41.1 | 0.1 |

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## **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 fixed assets; the allowance for doubtful accounts; the fair value determinations of financial and equity instruments and the valuation of share-based compensation, assets acquired and liabilities assumed in a business combination, deferred tax assets and inventories; the recoverability of goodwill, intangible asset, land use right and property, plant and equipment; and reserves for income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

### **Fair Value Measurements**

We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. We determine 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.

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## **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. 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 \$23,656, \$6,242, \$6,211, \$31,567 and nil respectively for the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012. Due to recovery of bad debt that we previously provided an allowance, the recoveries of bad debt provision was nil, \$24,528, \$30,673, nil and \$1,904 for the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012, respectively.

## **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.

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 \$4,576, \$9,092, \$324,584, nil and nil for the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012, 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.



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## INDUSTRY

### Overview

We operate in the plasma industry in China. We derive certain industry related data from The Marketing Research Bureau, Inc., or MRB, an independent research firm focused on blood and plasma industry data on a global level. We engaged MRB to prepare a China-specific report for us in December 2013, a commissioned report in June 2014 and an updated analysis in May 2015.

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 \$2.50 billion in 2014 in terms of sales revenue, representing a compound annual growth rate, or CAGR, of 25.6%. Going forward, MRB projects that the market will grow at a CAGR of 19.9% from 2014, reaching \$6.21 billion in 2019. According to MRB, human albumin products has dominated China's plasma products market with a market share of 62.2% in terms of sales revenue in 2014, and IVIG products accounted 22.3% of the market. Other plasma products, including coagulation factors, accounted for the remaining 15.5% of the market in 2014.

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 is mainly due to 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 conditions 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 published market data, China National Biotec Group, or CNBG, a state-owned enterprise, was China's largest plasma products manufacturer in terms of sales revenue of plasma products in 2014. China Biologic was the second largest plasma products manufacturer and the largest non-state-owned manufacturer, in terms of sales revenue of plasma products in 2014.

### Overall Plasma Products Market Trends

Compared to the more developed countries, China's plasma products possess different characteristics. Key market characteristics and trends of China's plasma products market include the following:

*Stringent regulation and high entry barriers.* 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 continued, and is expected to continue, to maintain stringent regulations for the plasma products industry in the foreseeable future. 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 25 are currently in operation. Nearly all of these producers make albumin and IVIG products, and only four 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 best positioned to gain more market share during the industry consolidation phase.

*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. Plasma product manufacturers sell their products at or near the maximum retail reimbursement price and generally do not engage in export sales. In the case of factor VIII products, the supply shortage is demonstrated by the growth of recombinant products which are sold at three times the price as plasma-derived factor VIII products. In 2010, the PRC Ministry of Health (now the PRC National Health and Family

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Planning Commission) estimated that China's market demand for plasma products required 8,000 tonnes of plasma per annum while the domestic plasma supply only met approximately half of such demand. The gap between demand and supply enhances pricing power of the market-leading producers, and such gap is expected to continue in the foreseeable future.

*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 2014:

Source: MRB

(1) Based on 2014 per capita consumption (kilogram per million inhabitants) in the United States divided by 2014 per capita consumption in China.

(2) Based on 2014 per capita consumption (international units per capita) in the United States divided by 2014 per capita consumption in China.

As a result of a 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.

*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 hyperimmune globulin products). Comparatively, yields and technologies used by leading domestic manufacturers are on par with international standards, well positioned to enjoy better safety and higher production efficiency compared with other domestic companies.

*Increasing market concentration of top players.* China's current landscape of the 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. Also, there have been multiple merger and acquisition transactions in China's plasma industry 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.

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## **Albumin Market Trends**

According to MRB, human albumin products accounted for a majority of China's plasma products market in 2014, representing 62.2% of China's plasma products market, and achieved sales revenue of \$1.56 billion in 2014, representing a CAGR of 31% from 2009. Going forward, MRB projects that the market will grow at a CAGR of approximately 17% to 2019.

The demand for albumin products in China was high and continued to grow as a result of the high incidence of hypo-albuminemia from liver cirrhosis and hepatitis B. 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. According to MRB, the largest four multinational plasma product manufacturers accounted for approximately 54% of China's albumin products market in 2014. CNBG, Shanghai RAAS Blood Products Co., Ltd., and China Biologic were the largest three domestic albumin product manufacturers with a combined market share close to 22%, and China Biologic ranked the third with a market share of approximately 6%, in terms of sales revenue in 2014.

## **IVIG Market Trends**

According to MRB, China's IVIG products market amounted to \$557.4 million in 2014, representing a CAGR of 13% from 2009. Going forward, MRB projects the market will grow at a CAGR approximately 23% to 2019. According to MRB, CNBG was the market leader-in 2014, and China Biologic ranked second with a market share of approximately 17%.

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 the IVIG therapy for Hand, Foot and Mouth Disease, which is rare and less known in more developed countries. Compared with the markets in these countries, China's IVIG products market is far from mature. In 2014, for instance, the per-capita consumption of IVIG products in China was 12.7 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 significant growth potential as China's IVIG 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 was promoted by the following means over the years: 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 \$44.5 million in terms of sales revenue in 2014, representing a CAGR of 33% from 2009. Going forward, MRB projects that the market will grow at a CAGR of approximately 14% to 2019, supported by both plasma-derived and recombinant products. According to MRB, only four domestic plasma product manufacturers offered plasma-derived factor VIII in 2014. Hualan Biological Engineering Inc. was the market leader with a market share of 42.4% in terms of sales value (excluding recombinant factor VIII products) in 2014.

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There were over 10,000 registered patients of hemophilia in China as of December 31, 2014, 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 three times 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.

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## **BUSINESS**

### **Overview**

We are a biopharmaceutical company principally engaged in the research, development, manufacturing and sales of human plasma-based biopharmaceutical products in China. We are the largest non-state-owned producer of plasma products and the second largest producer in China in terms of 2014 sales, based on published market data. We operate our business through two majority owned subsidiaries, Shandong Taibang, a company based in Tai an, Shandong Province and 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 across nine categories. Our principal products are human albumin and 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 38.2% and 42.3% of our total sales for the three months ended March 31, 2015 and 2014, respectively, and 39.3%, 44.1% and 44.6% of our total sales for 2014, 2013 and 2012, respectively. Sales of IVIG products represented approximately 46.7% and 36.5% of our total sales for the three months ended March 31, 2015 and 2014, respectively, and 40.4%, 38.0% and 39.0% of our total sales for 2014, 2013 and 2012, 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 the three months ended March 31, 2015, we generated sales of \$70.4 million, an increase of 25.0% from the same period in 2014, and recorded net income attributable to our company of \$23.2 million, an increase of 26.8% from the same period in 2014. In 2014, we generated sales of \$243.3 million, an increase of 19.6% from 2013, and recorded net income attributable to our company of \$70.9 million, an increase of 29.9% from 2013.

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 Competitive Strengths**

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

We are the largest non-state-owned producer of plasma products and the second largest producer in China in terms of 2014 sales based on published market data. In the albumin segment, which accounts for a majority of the market in China, we are the third largest domestic producer with a market share of approximately 6% in terms of 2014 sales revenue, taking into account sales attributable to Huitian, according to MRB. In the IVIG segment, which is the second largest segment of the plasma products market in China, we are the second largest producer overall in China with a market share of approximately 17% in terms of 2014 sales revenue, taking into account sales attributable to Huitian, according to MRB.

We have a strong product portfolio with over 20 different dosage forms of plasma products across nine categories and a robust near-term product pipeline of five products. We believe that we are one of the only four plasma products manufacturers in China with the a 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, coupled with our strong research and development capabilities, therefore, provides us with the benefit of higher comprehensive plasma utilization, which in turn contributes to higher profit margins.

We believe product safety and supply stability are the most critical considerations for hospitals and inoculation centers in making purchase decisions on plasma products. We have manufacturing facilities in Shandong Province and Guizhou Province with a production capacity of 1,300 tonnes certified pursuant to the new GMP requirements. We implement stringent quality control measures throughout our production process, and have not historically experienced any issue of failing to receive pre-sale approval or had a recall with respect to any

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of our plasma products. 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 further the orderly development of the plasma products market by, among other measures, increasing plasma collection volume through 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 quality control and technology investment requirements associated therewith.

### **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 12 captive plasma stations. In addition, Huitian, a company in which we hold a minority equity interest, operates three plasma stations. In 2014, we were the second largest plasma collector in China in terms of collection volume with approximately 14% of the total national supply (excluding Huitian's collection volume), based on our industry knowledge.

We operate eight plasma collection stations in Shandong Province, two in Guangxi Province and two in Guizhou Province, covering 31 cities and counties with an aggregate population of approximately 38.4 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.

We continue to seek innovative ways to identify and attract potential donors. Our messages focus on the life-saving and other social contribution aspects of plasma donation. To this end, we regularly organize a variety of community events, while also regularly reviewing 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 activities, our average plasma collection volume is greater than the national average by 80% in 2014 and our total plasma collection volume (excluding Huitian's collection volume) increased 12% from 2013 to 2014.

In addition to increasing our collection volume at existing plasma collection stations, we also seek to build new plasma stations to expand our donor base. In October 2014, we received the approval from the local regulator to build two new plasma collection stations in Hebei Province, an underdeveloped province for plasma collection that provides convenient and economic transportation to our manufacturing facilities in the adjacent Shandong Province.

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

We currently have five new products under development, with one of them in registration stage and expected to be commercially launched by the end of 2015 and one in clinical trial stage and expected to be commercially launched by 2016. 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 2016, 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 designed to be 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 March 31, 2015, we held 49 patents for plasma products.

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

We are the second largest producer of IVIG products in China in terms of 2014 sales revenue, based on MRB data. Our IVIG sales, accounting for approximately 40% of our total sales, increased to \$98.4 million in 2014 from \$72.0 million in 2012, representing a CAGR of 16.9% between 2012 and 2014. 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 the 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 all of the 31 provinces, municipalities and autonomous regions in China.

In 2014, 65.4% of sales of our plasma products were generated from direct sales, and in 2014, our direct sales network covered approximately 641 hospitals and inoculation centers. Our sales and marketing team, consisting of 127 employees as of March 31, 2015, 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, provide us with first hand intelligence on latest industry trends and market demands and enable 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. These efforts contributed significantly to the growth of our IVIG sales, which increased by \$21.1 million from \$77.3 million in 2013 to \$98.4 million in 2014.

Our direct sales network is complemented by sales through distributors, which accounted for 34.6% of our plasma sales in 2014. We select our distributors through a rigorous process, which focuses on market leadership in the covered region, the degree of control we have 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 2.8% and 4.1% in the three months ended March 31, 2015 and 2014, respectively, and 4.4%, 5.2% and 7.8% in 2014, 2013 and 2012, respectively; and our operating margin was 49.4%, 49.7%, 45.7%, 42.7% and 40.3% 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 12 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 being acquired by Sanofi. Our Chief Financial Officer, Ming Yang, has more than 17 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

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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 throughout China as well as to expand collection territories of existing plasma stations in order to secure our plasma supply. We currently have a total of 12 plasma stations in operation, of which eight are in Shandong Province, two in Guangxi Province and two in Guizhou Province. In October 2014, we received the approval from the local regulator to build two new plasma collection stations in Hebei Province. Meanwhile, we are carrying out various promotional activities to stabilize and expand our donor base for our existing plasma stations. A majority of our plasma stations recorded increases in plasma collection volume in 2014 as compared to 2013.

