China Biologic Products, Inc.
Form 10-Q
May 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2011

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

For the transition period from ____________to _____________

Commission File Number: 001-34566

CHINA BIOLOGIC PRODUCTS, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

No. 14 East Hushan Road
Taian City, Shandong 271000
People s Republic of China
(Address of principal executive offices, Zip Code)

(+86) 538-620-2306
(Registrant s telephone number, including area code)

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

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

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

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

The number of shares outstanding of each of the issuer s classes of common stock, as of May 6, 2011 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.0001 par value	24,351,125

Quarterly Report on Form 10-Q
Three Months Ended March 31, 2011

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ITEM 1. Financial Statements.

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

	March 31, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 56,307,771	$ 64,941,368
Accounts receivable, net of allowance for doubtful accounts	13,310,481	9,922,111
Accounts receivable - a related party	-	212,611
Inventories	57,569,187	52,300,447
Other receivables	2,560,648	2,727,110
Prepayments and prepaid expenses	1,956,816	855,338
Deferred tax assets	2,213,843	1,860,753
Total Current Assets	133,918,746	132,819,738
Property, plant and equipment, net	39,589,552	39,511,731
Intangible assets, net	13,796,763	14,559,020
Land use rights, net	4,910,042	4,701,450
Prepayments and deposits for property, plant and equipment	4,643,394	4,254,423
Goodwill	17,895,424	17,778,231
Equity method investment	7,616,621	7,297,201
Total Assets	$ 222,370,542	$ 220,921,794
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Short-term bank loans	$ 6,108,000	$ 3,034,000
Accounts payable	4,895,796	4,392,772
Due to a related party	3,220,814	3,192,140
Other payables and accrued expenses	19,634,379	21,606,730
Advance from customers	3,256,243	3,560,018
Income tax payable	7,269,829	6,659,805
Other taxes payable	2,323,915	2,146,868
Convertible notes	2,654,722	1,196,233
Derivative liabilities - embedded conversion option in convertible notes	14,053,624	14,561,661
Derivative liabilities - warrants	10,581,764	11,095,592
Total Current Liabilities	73,999,086	71,445,819
Other payable	334,718	333,008
Deferred tax liabilities	4,088,029	4,098,834
Total Liabilities	78,421,833	75,877,661
Stockholders Equity		
Common stock: par value $.0001; 100,000,000 shares authorized; 24,351,125 shares issued and outstanding at March 31, 2011 and December 31, 2010	2,435	2,435
Additional paid-in capital	31,845,086	35,435,139
Retained earnings	62,048,076	55,739,101
Accumulated other comprehensive income	8,880,929	8,023,121
Total stockholders equity attributable to China Biologic Products, Inc.	102,776,526	99,199,796
Noncontrolling interest	41,172,183	45,844,337

Total Equity	143,948,709	145,044,133
Commitments and contingencies		
Total Liabilities and Equity	$ 222,370,542	$ 220,921,794

See accompanying notes to Unaudited Consolidated Financial Statements.

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

	For the three months ended March 31, 2011	March 31, 2010
Sales		
External customers	$ 34,395,238	$ 26,861,522
Related party	75,584	237,031
Total sales	34,470,822	27,098,553
Cost of sales		
External customers	9,277,204	6,798,854
Related party	34,394	-
Cost of sales	9,311,598	6,798,854
Gross profit	25,159,224	20,299,699
Operating expenses		
Selling expenses	2,449,913	942,908
General and administrative expenses	7,464,141	4,962,252
Research and development expenses	710,991	1,168,655
Income from operations	14,534,179	13,225,884
Other expenses / (income)		
Equity in income of equity method investee	(270,394)	(188,541)
Change in fair value of derivative liabilities	(1,021,865)	(3,833,577)
Interest expense	1,680,922	333,589
Interest income	(170,131)	(152,536)
Other expenses / (income), net	224,231	(819,969)
Total other expenses / (income), net	442,763	(4,661,034)
Earnings before income tax expense	14,091,416	17,886,918
Income tax expense	4,263,216	3,071,147
Net income	9,828,200	14,815,771
Less: Net income attributable to the noncontrolling interest	3,519,225	4,152,022
Net income attributable to China Biologic Products, Inc.	6,308,975	10,663,749
Earnings per share:		
Basic	$ 0.26	$ 0.46
Diluted	$ 0.23	$ 0.26
Weighted average shares used in computation:		
Basic	24,351,125	23,386,893
Diluted	25,680,648	26,471,425

See accompanying notes to Unaudited Consolidated Financial Statements.

CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2011

	Common stock Shares	Par value	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Equity attributable to China Biologic Products, Inc.	Noncontrolling interest
Balance as of January 1, 2011	**24,351,125**	**$ 2,435**	**$ 35,435,139**	**$ 55,739,101**	**$ 8,023,121**	**$ 99,199,796**	**$ 45,844,337**
Net income	-	-	-	6,308,975	-	6,308,975	3,519,225
Foreign currency translation adjustments, net of nil income taxes	-	-	-	-	857,808	857,808	268,606
Comprehensive income					$	7,166,783	3,787,831
Dividend declared by subsidiaries to noncontrolling interest	-	-	-	-	-	-	(5,589,920
Acquisition of noncontrolling interests	-	-	(4,764,935)	-	-	(4,764,935)	(2,870,065
Stock compensation	-	-	1,174,882	-	-	1,174,882	
Balance as of March 31, 2011	**24,351,125**	**$ 2,435**	**$ 31,845,086**	**$ 62,048,076**	**$ 8,880,929**	**$ 102,776,526**	**$ 41,172,183**

See accompanying notes to Unaudited Consolidated Financial Statements.

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

	For the three months ended March 31, 2011	March 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,828,200	$ 14,815,771
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	1,108,744	793,657
Amortization	884,588	869,251
Loss on sale of property, plant and equipment	8,502	3,019
(Reversal) / allowance for doubtful accounts, net	(28,340)	23,329
Write-down of obsolete inventories	74,715	198,559
Deferred tax (benefit) / expense, net	(377,359)	89,664
Stock compensation	1,174,882	571,893
Change in fair value of derivative liabilities	(1,021,865)	(3,833,577)
Amortization of deferred note issuance cost	53,388	86,790
Amortization of discount on convertible notes	1,458,489	99,318
Equity in income of equity method investee	(270,394)	(188,541)
Change in operating assets and liabilities, net of acquisition in Dalin:		
Accounts receivable - third parties	(3,353,933)	(1,997,040)
Accounts receivable - related party	213,283	(47,452)
Other receivables	272,337	(541,091)
Inventories	(4,981,926)	(4,283,720)
Prepayments and prepaid expenses	(1,172,953)	(512,690)
Accounts payable	503,023	(180,806)
Other payables and accrued expenses	(1,895,565)	(2,383,690)
Accrued interest - noncontrolling interest shareholders	-	(913,840)
Advance from customers	(326,128)	684,750
Income tax payable	564,195	(1,260,708)
Other taxes payable	162,340	-
Net cash provided by operating activities	2,878,223	2,092,846
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of a subsidiary, net of cash acquired	-	(1,476,447)
Purchase of property, plant and equipment	(1,692,558)	(2,012,669)
Purchase of intangible assets and land use right	(205,422)	(24,484)
Net cash used in investing activities	(1,897,980)	(3,513,600)

See accompanying notes to Unaudited Consolidated Financial Statements.

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

	For the three months ended			
	March 31, 2011		March 31, 2010	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from warrants exercised		-		689,160
Proceeds from short term bank loans		6,087,200		5,876,078
Repayment for short term bank loans		(3,043,600)		(2,962,330)
Payments made for acquiring noncontrolling interest		(7,635,000)		-
Dividend paid by subsidiaries to noncontrolling interest shareholders		(5,589,920)		(4,780,790)
Net cash used in financing activities		(10,181,320)		(1,177,882)
EFFECTS OF EXCHANGE RATE CHANGE IN CASH		567,480		(54,890)
NET (DECREASE) INCREASE IN CASH		(8,633,597)		(2,653,526)
Cash and cash equivalents, beginning of year		64,941,368		53,843,951
Cash and cash equivalents, end of year	$	56,307,771	$	51,190,425
Supplemental cash flow information				
Cash paid for income taxes	$	4,076,381	$	3,806,691
Cash paid for interest expense (net of capitalized interest)	$	278,610	$	62,286
Noncash investing and financing activities:				
Convertible notes conversion	$	-	$	1,809,771
Reclassification of warrant liability to paid-in capital upon warrants conversion	$	-	$	2,436,907
Net assets addition included in accounts payable	$	-	$	395,540
Utilization of prepayments and deposits to acquire property, plant and equipment	$	-	$	424,858

See accompanying notes to Unaudited Consolidated Financial Statements.