#### **Further strengthening of research and development capabilities**

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 so as 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 five products under development, with one of them in registration stage and expected to be commercially launched by the end of 2015 and one in clinical trial stage and expected to be commercially launched by 2016. 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 sales 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 about approximately 30 approved plasma-based biopharmaceutical manufacturers in the market, we believe that there are

approximately 25 manufacturers 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 50% market share (excluding imports) in 2014. 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 cost of compliance, 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 (including but not limited to 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

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body generates certain immunoglobulin, or antibodies, against invasion by potentially dangerous substances. In a situation where the human body cannot effectively react with these foreign substances, injection of our products will provide sufficient antibodies to neutralize such substances. We are currently approved to produce over 20 different dosage forms of plasma products.

| Approved Products <sup>(1)(2)</sup>                                                                                                   | Treatment/Use                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Human albumin 20%/10ml,<br>20%/25ml, 20%/50ml,<br>10%/100ml, 10%/20ml,<br>10%/50ml, 25%/50ml and<br>20%/50ml (10g, from<br>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<br>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,<br>5%/100ml and 5%/200ml                                                                                       | Same as above.                                                                                                                                                                                                                                                                                                                         |
| Thymopolypeptides<br>injection 20mg/2ml and 5mg/2ml                                                                                   | Treatment for various original and secondary T-cell deficiency syndromes, some auto-immune deficiency diseases and various cell immunity deficiency diseases, and assists in the treatment for tumors.                                                                                                                                 |
| Human hepatitis B<br>immunoglobulin 100 IU <sup>3</sup> , 200IU<br>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<br>immunoglobulin 100IU, 200IU<br>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<br>immunoglobulin 250IU                                                                                                 | Mainly used for the prevention and therapy of tetanus. Particularly applied to patients who have allergic reactions to tetanus antitoxin.                                                                                                                                                                                              |
| 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<br>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.

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(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 \$3.2 million) each. Since our establishment in 2002, we have been subject to three 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 and adverse effect on our business for further details. We do not believe these three claims to have a material and adverse impact on our company.

## **Raw Materials**

### **Plasma**

Plasma is the principal raw material for our biopharmaceutical products. We currently operate 10 plasma stations through Shandong Taibang and two plasma stations through Guizhou Taibang. In October 2014, we received government approval to build two plasma stations in Hebei Province. We believe that our plasma 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 stations. We currently maintain sufficient plasma supply for approximately six months of production.

### **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 in the aggregate accounted for approximately 37.2%, 35.0%, 30.2%, 39.3% and 38.0% of our total procurement for the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012, respectively. We have not experienced any shortage of supply or significant quality issue with respect to any raw materials and packaging materials.

## **Plasma Collection**

All of our plasma is collected through plasma stations of Shandong Taibang and Guizhou Taibang. These 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 station.

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## **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 the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012, direct sales to hospitals and inoculation centers represented approximately 61.6%, 66.7%, 65.4%, 66.8% and 66.4%, respectively, of our total plasma products sales. Our five largest customers in the aggregate accounted for approximately 13.8%, 23.3%, 14.6%, 11.0% and 10.8% of our total sales for the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012, respectively. Our largest customer accounted for approximately 3.2%, 11.1%, 4.2%, 2.7% and 3.6% of our total sales for the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012, 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 the three months ended March 31, 2015 and the years ended December 31, 2014, 2013 and 2012, we had not incurred any significant bad debts from our customers.

Our largest geographic market is Shandong Province, representing approximately 22.5%, 25.0%, 23.9%, 27.3% and 24.1% of our total sales for the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012, respectively. Jiangsu Province is our second largest geographic market, representing 9.7%, 10.5%, 9.3%, 8.4% and 7.6% of our total sales for the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012, respectively. In addition to Shandong Province and Guizhou Province, we also have sales presence in 27 other provinces, municipalities and autonomous regions.

As of March 31, 2015, our marketing and after-sales services department consisted of 127 employees.

We believe that due to the nature of our products, the key factors of 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 the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012, total sales and marketing expenses amounted to approximately \$2.0 million, \$2.3 million, \$10.7 million, \$10.6 million and \$14.4 million, respectively, representing approximately 2.8%, 4.1%, 4.4%, 5.2% and 7.8%, respectively, of our total sales.

## **Our Research and Development Efforts**

Each of Shandong Taibang and Guizhou Taibang has its own research and development department, or collectively, our R&D Departments. All of our research and development researchers hold degrees in medicine, pharmacy, biology,

biochemistry or other relevant field. Our R&D 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.

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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 collection 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 hepatitis B immunoglobulin (pH4) for intravenous injection                                  | Prevention of measles and contagious hepatitis. When applied together with antibiotics, its curative effect on certain severe bacteria or virus infection may be improved.  | Application made to CFDA for official production permit and product certification. Commercial production expected in 2015.                    | 4      |
| Human fibrinogen                                                                                  | Treatment for lack of fibrinogen and increase human fibrinogen concentration.                                                                                               | Clinical trial is undergoing. Commercial production expected in 2016.                                                                         | 3      |
| 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.                                                  | Application in progress for clinical trial. Approval of clinical trials expected in 2015.                                                     | 2      |
| Human Antithrombin III (concentration)                                                            | Treatment for (i) hereditary antithrombin III deficiency in connection with surgical or obstetrical procedures and (ii) thromboembolism.                                    | Application for clinical trial submitted to CFDA. Approval of clinical trials expected in 2015.                                               | 2      |
| Human Cytomegalovirus Immunoglobulin                                                              | Prophylaxis and treatment of CMV infection, especially for the prevention of active virus replication for patients in immunosuppression, such as organ transplant patients. | Develop the manufacturing process for the new medicine on an expanded basis in the workshop. Application for clinical trial expected in 2015. | 1      |

\* These stages refer to the stages in the regulatory approval process for our products described in Regulation. For the three months ended March 31, 2015 and 2014 and the years ended December 31, 2014, 2013 and 2012, total research and development expenses amounted to approximately \$1.3 million, \$1.1 million, \$4.2 million, \$4.2 million and \$3.0 million, respectively, representing approximately 1.9%, 1.9%, 1.7%, 2.1% and 1.6%, respectively, of our total sales.



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## **Competition**

We are subject to intense competition. There are both local and overseas pharmaceutical enterprises that are engaged in the manufacture and sale of potential substitute or similar biopharmaceutical products as our products in China.

These competitors may have more capital, better research and development resources, more manufacturing and marketing capability and experience than we do. In our industry, we compete based upon product quality, product 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 promulgates or strengthens 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 which are more effective or less costly than ours.

There are approximately 30 approved manufacturers of plasma products in China of which no more than 25 are currently in operation. Many of these manufacturers are essentially producing the same type of products that we produce: human albumin and various types of immunoglobulin. However, due to regulations of the PRC National Health and Family Planning Commission, we believe that it is difficult for new manufacturers to enter into the industry. We believe that our major competitors in China include China National Biotec Group, Hua Lan Biological Engineering, Shanghai RAAS Blood Products Co., Ltd., Shanxi Kangbao Biological Product Co., Ltd., Sichuan Yuanda Shuyang Pharmaceutical Co and Jiangxi Boya Bio pharmaceutical Co., Ltd.

In addition, we also face competition from imported products where importation is 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 importation of human albumin continues to increase, we may face more fierce competition in domestic human albumin market.

Based on published market data, we are the second largest plasma products manufacturer and the largest non-state-owned manufacturer in China in terms of 2014 sales. To solidify our market position, we have also expanded our product portfolio to include factor VIII in 2012. We received the manufacturing approval certificate and the GMP certification for production facility from the CFDA for factor VIII in 2012. We also obtained the manufacturing approval certificate for human prothrombin complex concentrate, or PCC, in July 2013, and obtained the GMP certification for the production facility of PCC 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 52 issued patents and four pending patent applications in China for certain manufacturing processes and packing designs as of March 31, 2015. We also had nine registered trademarks in China as of March 31, 2015.

In addition, we had registered three domain names as of March 31, 2015, namely, *www.chinabiologic.com*, *www.ctbb.com.cn* and *www.taibangz.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 PRC National Health and Family Planning Commission 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.

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**Plasma collection**

Substantially all plasma donations for commercialized plasma products are done through plasma stations. Plasma donation means donors give only selected blood components – platelets, plasma, red cells, infection-fighting white cells, or a combination of these, depending on donors blood type and the needs of the community. Plasma stations in China are commonly used to collect plasma. In China, current regulations only allow an individual donor to donate blood 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 station in China:

- meet the overall plan in terms of the total number, distribution, and operational scale of plasma 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 stations were historically owned and managed by the PRC health authorities. In March 2006, the PRC Ministry of Health (now the PRC National Health and Family Planning Commission) 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 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 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 stations:

- Plasma stations can only source plasma from donors within the assigned district approved by the provincial health authorities;
  - Plasma 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; and
  - All plasma 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 190 plasma stations in operation in China as of March 31, 2015.

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**Importation of blood 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 prospectus supplement 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     | <p>Pre-clinical Research</p> <p>The pre-clinical research stage mainly involves the following steps:</p> <p>initiate the research project, study the project feasibility and develop a plan for testing and producing the new medicine;</p> <p>develop the scope and the techniques for testing the new medicine in the laboratory;</p> <p>develop laboratory-scale manufacturing process for the new medicine;</p> <p>develop the manufacturing process for the new medicine on an expanded basis in the workshop; and</p> <p>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.</p> |
| 2     | <p>Clinical trial application</p> <p>The clinical trial application stage mainly involves the following steps:</p> <p>submit required sample products and documents to the PRC Provincial Food and Drug Administration, or PFDA. PFDA will perform an on-site examination on the documents and equipment, and then transfer</p>                                                                                                                                                                                                                                                                                                                                                                                                                                 |



all the required materials to CFDA, who will further review the documents and test the sample products;

submit a draft clinical trial program to CFDA for the application of the clinical trial; and

3 Clinical trials

obtain approval of the clinical trial.  
Clinical trials range from Phase I to IV:

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.

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.

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| Stage | Activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|       | <p>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.</p>                                                                                                                                                                                                                 |
|       | <p>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.</p>                                                                                                                         |
| 4     | <p>Registration</p> <p>The registration stage mainly involves the following steps:</p> <p>submit documents related to pre-clinical and clinical trials to PFDA, which will perform on-site inspection on the clinical trials and then transfer the related documents to CFDA for further review;</p> <p>receive on-site inspection by CFDA on three consecutive sample productions at the production facilities;</p> <p>obtain the manufacturing approval certificate following the public notification period; and</p> |
| 5     | <p>Production and approval for sale</p> <p>obtain the GMP certificate following the public notification period. The production and approval for sale stage mainly involves the following steps:</p> <p>produce the approved products in qualified facilities with requisite GMP certificates;</p> <p>submit documentation and samples of mass production products to CFDA for inspection; and</p> <p>obtain qualification certificate to mass production products for sale on a batch-by-batch basis.</p>               |

## 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. After respective upgrades on their production facilities, Shandong Taibang and Guizhou Taibang obtained the renewed GMP certificate in June 2013 and March 2014, respectively. Huitian has suspended the production at its production facilities for technical upgrade and will apply for a new GMP certificate upon the completion of the upgrade. Huitian may not be able to obtain the certificate, which would prevent it from carrying on its business at these facilities and harm our profitability. See Risk Factors Risks Relating to Our Business We may not be able to carry on our business if we lose any of the required permits and licenses. Moreover, Huitian has suspended the production at its production facilities for technical upgrade and will apply for a new GMP certificate upon the completion of the upgrade; however, it may not be able to obtain the certificate, which would prevent it from carrying on its business at these facilities and harm our profitability for details.

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### **Pricing**

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 Significant uncertainties remain with respect to the implementation of the recently announced deregulation on price controls over drug products, and we may not have discretion to increase the prices of our products until implementation rules are in place. Our ability to increase the prices of our products is also subject to ongoing government supervision and limited by general market conditions and intense competition above.

Prior to the deregulation of price controls, 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 PRC Ministry of Health (now the PRC National Health and Family Planning Commission) had the authority to regulate retail prices for controlled plasma products. In addition, retail prices of pharmaceutical products fully or partially covered under the national insurance system were also subject to the price ceilings set out in the NIC, which may be adjusted by the NDRC from time to time. The hospitals as participants of the national insurance program could not sell the products to patients at prices exceeding such retail price ceilings. The provincial governments in turn often established a tender price ceiling for product tender offer made to hospitals based on, among other things, the regional living standards, cost of production of the manufacturers and the corresponding retail price ceiling. The ex-factory prices and the distributor's wholesale prices could not exceed the tender price ceiling. Five of our principal products, human albumin, IVIG, human rabies immunoglobulin, human tetanus immunoglobulin and factor VIII, were included in the NIC and were subject to tender price ceilings. Two of our principal products, placenta polypeptide and human hepatitis B immunoglobulin, although not included in the NIC, were also subject to tender price ceilings in certain provinces. Our profit margin for any price-controlled product was effectively controlled by the tender price ceiling. When a tender price ceiling put significant pressure on the profit margin of a given product, we may appeal to the provincial governments for lifting of such tender price ceiling.

In an announcement published in September 2012, or the 2012 Adjustment, NDRC adjusted retail price ceilings for 95 oncology, immunology and hematology drugs, which became effective on October 8, 2012. Two of our approved products, IVIG and factor VIII were affected by the 2012 Adjustment. The new retail price ceilings for IVIG products were lower than the current prevailing market retail prices in some of our regional markets while those for factor VIII were close to the then prevailing market retail prices. As a result, some local governments revised tender price ceilings for IVIG products. In January 2013, the NDRC further adjusted retail price ceilings for certain drug products, which became effective on February 1, 2013, or the 2013 Adjustment. Three of our approved products, human albumin, human rabies immunoglobulin and human tetanus immunoglobulin are affected by the 2013 Adjustments. The 2013 Adjustment slightly increased retail price ceilings for both human albumin and human tetanus immunoglobulin products and subject human rabies immunoglobulin products to a retail price ceiling for the first time. The retail price ceiling imposed on human rabies immunoglobulin products by the 2013 Adjustment is close to the prevailing market retail price.

### **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. Before the implementation of the EIT Law, foreign invested enterprises, or FIEs, established in China, unless granted preferential tax treatments by the PRC government, were generally subject to an enterprise income tax, or EIT, rate of 33.0%, which included a 30.0% state income tax and a 3.0% local income tax. The EIT

Law and its implementation rules impose a unified EIT of 25.0% on all domestic-invested enterprises and FIEs, unless they qualify under certain limited exceptions. In addition, the EIT Law terminated the two-year exemption and three-year half reduction and five-year exemption and five-year half-reduction tax preferential policy enjoyable by FIEs under the old EIT laws. SAT then promulgated a series of regulations to implement the EIT Law, under which FIEs established before March 16, 2007, or Old FIEs, were given a five-year grandfather period during which they can continue to

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enjoy their existing preferential tax treatments. During this five-year grandfather period, Old FIEs that enjoyed tax rates lower than 25% under the old EIT Law could gradually increase their EIT rate by 2% per year until their tax rate reached 25%.

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% 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 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 is entitled to enjoy a preferential income tax rate of 15% until the end of 2013. In October 2014, Shandong provincial government granted Shandong Taibang the high and new technology enterprise certificate, which entitled Shandong Taibang to enjoy a preferential income tax rate of 15% for a period of three years from 2014 to 2016. Shandong Taibang may apply for a renewal for an additional three years from 2017 to 2019 upon its expiration.

According to Notice on Issues Concerning Relevant Tax Policies in Deepening the Implantation 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% 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% 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% 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, 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.

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**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 a 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 March 31, 2015, we employed 1,644 full-time employees, of which 63 were seconded to us by 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.

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Except as specifically noted in the table, the following table sets forth information with respect to the beneficial ownership of our common stock as of March 31, 2015:

each of our directors and executive officers, including director appointees;  
each person known to us to own beneficially more than 5% of our shares of common stock; and  
each selling stockholder.

Beneficial ownership is determined in accordance with the rules of the SEC, and the percentage information is based on 24,857,801 shares of our common stock outstanding as of March 31, 2015. The percentage ownership information after the offering assumes the issuance of 700,000 shares of common stock from treasury stock by us in this offering.

Mr. David Hui Li and Mr. Min Fang, affiliates of the selling stockholders, are members of our board of directors. Other than such directorship and beneficial ownership of the shares described in the table below, neither the selling stockholders nor any of their respective affiliates, officers, directors or principal equity holders has held any position or office or had any other material transaction or relationship with us or any of our predecessors or affiliates within the past three years.

We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

| Name of Beneficial Owner                              | Shares Beneficially Owned Prior to This Offering |                           |   | Shares Beneficially Owned After This Offering |                           |   |
|-------------------------------------------------------|--------------------------------------------------|---------------------------|---|-----------------------------------------------|---------------------------|---|
|                                                       | Shares <sup>(1)</sup>                            | Percentage <sup>(2)</sup> |   | Shares <sup>(1)</sup>                         | Percentage <sup>(2)</sup> |   |
| Named executive officers and directors:               |                                                  |                           |   |                                               |                           |   |
| David (Xiaoying) Gao <sup>(3)</sup>                   | 502,000                                          | 1.98                      | % | 502,000                                       | 1.93%                     |   |
| Sean Shao <sup>(4)</sup>                              | 20,000                                           |                           | * | 20,000                                        |                           | * |
| Wenfang Liu <sup>(5)</sup>                            | 19,500                                           |                           | * | 19,500                                        |                           | * |
| Yungang Lu <sup>(6)</sup>                             | 44,500                                           |                           | * | 44,500                                        |                           | * |
| Zhijun Tong <sup>(7)</sup>                            | 33,000                                           |                           | * | 33,000                                        |                           | * |
| Albert (Wai Keung) Yeung <sup>(8)</sup>               | 33,000                                           |                           | * | 33,000                                        |                           | * |
| Ming Yang <sup>(9)</sup>                              | 38,836                                           |                           | * | 38,836                                        |                           | * |
| Ming Yin <sup>(10)</sup>                              | 51,927                                           |                           | * | 51,927                                        |                           | * |
| Zhijing Liu <sup>(11)</sup>                           | 10,536                                           |                           | * | 10,536                                        |                           | * |
| Gang Yang <sup>(12)</sup>                             | 52,546                                           |                           | * | 52,546                                        |                           | * |
| All officers and directors as a group                 | 805,845                                          | 3.16                      | % | 805,845                                       | 3.07                      | % |
| 5% and selling stockholders:                          |                                                  |                           |   |                                               |                           |   |
| Warburg Pincus Private Equity X, L.P. <sup>(13)</sup> | 7,632,115                                        | 30.71                     | % | 5,887,915                                     | 23.04                     | % |
| Warburg Pincus X Partners, L.P. <sup>(13)</sup>       | 244,165                                          |                           | * | 188,365                                       |                           | * |
| WP X Biologics LLC <sup>(13)</sup>                    | 3,112,920                                        | 12.52                     | % | 3,112,920                                     | 12.18                     | % |
| Charles R. Kaye <sup>(13)</sup>                       | 10,989,200                                       | 44.21                     | % | 9,189,200                                     | 35.95                     | % |
| Joseph P. Landy <sup>(13)</sup>                       | 10,989,200                                       | 44.21                     | % | 9,189,200                                     | 35.95                     | % |
| GL Trade Investment Limited <sup>(14)</sup>           | 1,605,315                                        | 6.46                      | % | 1,605,315                                     | 6.28                      | % |
| Zhenfu Li <sup>(15)</sup>                             | 1,619,777                                        | 6.52                      | % | 1,619,777                                     | 6.34                      | % |

\*

Less than 1%

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Except as indicated in the footnotes below, each of the beneficial owners listed above has direct ownership of and sole voting power and investment power with respect to our common stock.

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- As of March 31, 2015, a total of 24,857,801 shares of our common stock were considered to be outstanding pursuant to SEC Rule 13d-3(d)(1). For each beneficial owner above, any securities that are exercisable or convertible within 60 days have been included for the purpose of computing the number of shares beneficially owned and the percentage ownership of such beneficial owner. We did not deem such shares to be outstanding, however, for purposes of calculating the percentage ownership of any other person.
- (2) Represents 52,000 shares of our common stock, 300,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, exercisable at \$9.23 per share, which vests in 12 equal portions on a quarterly basis over a three-year period, with the first portion vested and exercisable on August 11, 2012, and 150,000 shares out of the 300,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, exercisable at \$9.85 per share, which vests in 4 equal portions on an annually basis over a four-year period, with the first portion vested and exercisable on September 1, 2013.
- (3) (4) Represents 20,000 shares of our common stock.
- (5) Represents 19,500 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, fully vested and exercisable at \$17.00 per share.
- (6) Represents 14,500 shares of our common stock, 20,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, fully vested and exercisable at \$9.16 per share, and 10,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, fully vested and exercisable at \$9.85 per share.
- (7) Represents 8,000 shares of our common stock, 20,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, fully vested and exercisable at \$9.61 per share, and 5,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, fully vested and exercisable at \$9.85 per share.
- (8) Represents 8,000 shares of our common stock, 20,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, fully vested and exercisable at \$10.57 per share, and 5,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, fully vested and exercisable at \$9.85 per share.
- (9) Represents 13,836 shares of our common stock, and 25,000 shares out of the 50,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, exercisable at \$9.85 per share, which vests in equal portions on an annually basis over a four-year period, with an initial vesting date of September 1, 2013.
- (10) Represents 6,927 shares of our common stock, 30,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 plan, fully vested and exercisable at \$12.26 per share, and 15,000 shares out of the 30,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, exercisable at \$9.85 per share, which vests in equal portions on an annually basis over a four-year period, with an initial vesting date of September 1, 2013.
- (11) Represents 3,036 shares of our common stock, and 7,500 shares out of the 15,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, exercisable at \$9.85 per share, which vests in equal portions on an annually basis over a four-year period, with an initial vesting date of September 1, 2013.
- (12) Represents 5,046 shares of our common stock, 40,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 plan, fully vested and exercisable at \$12.26 per share, and 7,500 shares out of the 15,000 shares of our common stock underlying a ten-year nonstatutory stock option granted under the 2008 Plan, exercisable at \$9.85 per share, which vests in equal portions on an annually basis over a four-year period, with an initial vesting date of September 1, 2013.
- (13) Represents 7,632,115 shares of our common stock held by Warburg Pincus Private Equity X, L.P., or WP X, 244,165 shares of our common stock held by Warburg Pincus X Partners, L.P., or WPP X, and 3,112,920 shares of our common stock held by WP X Biologics LLC, or WP X B, as reported in a Schedule 13D filed with the SEC by WP X, WPP X, WP X B and their affiliates on March 4, 2014. WP X B is owned 96.9% by WPX and

3.1% by WPP X. Warburg Pincus X, L.P., or WP X LP, the sole general partner of WP X and WPP X, Warburg Pincus X LLC, or WP X LLC, the sole general partner of WP X LP, Warburg Pincus Partners, LLC, or WPP LLC, the sole member of WP X LLC, Warburg Pincus & Co., or WP, the managing member of WPP LLC, Warburg Pincus LLC, or WP LLC, which manages each of WP X and WPP X, and Messrs. Charles R. Kaye and Joseph P. Landy, each a Managing General Partner of WP and a Co-President and Managing Member of WP LLC, may be deemed to be the

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beneficial owners of the shares of our common stock held by WP X and WPP X. Messrs. Kaye and Landy may be deemed to control WP X, WPP X, WP X LP, WP X LLC, WPP LLC, WP and WP LLC. Each of WP X LP, WP X LLC, WPP LLC, WP, WP LLC, and Messrs. Kaye and Landy disclaims beneficial ownership of the common stock, except to the extent of its or his pecuniary interest in such shares. The address of each of WP X, WPP X, WP X B and Messrs. Kaye and Landy is in care of Warburg Pincus LLC, 450 Lexington Avenue, New York, NY 10017.