CHINA BIOLOGIC PRODUCTS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011 AND 2010

NOTE 1 ORGANIZATION BACKGROUND AND PRINCIPAL ACTIVITIES

A. Reorganization and Principal Activities

China Biologic Products, Inc. (the Company or CBP , formerly known as GRC Holdings, Inc.) was originally incorporated in the State of Texas in 1989. On July 19, 2006, the Company and its principle shareholders entered into a share exchange agreement (the Exchange Agreement) with Logic Express Ltd. (Logic Express), a privately held investment holding company incorporated on January 6, 2006 under the laws of the British Virgin Islands, and all the shareholders of Logic Express (the Logic Express Shareholders). Pursuant to the terms of the Exchange Agreement, the Logic Express Shareholders transferred to the Company all of their shares in exchange for 18,484,715 shares of the Company s common shares (the Share Exchange). As a result of the Share Exchange, Logic Express became a wholly-owned subsidiary of the Company and the Logic Express Shareholders received approximately 96.1% of the Company s issued and outstanding common shares. Immediately prior to the date of the Share Exchange, the Company was a publicly listed shell entity with no operations and, Logic Express, through its 82.76% owned subsidiary, Shandong Taibang Biological Products Co. Ltd. (Shandong Taibang), was engaged in the research, development, commercialization, manufacture and sale of human blood products primarily in the People s Republic of China (the PRC or China). The Share Exchange was accounted for as a reverse recapitalization, equivalent to the issuance of stock by Logic Express for the net monetary assets of the Company accompanied by a recapitalization. After consummation of the Share Exchange, the Company converted into a Delaware corporation and changed its name to China Biologic Products, Inc. on January 10, 2007.

The Company is a biopharmaceutical company and, through its PRC subsidiaries, is principally engaged in the research, development, manufacturing and sales of plasma-based pharmaceutical products in PRC. The PRC subsidiaries own plasma stations to purchase and collect plasma from individual donors for a fee. The plasma is processed into finished goods after passing through a series of fractionating processes. All of the Company s products are prescription medicines which require government approval on the quality before the products are sold to customers. The Company primarily sells its products to hospitals and inoculation centers directly or through distributors in the PRC.

On September 26, 2008, the Company, through Logic Express, entered in an equity purchase agreement with Guiyang Dalin Biologic Technologies Co. Ltd. (Dalin , formerly known as Chongqing Dalin Biologic Technologies Co. Ltd.), an investment holding company, and certain equity owners of Dalin, to acquire 90% equity interest of Dalin. The purchase consideration for the 90% equity interest in Dalin was RMB 194,400,000 (or approximately $28,479,600) in cash.

Dalin holds 54% equity interest in Guiyang Qianfeng Biological Products Co., Ltd. (Qianfeng), which changed its name to Guizhou Taibang Biological Products Co., Ltd. (Guizhou Taibang) on December 30, 2010. Qianfeng is one of the largest plasma-based biopharmaceutical companies in China and is the only manufacturer currently operating in Guizhou Province. Qianfeng is in compliance with the Good Manufacturing Practices certified by State Food and Drug Administration (SFDA) for the manufacturing, sale and distribution of Human Albumin, Human Immunoglobulin, Human Intravenous Immunoglobulin, Human Hepatitis B Immunoglobulin, Human Tetanus Immunoglobulin and Human Rabies Immune Globulin.

The Company completed the acquisition of a 90% equity interest in Dalin in January, 2009. On December 28, 2009, the Company s 90% equity interest in Dalin was transferred to Logic Management Consulting (China) Co., Ltd. (Logic

China), a wholly owned subsidiary of the Company. The Company established Logic China in December 2009, for the purpose of being the holding company of the 90% equity interest in Dalin.