Represents 1,605,315 shares of our common stock held by GL Trade Investment Limited as reported in a Schedule 13G filed with the SEC by GL Trade Investment Limited and its affiliates on February 13, 2014. GL Trade Investment Limited is wholly owned by GL China Opportunities Fund L.P. GL Capital Management GP L.P. is the sole general partner of GL China Opportunities Fund L.P. GL Capital Management GP Limited is the sole general partner of GL Capital Management GP L.P. GL Partners Capital Management Limited is the record (14) owner of 51% of the total issued and outstanding ordinary shares of GL Capital Management GP Limited and has the right to appoint three out of the six directors of GL Capital Management GP Limited. Mr. Zhenfu Li is the record owner of 70% of the total issued and outstanding ordinary shares of GL Partners Capital Management Limited. The address of GL Trade Investment Limited is Unit 3001, China World Tower 2, No. 1 Jian Guo Men Wai Avenue, Beijing 100004, People's Republic of China.

Represents 14,462 shares of our common stock held by Mr. Zhenfu Li and 1,605,315 shares of our common stock (15) held by GL Trade Investment Limited as reported in a Schedule 13G filed with the SEC by GL Trade Investment Limited and its affiliates on February 13, 2014. The address of Mr. Zhenfu Li is Unit 3001, China World Tower 2, No. 1 Jian Guo Men Wai Avenue, Beijing 100004, People's Republic of China.

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## **SHARES ELIGIBLE FOR FUTURE SALE**

Future sales of substantial amounts of shares of common stock, including shares issued upon the exercise of outstanding options, in the public market after this offering, or the possibility of these sales occurring, could adversely affect the prevailing market price for our common stock or impair our ability to raise equity capital.

Following the completion of this offering assuming no exercise of the underwriters' option to purchase additional shares from us, based on the number of shares of our common stock outstanding as of March 31, 2015, we will have a total of 25,557,801 shares of our common stock outstanding. Of these outstanding shares, all of the shares of common stock sold in this offering will be freely tradable, except that any shares purchased in this offering by our affiliates, as that term is defined in Rule 144 under the Securities Act, may only be able to be sold in compliance with the Rule 144 limitations described below.

The shares of our common stock held by certain existing stockholders prior to this public offering are restricted securities, as that term is defined in Rule 144 under the Securities Act. These restricted securities may be sold in the United States only if they are registered or if they qualify for an exemption from registration under Rule 144 under the Securities Act.

In addition, holders of approximately 6 million shares of our common stock have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders.

### **Rule 144**

In general, under Rule 144 as currently in effect, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell such shares without complying with the manner of sale, volume limitation, or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then such person is entitled to sell such shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon expiration of the lock-up agreements described below, within any three-month period, a number of shares that does not exceed the greater of:

1% of the number of shares of common stock then outstanding, which will equal approximately 255,578 shares immediately after this offering assuming no exercise of the underwriters' option to purchase additional shares from us, based on the number of shares of common stock outstanding as of March 31, 2015; or

the average weekly trading volume of the common stock on the NASDAQ Global Select Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

## Lock-Up Agreements

In connection with this offering, we and the holders of approximately 12 million shares of our outstanding capital stock, including the selling stockholders, a certain other existing stockholder, and all of our directors and executive officers have agreed, subject to certain exceptions, not to sell, transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock without the prior written consent of Morgan Stanley & Co. International plc for a period of 90 days after the date of this prospectus supplement, subject to possible extension under certain circumstances. These agreements are described below under Underwriting.

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## **Rule 10b5-1 Trading Plans**

Following the completion of this offering, certain of our executive officers and directors may adopt written plans, known as Rule 10b5-1 trading plans, under which they will contract with a broker to buy or sell shares of our common stock on a periodic basis to diversify their assets and investments. Under these 10b5-1 trading plans, a broker may execute trades pursuant to parameters established by the executive officer or director when entering into the plan, without further direction from such officer or director. Such sales would not commence until the expiration of the applicable lock-up agreements entered into by such executive officer or director.

## **Registration Rights**

Certain stockholders, collectively holding approximately 6 million shares of our common stock as of March 31, 2015, have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for public offering of our securities.

## **Registration Statement on Form S-8**

We have filed a registration statement on Form S-8 under the Securities Act to register 5,000,000 shares of common stock reserved for issuance under the 2008 Plan. Shares covered by such registration statement are eligible for sale in the public markets, subject to vesting restrictions, the lock-up agreements described above, compliance with our insider trading policy, and Rule 144 limitations applicable to affiliates.

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## TAXATION

### **Material U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders of Our Common Stock**

The following is a summary of the material U.S. federal income and estate tax consequences to non-U.S. holders (as defined below) of the ownership and disposition of our common stock but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income tax consequences different from those set forth below.

This summary also does not address the tax considerations arising under the laws of any non-U.S., state or local jurisdiction, or under U.S. federal gift and estate tax laws, except to the limited extent set forth below. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies or other financial institutions;
- persons subject to the alternative minimum tax or tax on net investment income;
- tax-exempt organizations or governmental organizations;
- controlled foreign corporations, passive foreign investment companies and corporations that accumulate earnings to avoid U.S. federal income tax;
- brokers or dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- companies subject to the anti-inversion rules of the Code;
- persons that own, or are deemed to own, more than five percent of our capital stock (except to the extent specifically set forth below);
- U.S. expatriates and certain former citizens or long-term residents of the United States;
- partnerships or entities classified as partnerships for U.S. federal income tax purposes (and investors therein);
- persons who hold our common stock as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction or integrated investment;
- persons who hold or receive our common stock pursuant to the exercise of any employee stock option or otherwise as compensation;
- persons who do not hold our common stock as a capital asset within the meaning of Section 1221 of the Code; or
- persons deemed to sell our common stock under the constructive sale provisions of the Code.

In addition, if a partnership or entity classified as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships that hold our common stock, and partners in such partnerships, should consult their tax advisors.

**You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership and disposition of our common stock arising under the U.S. federal estate or gift tax rules or under the laws of any state, local, non-U.S., or other taxing jurisdiction or under any applicable tax treaty.**



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**Non-U.S. Holder Defined**

For purposes of this discussion, you are a non-U.S. holder (other than a partnership) if you are any holder other than:

- an individual citizen or resident of the United States (for tax purposes);
- a corporation (or other entity taxable as a corporation) created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (x) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons (within the meaning of Section 7701(a)(3) of the Code) who have the authority to control all substantial decisions of the trust or (y) which has made a valid election to be treated as a U.S. person.

**Distributions**

As described in the section titled Dividend Policy, we have never declared or paid cash dividends on our common stock and do not anticipate paying any dividends on our common stock in the foreseeable future. However, if we do make distributions on our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock as described below under Gain on Disposition of Common Stock.

Subject to the discussion below on effectively connected income, any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, you must provide us with an IRS Form W-8BEN, IRS Form W-8BEN-E or other appropriate version of IRS Form W-8 certifying qualification for the reduced rate. A non-U.S. holder of shares of our common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. If the non-U.S. holder holds the stock through a financial institution or other agent acting on the non-U.S. holder's behalf, the non-U.S. holder will be required to provide appropriate documentation to the agent, which then will be required to provide certification to us or our paying agent, either directly or through other intermediaries.

Dividends received by you that are effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, attributable to a permanent establishment maintained by you in the United States) are generally exempt from such withholding tax. In order to obtain this exemption, you must provide us with an IRS Form W-8ECI or other applicable IRS Form W-8 properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition, if you are a corporate non-U.S. holder, dividends you receive that are effectively connected with your conduct of a U.S. trade or business may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty. You should consult your tax advisor regarding any applicable tax treaties that may provide for different rules.

**Gain on Disposition of Common Stock**

Subject to the discussion below regarding legislation related to foreign accounts, you generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

the gain is effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, the gain is attributable to a permanent establishment maintained by you in the United States);  
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you are a non-resident alien individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or our common stock constitutes a U.S. real property interest by reason of our status as a United States real property holding corporation, or USRPHC, for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding your disposition of, or your holding period for, our common stock.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, however, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as U.S. real property interests only if you actually or constructively hold more than five percent of such regularly traded common stock at any time during the shorter of the five-year period preceding your disposition of, or your holding period for, our common stock. Although our common stock is currently listed on the NASDAQ Global Select Market, there can be no assurance that such common stock is, or will be, regularly traded.

If you are a non-U.S. holder described in the first bullet above, you will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates, and a corporate non-U.S. holder described in the first bullet above also may be subject to the branch profits tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty. If you are an individual non-U.S. holder described in the second bullet above, you will be required to pay a flat 30% tax (or such lower rate specified by an applicable income tax treaty) on the gain derived from the sale, which tax may be offset by U.S. source capital losses for the year (provided you have timely filed U.S. federal income tax returns with respect to such losses). You should consult any applicable income tax or other treaties that may provide for different rules.

## **Federal Estate Tax**

Our common stock beneficially owned (or deemed to be owned) by an individual who is not a citizen or resident of the United States (as defined for U.S. federal estate tax purposes) at the time of their death will generally be includable in the decedent's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise, and therefore may be subject to U.S. federal estate tax.

## **Backup Withholding and Information Reporting**

Generally, we must report annually to the IRS the amount of dividends paid to you, your name and address and the amount of tax withheld, if any. A similar report will be sent to you. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in your country of residence.

Payments of dividends or of proceeds on the disposition of stock made to you may be subject to information reporting and backup withholding at a current rate of 28% unless you establish an exemption, for example, by properly certifying your non-U.S. status on an IRS Form W-8BEN, IRS Form W-8BEN-E or another appropriate version of IRS Form W-8.

Backup withholding is not an additional tax; rather, the U.S. federal income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

## **Foreign Account Tax Compliance**

The Foreign Account Tax Compliance Act, or FATCA, imposes withholding tax at a rate of 30% on dividends on and gross proceeds from the sale or other disposition of our common stock paid to foreign financial institutions (as specially defined under these rules), unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding the U.S. account holders of such institution (which includes certain equity

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and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners) or otherwise establishes an exemption. The legislation also generally will impose a U.S. federal withholding tax of 30% on dividends on gross proceeds from the sale or other disposition of our common stock paid to a non-financial foreign entities (as specially defined for purposes of these rules) unless such entity provides the withholding agent with a certification identifying certain substantial direct and indirect U.S. owners of the entity, certifies that there are none or otherwise establishes an exemption. The withholding provisions under FATCA generally apply to dividends on our common stock, and under current transitional rules are expected to apply with respect to the gross proceeds from the sale or other disposition of our common stock on or after January 1, 2017. An intergovernmental agreement between the United States and an applicable foreign country may modify the requirements described in this paragraph. Non-U.S. holders should consult their own tax advisors regarding the possible implications of this legislation on their investment in our common stock.

**Each prospective investor should consult its own tax advisor regarding the particular U.S. federal, state and local and non-U.S. tax consequences of purchasing, holding and disposing of our common stock, including the consequences of any proposed change in applicable laws.**

## **People s Republic of China Taxation**

The EIT Law created a new resident enterprise classification, which, if applied to us, would impose a 10% withholding tax on dividends payable to our non-PRC enterprise stockholders and gains derived by our non-PRC enterprise stockholders from disposition of our common stock are also subject to an income tax rate of 10%, or 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. The EIT Law and its implementing rules are unclear as to how to determine a PRC resident enterprise status for non-Chinese enterprise or enterprise group controlled entities. 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.

If we are not deemed as a resident enterprise, then dividends payable to our non-PRC stockholders and gains from disposition of our common stock by our non-PRC stockholders will not be subject to PRC income tax withholding.

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**UNDERWRITING**

Under the terms and subject to the conditions in an underwriting agreement dated the date of this prospectus supplement, the underwriters named below, for whom Morgan Stanley & Co. International plc is acting as the representative, have severally and not jointly agreed to purchase, and we and the selling stockholders have agreed to sell to them, severally, the number of shares indicated below:

| Name                                                  | Number of<br>Shares |
|-------------------------------------------------------|---------------------|
| Morgan Stanley & Co. International plc                |                     |
| Credit Suisse Securities (USA) LLC                    |                     |
| Merrill Lynch, Pierce, Fenner & Smith<br>Incorporated |                     |
| Jefferies LLC                                         |                     |
| Lazard Frères & Co. LLC                               |                     |
| Total:                                                |                     |

The underwriters, collectively, and the representative are referred to as the underwriters and the representative, respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus supplement are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part. Subject to the terms and conditions set forth in the underwriting agreement, the underwriters are obligated, severally and not jointly, to take and pay for all of the shares of common stock offered by this prospectus supplement if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters option to purchase additional shares described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the offering price listed on the cover page of this prospectus supplement. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the underwriters. Certain of the underwriters are expected to make offers and sales both inside and outside the United States through their respective selling agents. Morgan Stanley & Co. International plc will offer the shares of common stock in the United States through its registered broker-dealer affiliate in the United States, Morgan Stanley & Co. LLC.

We and the selling stockholders have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an aggregate of 105,000 additional shares of common stock from us and an aggregate of 270,000 additional shares of common stock from the selling stockholders at the public offering price listed on the cover page of this prospectus supplement, less underwriting discounts and commissions. To the extent the option is exercised, each underwriter will become severally and not jointly obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter s name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.





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The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us and the selling stockholders. The underwriting discounts and commissions are determined by negotiations among us, the selling stockholders and the representative and are a percentage of the offering price to the public. Among the factors to be considered in determining the discounts and commissions are the size of the offering, the nature of the security to be offered and the discounts and commissions charged in comparable transactions. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an aggregate of additional 375,000 shares of common stock.

|                                                       | Total<br>Per<br>Share | No Exercise | Full Exercise |
|-------------------------------------------------------|-----------------------|-------------|---------------|
| Public offering price                                 | \$                    | \$          | \$            |
| Underwriting discounts and commissions to be paid by: |                       |             |               |
| Us                                                    | \$                    | \$          | \$            |
| The selling stockholders                              | \$                    | \$          | \$            |
| Proceeds, before expenses, to us                      | \$                    | \$          | \$            |
| Proceeds, before expenses, to selling stockholders    | \$                    | \$          | \$            |

The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, are approximately \$0.9 million.

Our common stock has been approved for quotation on the NASDAQ Global Select Market under the trading symbol CBPO.

We, the selling stockholders, a certain other existing stockholder and each of our directors and officers have agreed that, without the prior written consent of the representative on behalf of the underwriters, we and they will not, during the period ending 90 days after the date of this prospectus supplement, or the restricted period:

offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock; file any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; and enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock.

Notwithstanding the foregoing, if (1) during the last 17 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to us occurs; or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results or becomes aware that material news or a material event will occur during the 16-day period beginning on the last day of the 90-day restricted period, the restrictions imposed hereby shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, as applicable, unless the representative waives, in writing, such extension.

Whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, we and each such person agrees that, without the prior written consent of the representative on behalf of the underwriters, we or such other person will not, during the restricted period, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.



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The restrictions described in the immediately preceding paragraph are subject to certain exceptions, which include, among other things:

the sale of shares in this offering;

the issuance by our company of shares of common stock upon the exercise of an option or a warrant or the conversion of a security outstanding on the date of this prospectus supplement of which the underwriters have been advised in writing;

transactions by any person other than us relating to shares of common stock or other securities acquired in open market transactions after the completion of the offering of the shares; provided that no filing under Section 16(a) of the Securities Exchange Act, is required or voluntarily made in connection with subsequent sales of the common stock or other securities acquired in such open market transactions;

the establishment of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of shares of common stock, provided that (i) such plan does not provide for the transfer of common stock during the restricted period and (ii) to the extent a public announcement or filing under the Exchange Act, if any, is required or voluntarily made regarding the establishment of such plan, such announcement or filing shall include a statement to the effect that no transfer of common stock may be made under such plan during the restricted period; and

with respect to the directors and officers, the sale of shares in connection with the vesting of shares of restricted stock to satisfy their tax obligations or with the exercise of options to cover tax withholding obligations in connection with such exercise.

The representative, in their sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time with or without notice.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the option. The underwriters can close out a covered short sale by exercising the option or purchasing shares in the open market.

In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the option. The underwriters may also sell shares in excess of the option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, shares of common stock in the open market to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time without notice. Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities under the Securities Act. If we or the selling shareholders are unable to provide this indemnification, we and the selling stockholders will contribute to payments that the underwriters may be required to make for these liabilities.

The address of Morgan Stanley & Co. International plc is 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom.

A prospectus supplement in electronic format may be made available on websites maintained by one or more underwriters, or selling group members, if any, participating in this offering. The representative may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account

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holders. Internet distributions will be allocated by the representative to underwriters that may make Internet distributions on the same basis as other allocations.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us in the ordinary course of business, for which they received or will receive customary fees and expenses.

In addition, in the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of ours or our affiliates. The underwriters and their respective affiliates may also make investment recommendations or publish and/or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

## **Selling Restrictions**

No action has been taken in any jurisdiction (except in the United States) that would permit a public offering of the common stock, or the possession, circulation or distribution of this prospectus supplement or any other material relating to us or the common stock in any jurisdiction where action for that purpose is required. Accordingly, the common stock may not be offered or sold, directly or indirectly, and neither this prospectus supplement nor any other offering material or advertisements in connection with the common stock may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

## **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, or each a Relevant Member State, an offer to the public of any shares of our common stock may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any shares of our common stock may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representative for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares of our common stock shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive. In the case of any shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the representative has been obtained to each such proposed offer or resale.

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Our company, the representative and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

This prospectus has been prepared on the basis that any offer of shares in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of shares. Accordingly any person making or intending to make an offer in that Relevant Member State of shares which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for our company or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither our company nor the underwriters have authorized, nor do they authorize, the making of any offer of shares in circumstances in which an obligation arises for our company or the underwriters to publish a prospectus for such offer.

For the purposes of this provision, the expression an offer to the public in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of our common stock to be offered so as to enable an investor to decide to purchase any shares of our common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

### **United Kingdom**

In the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are qualified investors (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the Order) and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

### **Switzerland**

The common stock may not be offered or sold to any investors in Switzerland other than on a non-public basis and will not be listed on the SIX Swiss Exchange, or SIX, or on any other stock exchange or regulated trading facility in Switzerland. This prospectus supplement does not constitute a prospectus within the meaning of Article 652a and Art.1156 of the Swiss Code of Obligations (Schweizerisches Obligationenrecht) or the disclosure standards for listing prospectuses under art.27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, our company, the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (CISA). The investor protection afforded to acquirers of interests in collective



investment schemes under the CISA does not extend to acquirers of shares.

## **Australia**

This prospectus supplement is not a formal disclosure document and has not been, nor will be, lodged with the Australian Securities and Investments Commission. It does not purport to contain all information that an investor or their professional advisers would expect to find in a prospectus or other disclosure document (as defined in the Corporations Act 2001 (Australia)) for the purposes of Part 6D.2 of the Corporations Act 2001

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(Australia) or in a product disclosure statement for the purposes of Part 7.9 of the Corporations Act 2001 (Australia), in either case, in relation to the common stock.

The common stock is not being offered in Australia to retail clients as defined in sections 761G and 761GA of the Corporations Act 2001 (Australia). This offering is being made in Australia solely to wholesale clients for the purposes of section 761G of the Corporations Act 2001 (Australia) and, as such, no prospectus, product disclosure statement or other disclosure document in relation to the common stock has been, or will be, prepared.

This prospectus supplement does not constitute an offer in Australia other than to wholesale clients. By submitting an application for our common stock, you represent and warrant to us that you are a wholesale client for the purposes of section 761G of the Corporations Act 2001 (Australia). If any recipient of this prospectus supplement is not a wholesale client, no offer of, or invitation to apply for, our common stock shall be deemed to be made to such recipient and no applications for our common stock will be accepted from such recipient. Any offer to a recipient in Australia, and any agreement arising from acceptance of such offer, is personal and may only be accepted by the recipient. In addition, by applying for our common stock you undertake to us that, for a period of 12 months from the date of issue of the common stock, you will not transfer any interest in our common stock to any person in Australia other than to a wholesale client.

### **Japan**

This offering has not been and will not be registered under the Financial Instruments and Exchange Law (Law No. 25 of 1948 of Japan, as amended, or the FIEL). The underwriters have represented and agreed that the common stock being offered hereby which they purchase will be purchased by them as principal and that they will not, directly or indirectly, offer or sell any common stock in Japan or to, or for the benefit of, any Japanese Person or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person, except pursuant to an exemption from the registration requirements under the FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan. For the purposes of this paragraph, Japanese Person shall mean any Person Resident in Japan (kyojusha) as defined in Section 6, Paragraph 1, Item 5 of the Foreign Exchange and Foreign Trade Law of Japan (Law No. 228 of 1949, as amended), including any corporation or other entity organized under the laws of Japan.

### **Hong Kong**

This prospectus supplement has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. No person may offer or sell in Hong Kong, by means of any document, any common stock being offered hereby other than (i) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer or invitation to the public within the meaning of the Companies Ordinance. No advertisement, invitation or document relating to the common stock being offered hereby will be issued or will be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong except if permitted under the securities laws of Hong Kong, other than with respect to the common stock which is or is intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance and any rules made thereunder.



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**Singapore**

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore, or the SFA. Accordingly, no person may offer or sell the common stock being offered hereby or cause such common stock to be made the subject of an invitation for subscription or purchase, or circulate or distribute, this prospectus supplement or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such common stock, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or (iii) to any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the common stocks are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which (a) is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the common stocks pursuant to an offer made under Section 275 of the SFA except:
  - to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
  - (c) where no consideration is or will be given for the transfer;
  - (d) where the transfer is by operation of law;
  - (e) as specified in Section 276(7) of the SFA; or
- (f) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

**People's Republic of China**

This prospectus supplement may not be circulated or distributed in the PRC and the common stock may not be offered or sold, and may not be offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC. For the purpose of this paragraph, PRC does not include Taiwan and the special administrative regions of Hong Kong and Macau.

**Canada**

The common stock may not be offered or sold, directly or indirectly, in any province or territory of Canada or to or for the benefit of any resident of any province or territory of Canada except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which the offer or sale is made and only by a dealer duly registered under applicable laws in circumstances where an exemption from applicable registered dealer registration requirements is not available.



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## **LEGAL MATTERS**

Certain legal matters as to United States federal and New York law and the validity of the shares of common stock offered hereby will be passed on for us by Wilson Sonsini Goodrich & Rosati, Professional Corporation. Certain legal matters as to United States federal and New York law will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP. Legal matters as to PRC law will be passed upon for us by Grandall Law Firm and for the underwriters by Jingtian & Gongcheng.

## **EXPERTS**

The consolidated financial statements of China Biologic Products, Inc. as of December 31, 2014 and 2013, and for each of the years in the three-year period ended December 31, 2014, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2014 have been incorporated by reference herein in reliance upon the reports of KPMG, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

## **WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We file annual, quarterly and other reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. Those filings are also available to the public free of charge on our corporate website at [www.chinabiologic.com](http://www.chinabiologic.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our corporate website is not part of or incorporated into this prospectus. You may also read and copy any document we file at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room.