On August 5, 2010, Logic China established a wholly-owned subsidiary, Logic Taibang Biological Institute (Beijing), which changed its name to Taibang (Beijing) Pharmaceutical Research Institute Co., Ltd. (Taibang Beijing) on January 12, 2011, with registered capital of $149,700 (RMB 1 million). Taibang Beijing is principally engaged in the research and development of plasma-based pharmaceutical products. The purpose of setting up Taibang Beijing is to coordinate the research and development activities of the Company and its subsidiaries.

On January 13, 2010, Shandong Taibang acquired the remaining 20% equity interest in Fangcheng Plasma Company from the noncontrolling interest holder (see Note 15). Since the additional purchase of 20% equity interest did not result in a change of the Company s control over Fangcheng Plasma Company, this transaction was accounted for as an equity transaction. After the acquisition, Fangcheng Plasma Company became a wholly-owned subsidiary of Shandong Taibang.

On July 8, 2010, Logic China entered into an equity purchase agreement with Shandong Taibang, to acquire 100% of the equity interest in Shandong Taibang Medical Company (Taibang Medical), a wholly-owned subsidiary of Shandong Taibang. The cash consideration of the 100% equity interest in Taibang Medical was RMB 6,440,000 (approximately $947,327). The transaction was completed on September 23, 2010. The purpose of this transaction is to effectively acquire the 17.24% equity interest in Taibang Medical indirectly held by the noncontrolling interest in Shandong Taibang, which will enable the Company to consolidate its resources in the sales and marketing of Shandong Taibang and Guizhou Taibang s products. This transaction was accounted for as an equity transaction.

On November 11, 2010, the Company established Qianfeng Biological Science Company (Qianfeng Biologic) for the purpose of research and development of placenta based products. As of March 31, 2011, Qianfeng Biologic, which is a wholly-owned subsidiary of Guizhou Taibang, had no operations.

On January 4, 2011, Logic China entered into an equity transfer agreement (the Equity Transfer Agreement) with Shaowen Fan, a PRC individual. Pursuant to the Equity Transfer Agreement, Logic China agreed to acquire the remaining 10% noncontrolling interest in Dalin from Shaowen Fan for a purchase price of RMB 50 million (approximately $7,635,000). The transaction was completed on January 26, 2011 and Dalin became a wholly-owned subsidiary of Logic China. The carrying amount of noncontrolling interest in Dalin at the completion date of the transaction was $2,870,065. The excess of purchase price over the carrying amount of corresponding noncontrolling interest was recorded in additional paid-in capital.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by rules and regulations of the U.S. Securities and Exchange Commission (SEC). The December 31, 2010 consolidated balance sheet was derived from the audited consolidated financial statements of the Company. The accompanying unaudited consolidated financial statements should be read in conjunction with the December 31, 2010 audited consolidated financial statements of the Company included in the Company's annual report on Form 10-K for the year ended December 31, 2010.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the financial position as of March 31, 2011, and the results of operations and cash flows for the three months ended March 31, 2011 and 2010, have been made.

All significant intercompany transactions and balances are eliminated on consolidation.

Recently Issued Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (EITF Issue No. 08-1, Revenue Arrangements with Multiple Deliverables). ASU 2009-13 amends FASB ASC Subtopic 605-25 to eliminate the requirement that all undelivered elements have vendor specific objective evidence of selling price (VSOE) or third party evidence of selling price (TPE) before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE or TPE for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity s estimated selling price. Application of the residual method of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted upon adoption of ASU 2009-13. Additionally, the new guidance will require entities to disclose more information about their multiple-element revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The adoption of ASU No. 2009-13 did not have a material impact on the Company s consolidated financial statements.

In April 2010, the FASB issued ASU 2010-13, Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in which the Underlying Equity Security Trades, a consensus of the FASB Emerging Issues Task Force (Issue No. 09-J). ASU 2010-13 amends FASB ASC Topic 718, Compensation Stock Compensation, to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify an award with such a feature as a liability if it otherwise qualifies as equity. The amendments should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. ASU 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Early adoption is permitted. The adoption of ASU 2010-13 did not have a material impact on the Company s consolidated financial statements.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011	December 31, 2010
Accounts receivable	$ 14,540,163	$ 11,160,751
Less: Allowance for doubtful accounts	(1,229,682)	(1,238,640)
Total	$ 13,310,481	$ 9,922,111

An allowance for doubtful accounts of $8,958 was reversed and $674 was recorded for the three months ended March 31, 2011 and 2010, respectively. There were no write-off of accounts receivable for the three months ended March 31, 2011 and March 31, 2010, respectively.