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## INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information we file with them. This means that we can disclose important information to you by referring you to those documents. Each document incorporated by reference is current only as of the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in our affairs since the date thereof or that the information contained therein is current as of any time subsequent to its date. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus and should be read with the same care. When we update the information contained in documents that have been incorporated by reference by making future filings with the SEC, the information incorporated by reference in this prospectus supplement and the accompanying prospectus is considered to be automatically updated and superseded. In other words, in the case of a conflict or inconsistency between information contained in this prospectus supplement and information incorporated by reference into this prospectus supplement, you should rely on the information contained in the document that is filed later.

We incorporate by reference the documents listed below:

our Current Report on Form 8-K, dated January 8, 2015 and filed on January 9, 2015;  
our Annual Report on Form 10-K for the year ended December 31, 2014, filed on March 4, 2015;  
our Current Report on Form 8-K, dated March 2, 2015 and filed on March 4, 2015;  
our Current Report on Form 8-K, dated April 16, 2015 and filed on April 16, 2015;  
information specifically incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2014 from our definitive proxy statement on Schedule 14A, filed on April 29, 2015;  
our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed on May 6, 2015;  
the description of our common stock, \$0.0001 par value per share, contained in our Registration Statement on Form 8-A, filed on December 1, 2009 pursuant to Section 12(b) of the Exchange Act;  
the description of our preferred share purchase rights contained in our Registration Statement on Form 8-A, filed on January 9, 2015 pursuant to Section 12(b) of the Exchange Act; and  
all documents subsequently filed with the SEC by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act (except for information in those filings that is furnished to, rather than filed with, the SEC) until all the shares of the common stock to which this prospectus supplement relates are sold or the offering is otherwise terminated.

Copies of all documents incorporated by reference in this prospectus supplement, other than exhibits to those documents unless such exhibits are specially incorporated by reference in those documents, will be provided without charge to each person, including any beneficial owner, who receives a copy of this prospectus supplement on the written or oral request of that person made to:

China Biologic Products, Inc.  
18<sup>th</sup> Floor, Jialong International Building  
19 Chaoyang Park Road, Chaoyang District  
Beijing 100125, People's Republic of China  
Attn: Investor Relations

We will furnish to any holder of common stock that so requests our Annual Report on Form 10-K containing a description of our operations and annual audited consolidated financial statements prepared in accordance with U.S. GAAP and an opinion on the financial statements by an independent public accountant.





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**PROSPECTUS**

**China Biologic Products, Inc.**

**COMMON STOCK  
PREFERRED STOCK  
WARRANTS  
UNITS**

We may from time to time in one or more offerings offer and sell our common stock, preferred stock, warrants to purchase common stock or preferred stock, or any combination of the foregoing, either individually or as units comprised of one or more of the other securities.

In addition, from time to time, the selling stockholders to be named in a prospectus supplement may offer and sell our common stock held by them. The selling stockholders may sell shares of our common stock through public or private transactions at prevailing market prices or at privately negotiated prices. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

We will provide specific terms of any offering in a supplement to this prospectus. Any prospectus supplement may also add, update, or change information contained in this prospectus. You should carefully read this prospectus and the applicable prospectus supplement as well as the documents incorporated or deemed to be incorporated by reference in this prospectus before you purchase any of the securities offered hereby.

These securities may be offered and sold in the same offering or in separate offerings; to or through underwriters, dealers, and agents; or directly to purchasers. The names of any underwriters, dealers, or agents involved in the sale of our securities, their compensation and any over-allotment options held by them will be described in the applicable prospectus supplement. For a more complete description of the plan of distribution of these securities, see the section entitled **Plan of Distribution** beginning on page 0 of this prospectus.

Our common stock is listed on the NASDAQ Global Select Market under the symbol **CBPO**. On June 4, 2015, the last reported sale price on the NASDAQ Global Select Market was \$119.54 per share. As of the date of this prospectus, none of the other securities that we may offer by this prospectus is listed on any national securities exchange or automated quotation system.

**INVESTING IN OUR SECURITIES INVOLVES SIGNIFICANT RISKS. SEE RISK FACTORS BEGINNING ON PAGE 8 OF THIS PROSPECTUS AND IN THE APPLICABLE PROSPECTUS**

**SUPPLEMENT BEFORE INVESTING IN ANY SECURITIES.**

This prospectus may not be used to offer or sell any securities unless accompanied by a prospectus supplement.

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this prospectus is June 5, 2015

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## ABOUT THIS PROSPECTUS

This prospectus is part of an automatic shelf registration statement on Form S-3 that we filed with the Securities and Exchange Commission as a well-known seasoned issuer as defined in Rule 405 under the Securities Act. Under this shelf registration statement, we may, from time to time, offer or sell any combination of the securities described in this prospectus in one or more offerings. In addition, under this shelf registration statement, the selling stockholders to be named in a prospectus supplement may, from time to time, offer or sell shares of our common stock in one or more offerings.

This prospectus provides you with a general description of the securities we and the selling stockholders may offer. Each time we or the selling stockholders sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to, update or change information contained in this prospectus and, accordingly, to the extent inconsistent, information in this prospectus is superseded by the information in the prospectus supplement.

The prospectus supplement to be attached to the front of this prospectus may describe, as applicable: the terms of the securities offered; the initial price to the public; the price paid for the securities; net proceeds; the identity of and the amount of securities to be sold by any selling stockholder; and the other specific terms related to the offering of the securities.

You should only rely on the information contained or incorporated by reference in this prospectus and any prospectus supplement or issuer free writing prospectus relating to a particular offering. Neither we nor the selling stockholders have authorized any other person to provide you with different information. You should read this entire prospectus and any prospectus supplement and any related issuer free writing prospectus, as well as the documents incorporated by reference into this prospectus or any prospectus supplement, before making an investment decision. We do not imply or represent by delivering this prospectus that China Biologic Products, Inc., or our business, is unchanged after the date on the front of this prospectus or that the information in this prospectus is correct as any time after such date.

If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you.

In this prospectus, unless otherwise indicated or unless the context otherwise requires, all references to:

we, us, our company, or our are to the combined business of China Biologic Products, Inc., a Delaware corporation and its direct and indirect subsidiaries;

China or PRC are to the People's Republic of China, excluding, for the purposes of this prospectus 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 our majority owned subsidiary, Guizhou Taibang Biological Products Co., Ltd., a PRC company;

Huitian are to Xi'an Huitian Blood Products Co., Ltd., a PRC company, in which we hold a minority interest;

SEC are to the U.S. Securities and Exchange Commission;

Securities Act are to the Securities Act of 1933, as amended;

Shandong Taibang are to our majority owned subsidiary, Shandong Taibang Biological Products Co. Ltd., a PRC company; and

\$ are to the legal currency of the United States.



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## PROSPECTUS SUMMARY

*This summary description about us and our business highlights selected information contained elsewhere in this prospectus or incorporated in this prospectus by reference. This summary does not contain all of the information you should consider before buying securities in this offering. You should carefully read this entire prospectus and any applicable prospectus supplement, including each of the documents incorporated herein or therein by reference, before making an investment decision.*

### About China Biologic Products, Inc.

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 two majority owned subsidiaries, Shandong Taibang, a company based in Tai an, Shandong Province and Guizhou Taibang, a company based in Guiyang, Guizhou Province. We also hold a minority equity interest in Huitian, a company based in Xi an, Shaanxi Province.

We have a strong product portfolio with over 20 different dosage forms of plasma products across nine categories. 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 38.2% and 42.3% of our total sales for the three months ended March 31, 2015 and 2014, respectively, and 39.3%, 44.1% and 44.6% of our total sales for 2014, 2013 and 2012, respectively. Sales of IVIG products represented approximately 46.7% and 36.5% of our total sales for the three months ended March 31, 2015 and 2014, respectively, and 40.4%, 38.0% and 39.0% of our total sales for 2014, 2013 and 2012, 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 the three months ended March 31, 2015, we generated sales of \$70.4 million, an increase of 25.0% from the same period in 2014, and recorded net income attributable to our company of \$23.2 million, an increase of 26.8% from the same period in 2014. In 2014, we generated sales of \$243.3 million, an increase of 19.6% from 2013, and recorded net income attributable to our company of \$70.9 million, an increase of 29.9% from 2013.

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 Information

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 the 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.

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Our principal executive offices are located at 18<sup>th</sup> 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 prospectus or incorporated by reference herein.

# **The Securities We or the Selling Stockholders May Offer**

We may offer or sell our common stock, preferred stock, and warrants in one or more offerings and in any combination either individually or as units comprised of one or more of the other securities. In addition, the selling stockholders to be named in a prospectus supplement may offer or sell, from time to time, shares of our common stock held by them. Each time securities are offered under this prospectus, we will provide a prospectus supplement that will describe the specific amounts, prices and terms of the securities being offered.

We or the selling stockholders may sell the securities to or through underwriters, dealers or agents or directly to purchasers or as otherwise set forth below under Plan of Distribution. We or the selling stockholders, as well as any agents acting on our or their behalf, reserve the sole right to accept and to reject in whole or in part any proposed purchase of securities. Each prospectus supplement will set forth the names of any underwriters, dealers, agents or other entities involved in the sale of securities described in that prospectus supplement and any applicable fee, commission or discount arrangements with them.

## **Common Stock**

We may offer shares of our common stock, par value \$0.0001 per share, either alone or underlying other registered securities convertible or exercisable into our common stock. The selling stockholders may offer shares of our common stock, par value \$0.0001 per share. Each holder of our common stock is entitled to one vote for each share on all matters to be voted upon by the stockholders. If there is a liquidation, dissolution or winding up of our company, holders of our common stock would be entitled to share in our assets remaining after the payment of liabilities and any preferential rights of any outstanding preferred stock. The holders of common stock have no preemptive rights. Holders of our common stock are entitled to receive ratably the dividends, if any, as may be declared from time to time by our board of directors out of funds legally available therefor. Currently, we do not pay a dividend and do not anticipate paying cash dividends in the foreseeable future.

## **Preferred Stock**

Under the terms of our second amended and restated certificate of incorporation, or Certificate of Incorporation, our board of directors is authorized to issue shares of preferred stock in one or more series without stockholder approval. Our board of directors has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

Each series of preferred stock, par value \$0.0001 per share, if issued, will be more fully described in the particular prospectus supplement that will accompany this prospectus, including redemption provisions, rights in the event of our liquidation, dissolution or winding up, voting rights and rights to convert into common stock. On January 8, 2015, our board of directors adopted a preferred shares rights agreement that granted a right to each holder of common stock then outstanding to purchase from us certain of our preferred stock at a discount under certain circumstances. We do



not have any shares of our preferred stock presently outstanding and have no current plans to issue any shares of preferred stock.

### **Warrants**

We may issue warrants for the purchase of common stock or preferred stock. We may issue warrants independently or together with other securities.

### **Units**

We may issue units comprised of one or more of the other classes of securities issued by us as described in this prospectus in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit.

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## **RISK FACTORS**

An investment in our securities involves a high degree of risk. The prospectus supplement applicable to each offering of our securities will contain a discussion of the risks applicable to an investment in our securities. Prior to making a decision about investing in our securities, you should carefully consider the specific factors discussed under the heading **Risk Factors** in the applicable prospectus supplement, together with all of the other information contained or incorporated by reference in the prospectus supplement or appearing or incorporated by reference in this prospectus.

You should also consider the risks, uncertainties and assumptions discussed under Item 1A, **Risk Factors**, in our Annual Report on Form 10-K for the year ended December 31, 2014 and any updates described in our subsequent Quarterly Reports on Form 10-Q, each of which is incorporated herein by reference, and may be amended, supplemented or superseded from time to time by other reports we file with the SEC in the future and any prospectus supplement related to a particular offering. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our operations. The occurrence of any of these known or unknown risks might cause you to lose all or part of your investment in the offered securities.