NOTE 4 INVENTORIES

Inventories at March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011	December 31, 2010
Raw materials	$ 28,933,828	$ 24,933,485
Work-in-process	16,645,993	15,262,139
Finished goods	11,989,366	12,104,823
Total	$ 57,569,187	$ 52,300,447

Raw materials mainly comprised the human blood plasma collected from the Company s plasma stations. Work-in-process represented the intermediate products in the process of production. Finished goods mainly comprised human albumin and human immunoglobulin.

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011	December 31, 2010
Buildings	$ 23,502,324	$ 23,259,180
Machinery and equipment	27,319,419	27,028,171
Furniture, fixtures, office equipment and vehicles	5,906,055	5,441,115
Total property, plant and equipment, gross	56,727,798	55,728,466
Accumulated depreciation	(18,515,824)	(17,434,512)
Total property, plant and equipment, net	38,211,974	38,293,954
Construction in progress	1,377,578	1,217,777
Property, plant and equipment, net	$ 39,589,552	$ 39,511,731

Depreciation expense for the three months ended March 31, 2011 and 2010 was $1,108,744 and $793,657, respectively. No interest was capitalized into construction in progress for the three months ended March 31, 2011 and 2010.

NOTE 6 INTANGIBLE ASSETS, NET

Intangible assets at March 31, 2011 and December 31, 2010 consisted of the following:

March 31, 2011

Weighted

	average amortization period		Gross carrying amount		Accumulated amortization		Net carrying amount
Amortizing intangible assets:							
Permits and licenses	10 years	$	11,734,460	$	(2,737,136)	$	8,997,324
GMP certificate	5.8 years		2,430,190		(941,342)		1,488,848
Long-term customer-relationship	4 years		7,234,926		(4,068,106)		3,166,820
Others			219,531		(75,760)		143,771
Total		$	21,619,107 9	$	(7,822,344)	$	13,796,763

	December 31, 2010						
	Weighted average amortization period		Gross carrying amount		Accumulated Amortization		Net carrying amount
Amortizing intangible assets:							
Permits and licenses	10 years	$	11,657,614	$	(2,483,386)	$	9,174,228
GMP certificate	5.8 years		2,414,275		(821,015)		1,593,260
Long-term customer-relationship	4 years		7,189,853		(3,549,236)		3,640,617
Others			218,093		(67,178)		150,915
Total		$	21,479,835	$	(6,920,815)	$	14,559,020

Aggregate amortization expense for amortizing intangible assets was $852,993 and $845,904 for the three months ended March 31, 2011 and 2010, respectively. Estimated amortization expenses for the next five years are $3,431,384 in 2012, $1,593,392 in 2013, $1,502,543 in 2014, $1,167,816 in 2015, and $1,162,516 in 2016.

NOTE 7 LAND USE RIGHTS, NET

At March 31, 2011 and December 31, 2010, land use rights represented:

		March 31, 2011		December 31, 2010
Land use rights	$	5,334,459	$	5,091,592
Accumulated amortization		(424,417)		(390,142)
Land use rights, net	$	4,910,042	$	4,701,450

Aggregate amortization expense for amortizing land use right was $31,595 and $23,347, for the three months ended March 31, 2011 and 2010, respectively.

NOTE 8 SHORT-TERM BANK LOANS

The Company s bank loans as of March 31, 2011 and December 31, 2010 consisted of the following:

Loans	Maturity date	Annual interest rate		March 31, 2011		December 31, 2010
Short-term bank loan, secured	March 21, 2011	5.84%	$	-	$	3,034,000
Short-term bank loan, secured(1)	March 22, 2012	6.06%		3,054,000		-
Short-term bank loan, unsecured	January 29, 2012	5.81%		1,527,000		-
Short-term bank loan, unsecured	January 29, 2012	6.06%		1,527,000		-
Total			$	6,108,000	$	3,034,000

Interest expense totaling $70,376 and $62,286 was incurred during the three months ended March 31, 2011 and 2010, respectively.

The Company did not have any revolving line of credit as of March 31, 2011.

(1)As of March 31, 2011, the secured loan is secured by the Company s buildings with a net carrying amount of $1,595,375.