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## **FORWARD-LOOKING STATEMENTS**

This prospectus, each prospectus supplement and the information incorporated by reference in this prospectus and each prospectus supplement contain certain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words anticipate, expect, believe, goal, plan, intend, estimate, may, will, and similar expressions and variations thereof are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Those statements appear in this prospectus, any accompanying prospectus supplement and the documents incorporated herein and therein by reference, particularly in the sections entitled Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business, and include statements regarding the intent, belief or current expectations of our company and management that are subject to known and unknown risks, uncertainties and assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the documents incorporated by reference under the caption Risk Factors.

This prospectus, each prospectus supplement and the information incorporated by reference in this prospectus and each prospectus supplement also contain statements that are based on management's current expectations and beliefs, including estimates and projections about our company, industry, financial condition, results of operations and other matters. These statements are not guarantees of future performance and are subject to numerous risks, uncertainties, and assumptions that are difficult to predict.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements contained herein after we distribute this prospectus, whether as a result of any new information, future events or otherwise.

TABLE OF CONTENTS**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratio of earnings to fixed charges on a historical basis for the periods indicated. The following should be read in conjunction with our consolidated financial statements, including the notes thereto, and the other financial information included or incorporated by reference herein. For purposes of determining the ratios, earnings consist of the total of the following: (i) pre-tax income from continuing operations, (ii) adjustment for income or loss from equity investees, (iii) fixed charges, and (iv) distributed income of equity investees. Fixed charges consist of the total of the following: (i) interest expensed and capitalized, (ii) amortized premiums, discounts and capitalized expenses related to indebtedness, and (iii) estimation of interest within rental expense.

We do not have any shares of preferred stock outstanding. Our ratio of earnings to combined fixed charges and preference dividends for each specified period is equivalent to our ratio of earnings to fixed charges for that period.

|                                    | Year ended December 31, |      |       |       |       | Three months ended March 31, 2015 |
|------------------------------------|-------------------------|------|-------|-------|-------|-----------------------------------|
|                                    | 2010                    | 2011 | 2012  | 2013  | 2014  |                                   |
| Ratio of earnings to fixed charges | 25.3X                   | 9.9X | 63.2X | 82.0X | 32.3X | 47.7X                             |

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## **USE OF PROCEEDS**

Unless otherwise indicated in the prospectus supplement, we expect to use the net proceeds from the sale of securities offered by us pursuant to this prospectus for general corporate purposes, which may include working capital, capital expenditures, other corporate expenses and acquisitions of complementary products, technologies or businesses. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders. The timing and amount of our actual expenditures will be based on many factors, including cash flows from operations and the anticipated growth of our business. As a result, unless otherwise indicated in the prospectus supplement, our management will have broad discretion to allocate the net proceeds of the offerings. Pending their ultimate use, we intend to invest the net proceeds in short-term, investment-grade, interest-bearing instruments.

The specific allocations of the proceeds we receive from the sale of our securities will be described in the applicable prospectus supplement.

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## **DESCRIPTION OF CAPITAL STOCK**

The following information describes our common stock and preferred stock, as well as certain provisions of our Certificate of Incorporation and our third amended and restated bylaws, or Bylaws. This description is only a summary. You should also refer to our Certificate of Incorporation and Bylaws, which have been filed with the SEC as exhibits to our registration statement, of which this prospectus forms a part, or documents we have incorporated by reference.

### **General**

Our authorized capital stock consists of 110,000,000 shares, all with a par value of \$0.0001 per share, of which:

100,000,000 shares are designated as common stock; and

10,000,000 shares are designated as preferred stock.

As of March 31, 2015, there were 24,857,801 shares of common stock outstanding and no shares of preferred stock outstanding.

### **Common Stock**

Subject to the rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of common stock are entitled to receive such dividends, if any, as may from time to time be declared by our board of directors out of funds legally available for that purpose. Holders of common stock are entitled to one vote per share, and are entitled to vote upon such matters and in such manner as may be provided by law. Holders of common stock have no preemptive, conversion, redemption or sinking fund rights. Subject to the rights of holders of all classes of stock at the time outstanding having prior rights as to liquidation, holders of common stock, upon the liquidation, dissolution or winding up of our company, are entitled to share equally and ratably in the assets of our company. The outstanding shares of common stock are, and the shares of common stock to be offered or issuable upon conversion of other securities offered hereby when issued will be, validly issued, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to the rights, preferences and privileges of any series of preferred stock that we may issue in the future.

### **Preferred Stock**

No shares of preferred stock are outstanding. Although we currently have no plans to issue any shares of preferred stock, under our Certificate of Incorporation, our board of directors has the authority, without further action by our stockholders, to designate and issue up to 10,000,000 shares of preferred stock in one or more series. Our board of directors may also designate the rights, preferences and privileges of each such series of preferred stock, any or all of which may be greater than or senior to those of the common stock. In November 2012, our board of directors designated 1,000,000 shares of our preferred stock as Series A Participating Preferred Stock in connection with our preferred share purchase rights. On January 8, 2015, our board of directors adopted a preferred shares rights agreement that granted a right to each holder of common stock then outstanding to purchase from us Series A Preferred Stock at a discount under certain circumstances. Though the actual effect of any such issuance on the rights of the holders of common stock will not be known until our board of directors determines the specific rights of the holders of preferred stock, the potential effects of such an issuance include:

restricting dividends on the common stock;  
diluting the voting power of the common stock;  
impairing the liquidation rights of the common stock; and  
delaying or preventing a change in control of our company without further action by the stockholders.

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## **Anti-Takeover Effects of Certain Provisions of Delaware Law**

Provisions of Delaware law and our Certificate of Incorporation and Bylaws could make the acquisition of our company through a tender offer, a proxy contest or other means more difficult and could make the removal of incumbent officers and directors more difficult. We expect these provisions to discourage coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of our company to first negotiate with our board of directors. We believe that the benefits provided by our ability to negotiate with the proponent of an unfriendly or unsolicited proposal outweigh the disadvantages of discouraging these proposals. We believe the negotiation of an unfriendly or unsolicited proposal could result in an improvement of its terms.

We are subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder, unless:

prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

the stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (i) shares owned by persons who are directors and also officers, and (ii) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation's outstanding voting securities. We expect the existence of this provision to have an anti-takeover effect with respect to transactions that our board of directors does not approve in advance. We also anticipate that Section 203 may also discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

## **Anti-Takeover Effects of Provisions of Our Charter Documents**

Our Certificate of Incorporation provides for our board of directors to be divided into three classes serving staggered terms. One-third of our directors are elected each year. The existence of a classified board could prevent a party who acquires control of a majority of the outstanding voting stock from obtaining control of the board of directors until the second annual stockholders meeting following the date the acquirer obtains the controlling stock interest. The classified board provision could discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company and could increase the likelihood that incumbent directors will retain their positions. In accordance with our Certificate of Incorporation, directors may be removed either for or without cause at any special meeting of stockholders duly called and held for such purpose.

Our Bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to the board of directors. At an annual meeting, stockholders may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board of directors. Stockholders may also consider a proposal or



nomination by a person who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given to our secretary timely written notice, in proper form, of his or her intention to bring that business before the meeting. Our Bylaws do not give the board of directors the discretion to preclude stockholder nominations of candidates being brought

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before a special or annual meeting of the stockholders, or proposals regarding other business being brought before an annual meeting of the stockholders if in either case the proper advance notice procedures are followed. However, our Bylaws may have the effect of precluding a business being brought before a meeting if the proper procedures are not followed. These provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.

Our Certificate of Incorporation expressly authorizes our board of directors to adopt, amend or repeal our Bylaws, provided that any alteration, amendment or repeal of certain provisions of the Bylaws also requires affirmative vote of holders of two-thirds of the voting power of our then outstanding shares of capital stock, voting together as a single class.

Our Certificate of Incorporation provides that, except as otherwise expressly provided by the terms of any series of preferred stock permitting the holders of such series of preferred stock to act by written consent, any action required or permitted to be taken by stockholders must be effected at a duly called annual or special meeting of the stockholders and may not be effected by written consent in lieu of a meeting. Without the availability of stockholders' actions by written consent, a holder of the requisite number of shares of our capital stock would not be able to amend our Bylaws or remove directors without holding a stockholders' meeting. The holder would have to obtain the consent of a majority of the board of directors, our chairman or our chief executive officer to call a stockholders' meeting and satisfy the notice periods determined by the board of directors, unless such holder holds at least 25% of our company's entire capital stock issued and outstanding and entitled to vote, in which case our Bylaws allows such holder to call a special meeting of stockholders.

## **Anti-Takeover Effects of Our Preferred Shares Rights Agreement**

On January 8, 2015, our board of directors authorized and declared a dividend of one right, or a Preferred Share Purchase Right, to each holder of common stock then outstanding that entitles any such registered holder to purchase from us certain of our preferred stock at a discount under certain circumstances. The complete terms of the Preferred Share Purchase Rights are set forth in a preferred shares rights agreement, or the Preferred Shares Rights Agreement, dated as of January 8, 2015, between us and the Securities Transfer Corporation, as the rights agent. Our board of directors adopted the Preferred Shares Rights Agreement to protect stockholders against unsolicited attempts to acquire control of our company that do not offer what our board of directors believes to be an adequate price to all stockholders or that our board of directors otherwise opposes. The Preferred Shares Rights Agreement provides, among other things, that when specified events occur, our stockholders will be entitled to purchase from us a newly created series of preferred stock. The Preferred Share Purchase Rights are triggered by the earlier to occur of (i) ten 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% or more of our outstanding common stock or (ii) ten 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 the 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. Consequently, such Preferred Shares Rights Agreement has the effect of deterring unsolicited attempts to acquire control of our company and encouraging an acquirer to negotiate with our board of directors on a potential sale. Our board of directors had previously adopted a similar Preferred Shares Rights Agreement on November 19, 2012, which expired on November 20, 2014.

## **Transfer Agent and Registrar**

Our independent stock transfer agent and registrar for our common stock is Securities Transfer Corporation. Its mailing address is 2591 Dallas Parkway, Suite #102, Frisco, Texas, 75034, and its telephone number is (469) 633-0101.

## **Listing**

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

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## DESCRIPTION OF THE WARRANTS

### General

We may issue warrants for the purchase of our preferred stock or common stock, or any combination thereof. Warrants may be issued independently or together with our preferred stock or common stock and may be attached to or separate from any offered securities. Each series of warrants will be issued under a separate warrant agreement to be entered into between us and a bank or trust company, as warrant agent. The warrant agent will act solely as our agent in connection with the warrants. The warrant agent will not have any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants. This summary of certain provisions of the warrants is not complete. For the terms of a particular series of warrants, you should refer to the prospectus supplement for that series of warrants and the warrant agreement for that particular series.

The prospectus supplement relating to a particular series of warrants to purchase our common stock or preferred stock will describe the terms of the warrants, including the following:

- the title of the warrants;
- the offering price for the warrants, if any;
- the aggregate number of warrants;
- the designation and terms of the common stock or preferred stock that may be purchased upon exercise of the warrants;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each security;
- if applicable, the date from and after which the warrants and any securities issued with the warrants will be separately transferable;
- the number of shares of common stock or preferred stock that may be purchased upon exercise of a warrant and the exercise price for the warrants;
  - the dates on which the right to exercise the warrants shall commence and expire;
  - if applicable, the minimum or maximum amount of the warrants that may be exercised at any one time;
  - the currency or currency units in which the offering price, if any, and the exercise price are payable;
  - if applicable, a discussion of material U.S. federal income tax considerations;
  - the anti-dilution provisions of the warrants, if any;
  - the redemption or call provisions, if any, applicable to the warrants;
- any provisions with respect to the holder's right to require us to repurchase the warrants upon a change in control or similar event; and
- any additional terms of the warrants, including procedures, and limitations relating to the exchange, exercise and settlement of the warrants.

Holders of warrants will not be entitled to:

- vote, consent or receive dividends;
- receive notice as stockholders with respect to any meeting of stockholders for the election of our directors or any other matter; or
- exercise any rights as our stockholders.

The descriptions of the warrants in this prospectus and in any prospectus supplement are summaries of the material provisions of the applicable warrant agreements. These descriptions do not restate those agreements in their entirety and may not contain all the information that you may find useful. We urge you to



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read the applicable warrant agreements because they, and not the summaries, define your rights as holders of the warrants. For more information, please review the forms of the relevant agreements, which will be filed with the SEC promptly in connection with the offering of warrants and will be available as described under the heading **Where You Can Find More Information**.

## **DESCRIPTION OF THE UNITS**

We may issue units comprised of one or more of the other classes of securities described in this prospectus in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security. The units may be issued under unit agreements to be entered into between us and a unit agent, as detailed in the prospectus supplement relating to the units being offered. The prospectus supplement will describe:

the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances the securities comprising the units may be held or transferred separately;

the terms of any unit agreement governing the units;

the provisions for the payment, settlement, transfer or exchange of the units;

material federal income tax considerations, if applicable; and

whether the units if issued as a separate security will be issued in fully registered or global form.

The descriptions of the units in this prospectus and in any prospectus supplement are summaries of the material provisions of the applicable agreements. These descriptions do not restate those agreements in their entirety and may not contain all the information that you may find useful. We urge you to read the applicable agreements because they, and not the summaries, define your rights as holders of the units. For more information, please review the forms of the relevant agreements, which will be filed with the SEC promptly in connection with the offering of units and will be available as described under the heading **Where You Can Find More Information**.

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## **SELLING STOCKHOLDERS**

Selling stockholders to be named in a prospectus supplement may, from time to time, offer and sell some or all of the shares of our common stock held by them pursuant to this prospectus and the applicable prospectus supplement. Such selling stockholders may sell shares of our common stock held by them to or through underwriters, dealers or agents or directly to purchasers or as otherwise set forth in the applicable prospectus supplement. See Plan of Distribution.

Such selling stockholders may also sell, transfer or otherwise dispose of some or all of our common stock held by them in transactions exempt from the registration requirements of the Securities Act.

We will provide you with a prospectus supplement, which will set forth the name of each selling stockholder and the number of shares of our common stock beneficially owned by such selling stockholder. The prospectus supplement also will disclose whether any of the selling stockholders have held any position or office with, have been employed by or otherwise have had a material relationship with us during the three years prior to the date of the prospectus supplement.

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## **PLAN OF DISTRIBUTION**

We and the selling stockholders may sell the securities offered through this prospectus (1) to or through underwriters or dealers, (2) directly to purchasers, including our affiliates, (3) through agents, or (4) through a combination of any these methods. The securities may be distributed at a fixed price or prices, which may be changed, market prices prevailing at the time of sale, prices related to the prevailing market prices, or negotiated prices. The prospectus supplement will include the following information, if applicable:

the terms of the offering;  
the names of any underwriters, dealers or agents;  
the name or names of any managing underwriter or underwriters;  
the purchase price of the securities;  
the net proceeds from the sale of the securities;  
any delayed delivery arrangements;  
any underwriting discounts, commissions and other items constituting underwriters' compensation;  
any offering price to the public;  
any discounts or concessions allowed or reallocated or paid to dealers; and  
any commissions paid to agents.

### **Sale through underwriters or dealers**

If underwriters are used in the sale, the underwriters will acquire the securities for their own account, including through underwriting, purchase, security lending or repurchase agreements. The underwriters may resell the securities from time to time in one or more transactions, including negotiated transactions. Underwriters may sell the securities in order to facilitate transactions in any of our other securities (described in this prospectus or otherwise), including other public or private transactions and short sales. Underwriters may offer securities to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. Unless otherwise indicated in the prospectus supplement, the obligations of the underwriters to purchase the securities will be subject to certain conditions, and the underwriters will be obligated to purchase all the offered securities if they purchase any of them. The underwriters may change from time to time any public offering price and any discounts or concessions allowed or reallocated or paid to dealers. The prospectus supplement will include the names of the principal underwriters the respective amount of securities underwritten, the nature of the obligation of the underwriters to take the securities and the nature of any material relationship between an underwriter and us.

If dealers are used in the sale of securities offered through this prospectus, we will sell the securities to them as principals. They may then resell those securities to the public at varying prices determined by the dealers at the time of resale. The prospectus supplement will include the names of the dealers and the terms of the transaction.

### **Direct sales and sales through agents**

We and the selling stockholders may sell the securities offered through this prospectus directly. In this case, no underwriters or agents would be involved. Such securities may also be sold through agents designated from time to time. The prospectus supplement will name any agent involved in the offer or sale of the offered securities and will describe any commissions payable to the agent by us and the selling stockholders. Unless otherwise indicated in the prospectus supplement, any agent will agree to use its reasonable best efforts to solicit purchases for the period of its appointment.



We and the selling stockholders may sell the securities directly to institutional investors or others who may be deemed to be underwriters within the meaning of the Securities Act with respect to any sale of those securities. The terms of any such sales will be described in the prospectus supplement.

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## **Delayed delivery contracts**

If the prospectus supplement indicates, we or the selling stockholders may authorize agents, underwriters or dealers to solicit offers from certain types of institutions to purchase securities at the public offering price under delayed delivery contracts. These contracts would provide for payment and delivery on a specified date in the future. The contracts would be subject only to those conditions described in the prospectus supplement. The applicable prospectus supplement will describe the commission payable for solicitation of those contracts.

## **Market making, stabilization and other transactions**

Unless the applicable prospectus supplement states otherwise or the shares are offered by the selling stockholders, each series of offered securities will be a new issue and will have no established trading market. We may elect to list any series of offered securities on an exchange. Any underwriters that we and the selling stockholders use in the sale of offered securities may make a market in such securities, but may discontinue such market making at any time without notice. Therefore, we cannot assure you that the securities will have a liquid trading market.

Any underwriter may also engage in stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Rule 104 under the Exchange Act. Stabilizing transactions involve bids to purchase the underlying security in the open market for the purpose of pegging, fixing or maintaining the price of the securities. Syndicate covering transactions involve purchases of the securities in the open market after the distribution has been completed in order to cover syndicate short positions.

Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the securities originally sold by the syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the securities to be higher than it would be in the absence of the transactions. The underwriters may, if they commence these transactions, discontinue them at any time.

## **Derivative transactions and hedging**

We, the selling stockholders, the underwriters or other agents may engage in derivative transactions involving the securities. These derivatives may consist of short sale transactions and other hedging activities. The underwriters or agents may acquire a long or short position in the securities, hold or resell securities acquired and purchase options or futures on the securities and other derivative instruments with returns linked to or related to changes in the price of the securities. In order to facilitate these derivative transactions, we may enter into security lending or repurchase agreements with the underwriters or agents. The underwriters or agents may effect the derivative transactions through sales of the securities to the public, including short sales, or by lending the securities in order to facilitate short sale transactions by others. The underwriters or agents may also use the securities purchased or borrowed from us, the selling stockholders or others (or, in the case of derivatives, securities received from us or the selling stockholders in settlement of those derivatives) to directly or indirectly settle sales of the securities or close out any related open borrowings of the securities.

## **Electronic auctions**

We and the selling stockholders may also make sales through the Internet or through other electronic means. Since we and the selling stockholders may from time to time elect to offer securities directly to the public, with or without the

involvement of agents, underwriters or dealers, utilizing the Internet or other forms of electronic bidding or ordering systems for the pricing and allocation of such securities, you should pay particular attention to the description of that system we will provide in a prospectus supplement.

Such electronic system may allow bidders to directly participate, through electronic access to an auction site, by submitting conditional offers to buy that are subject to acceptance by us, and which may directly affect the price or other terms and conditions at which such securities are sold. These bidding or ordering systems may present to each bidder, on a so-called real-time basis, relevant information to assist in making a bid, such as the clearing spread at which the offering would be sold, based on the bids submitted, and whether a bidder's individual bids would be accepted, prorated or rejected. Of course, many pricing methods can and may also be used.

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Upon completion of such an electronic auction process, securities will be allocated based on prices bid, terms of bid or other factors. The final offering price at which securities would be sold and the allocation of securities among bidders would be based in whole or in part on the results of the Internet or other electronic bidding process or auction.

**General information**

Agents, underwriters, and dealers may be entitled, under agreements entered into with us, to indemnification by us against certain liabilities, including liabilities under the Securities Act.

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## **LEGAL MATTERS**

The validity of the securities offered by this prospectus will be passed upon by Wilson Sonsini Goodrich & Rosati, Professional Corporation.

## **EXPERTS**

The consolidated financial statements of China Biologic Products, Inc. as of December 31, 2014 and 2013, and for each of the years in the three-year period ended December 31, 2014, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2014 have been incorporated by reference herein in reliance upon the reports of KPMG, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

## **WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and other reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. Those filings are also available to the public free of charge on our corporate website at [www.chinabiologic.com](http://www.chinabiologic.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our corporate website is not part of or incorporated into this prospectus. You may also read and copy any document we file at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room.

We have filed with the SEC a registration statement under the Securities Act relating to the offering of these securities. The registration statement, including the attached exhibits, contains additional relevant information about us and the securities. This prospectus does not contain all of the information set forth in the registration statement. You can obtain a copy of the registration statement, at prescribed rates, from the SEC at the address listed above.

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## **INFORMATION INCORPORATED BY REFERENCE**

The SEC allows us to incorporate by reference into this prospectus certain information we file with it, which means that we can disclose important information by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede information contained in this prospectus and any accompanying prospectus supplement. We incorporate by reference the documents listed below that we have previously filed with the SEC (excluding any portions of any Form 8-K that are not deemed filed pursuant to the General Instructions of Form 8-K):

our Current Report on Form 8-K, dated January 8, 2015 and filed on January 9, 2015;  
our Annual Report on Form 10-K for the year ended December 31, 2014, filed on March 4, 2015;  
our Current Report on Form 8-K, dated March 2, 2015 and filed on March 4, 2015;  
our Current Report on Form 8-K, dated April 16, 2015 and filed on April 16, 2015;  
information specifically incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2014 from our definitive proxy statement on Schedule 14A, filed on April 29, 2015;  
our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed on May 6, 2015;  
the description of our common stock, \$0.0001 par value per share, contained in our Registration Statement on Form 8-A, filed on December 1, 2009 pursuant to Section 12(b) of the Exchange Act; and  
the description of our preferred share purchase rights contained in our Registration Statement on Form 8-A, filed on January 9, 2015 pursuant to Section 12(b) of the Exchange Act.

We also incorporate by reference into this prospectus additional documents that we may file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the completion or termination of the offering, excluding any information deemed furnished and not filed with the SEC. Any statements contained in a previously filed document incorporated by reference into this prospectus is deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus, or in a subsequently filed document also incorporated by reference herein, modifies or supersedes that statement.

This prospectus may contain information that updates, modifies or is contrary to information in one or more of the documents incorporated by reference in this prospectus. You should rely only on the information incorporated by reference or provided in this prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date of this prospectus or the date of the documents incorporated by reference in this prospectus.

We will provide to each person, including any beneficial owner, to whom this prospectus is delivered, upon written or oral request, at no cost to the requester, a copy of any and all of the information that is incorporated by reference in this prospectus.

Requests for such documents should be directed to:

China Biologic Products, Inc.  
18<sup>th</sup> Floor, Jialong International Building  
19 Chaoyang Park Road, Chaoyang District  
Beijing 100125, People's Republic of China  
Attn: Investor Relations