NOTE 9 INCOME TAX

In February 2009, Shandong Taibang was granted the High and New Technology Enterprise qualification and was entitled to a 15% preferential income tax rate for a period of three years from 2008 to 2010. Further, Guizhou Taibang was entitled to the preferential income tax rate of 15% under the 10-year Western Development Tax Concession, which also ended in 2010. Accordingly, Shandong Taibang and Guizhou Taibang are subject to income tax at 25% from 2011 onwards. Shandong Taibang is in the process of reapplying the High and New Technology Enterprise qualification for an additional three years from 2011 to 2013.

The Company s effective income tax rates were 30% and 17% for the three months ended March 31, 2011 and 2010, respectively. The effective income tax rate for the three months ended March 31, 2011 differs from the PRC statutory income tax rate of 25% primarily due to the tax effect of non-deductible expenses and the recognition of valuation allowances on deferred tax assets relating to entities which were in cumulative losses. Management believes it is more likely than not that such deferred tax assets will not be realized. As of March 31, 2011 and December 31, 2010, the valuation allowances were $2,734,304 and $2,575,574, respectively.

As of and for the three months ended March 31, 2011, the Company did not have any unrecognized tax benefits and thus no interest and penalties related to unrecognized tax benefits were recorded. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

NOTE 10 CONVERTIBLE NOTES

	March 31, 2011	December 31, 2010
$9,554,140, 3.8% Senior Secured Convertible Notes	$ 9,554,140	$ 9,554,140
Less: portion of notes converted	(4,854,140)	(4,854,140)
unamortized discount	(2,045,278)	(3,503,767)
Convertible notes	$ 2,654,722	$ 1,196,233

On June 5, 2009, the Company entered into a securities purchase agreement (the Purchase Agreement) with certain accredited investors (the Investors), pursuant to which the Company agreed to issue to the Investors 3.8% Senior Secured Convertible Notes in the aggregate principal amount of $9,554,140 (the Notes) and warrants (the Warrants and together with the Notes, the Subscribed Securities) to purchase up to 1,194,268 shares of common stock of the Company (the Warrant Shares and together with the shares to be converted in the Notes, the Underlying Securities). The transaction closed on June 10, 2009.

The coupon rate of the Notes is 3.8% per annum (the Interest Rate), payable from the closing until repayment, whether on maturity on June 5, 2011, by acceleration or otherwise. Interest on the Notes is due and payable in cash semi-annually on September 30 and March 31 of each year, commencing on September 30, 2009. The Company has the option to pay the interest due through the issuance of its common stock at a conversion price of $4.00 per share. If the Company defaults in the payment of the principal or interest on the Notes when due, subject to the Investors election, the Company is obligated to either (a) redeem all or a portion of the Notes pursuant to the redemption rights discussed below or (b) pay interest on such defaulted amount at a rate equal to the Interest Rate plus 2.0%. The Notes are convertible at any time before maturity into the Company s common stock at a conversion price of $4.00 per share, subject to certain adjustments as specified in the Purchase Agreement.

The Warrants have a term of 3 years, with an exercise price of $4.80 per share, subject to adjustments as provided in the Warrants, from time to time pursuant to anti-dilution and other customary provisions, and are exercisable by the Investors at any time after the date on which their related Notes are converted, except that if any of the Notes is partially converted, the Investors could only exercise the corresponding portion of the Warrants.

The Company has granted the Investors demand and piggy-back registration rights with respect to the Underlying Securities, pursuant to a registration rights agreement among the Company and the Investors.

The Company paid its placement agent a cash fee, representing 6.1% of the proceeds received in connection with the issuance of the Notes, in addition to a 3-year warrant to purchase 93,750 shares of the Company s common stock with an exercise price of $6.00 per share. The aggregate fee of $870,417 paid to the placement agent, including the fair value of the warrant issued, was deferred and amortized over the life of the Notes.

The Notes are secured by 3,000,000 shares of common stock of the Company held by Siu Ling Chan (Ms. Chan), the Company s board of directors chairwoman and a principal shareholder of the Company, pursuant to the terms of a Guarantee and Pledge Agreement signed among the Company, the Investors and Ms. Chan. To induce Ms. Chan to enter into the Guarantee and Pledge Agreement with the Investors, the Company agreed to indemnify Ms. Chan for all damages, liabilities, losses and expenses of any kind (Losses), which may be sustained or suffered by Ms. Chan, arising out of or in connection with any enforcement action instituted by the Investors pursuant to the Guarantee and Pledge Agreement. The Company s indemnification obligation is limited to Losses that arise as the result of any negligent or unlawful conduct of the Company that is caused unilaterally by the Company and is beyond Ms. Chan s control in her capacity as a director of the Company, and will not exceed the market value of the pledged shares as of the closing of the transaction. On December 22, 2009, two of the Company s Notes holders converted $1,000,000 of their Notes into an aggregate of 250,000 shares of the Company s common stock. On January 13, 2010, these two Notes holders converted an additional $1,054,140 of their remaining Notes into an aggregate of 263,535 shares of the Company s common stock. On November 10, 2010, another Notes holder converted $2,800,000 of Notes into an aggregate of 700,000 shares of the Company s common stock. As of December 31, 2010, Notes in the principal amount of $4,700,000 was outstanding.

The terms of the Notes and Warrants include price adjustment provisions under which the conversion price for the Notes and the exercise price for the Warrants could be affected by future equity offerings undertaken by the Company. As a result, the embedded conversion option in the Notes and Warrants are not considered indexed to the Company s own stock, and therefore accounted for as derivatives. The economic characteristics and risks of the embedded conversion option in the Notes are not considered clearly and closely related to the economic characteristics and risks of the host debt contract. The embedded conversion option in the Notes met all of the characteristics of a derivative instrument pursuant to ASC Subtopic 815-10. In accordance with ASC Subtopic 815-15, the embedded conversion option in the Notes was separated from the host debt contract and accounted for as a derivative.

Total principal of the Notes in the amount of $9,554,140 was first allocated to the embedded conversion option in the Notes and to the Warrants based on their fair value on the issuance date of $6,552,505 and $3,826,896, respectively. As a result, the Company recognized an initial charge to income of $825,261 for the amount by which the fair value of these liabilities exceeded the face amount of the Notes for the year ended December 31, 2009. All changes in the fair value of the embedded conversion option in the Notes and Warrants are recognized in the statements of income until such time as the Notes are converted or redeemed and Warrants are exercised or expired.

The residual amount is allocated to the debt instrument in the amount of $0.01 and is accreted to the principal amount of the Notes using an effective annual interest rate of approximately 365% with the related interest expense recognized in the statements of income. Interest expense is expected to be $3,580,167 for the year ending December 31, 2011. For the three months ended March 31, 2011 and 2010, total interest expenses of the Notes, including interest accretion, were $1,503,139 and $172,121, respectively.

The fair value of the embedded conversion option in the Notes as of March 31, 2011 and December 31, 2010 was determined based on the Binominal option pricing model, using the following key assumptions:

	March 31, 2011	December 31, 2010
Expected dividend yield	0%	0%
Risk-free interest rate	0.07%	0.17%
Time to maturity (in years)	0.18	0.43
Expected volatility	50.0%	50.0%
Fair value of underlying common shares (per share)	$ 15.96	$ 16.39

For the three months ended March 31, 2011 and 2010, the gains arising from the decrease in fair value of embedded conversion option in the Notes were $508,037 and $2,057,342, respectively.

NOTE 11 WARRANTS AND OPTIONS

Warrants

In connection with the issuance of the Notes (see Note 10), the Company issued warrants to purchase up to 1,194,268 and 93,750 shares of common stock of the Company to the Investors and placement agent, respectively.

The fair value of the warrants outstanding as of March 31, 2011 and December 31, 2010 were determined based on the Binominal option pricing model, using the following key assumptions:

	March 31, 2011	December 31, 2010
Expected dividend yield	0%	0%
Risk-free interest rate	0.39%	0.43%
Time to maturity (in years)	1.18	1.43
Expected volatility	65.0%	70.0%
Fair value of underlying common shares (per share)	$ 15.96	$ 16.39

Changes in the management s estimates and assumptions regarding the expected volatility could significantly impact the estimated fair value of the warrants and embedded conversion option of the Notes determined under the Binominal option pricing model and, as a result, the net income and the net income attributable to the Company s stockholders.

For the three months ended March 31, 2011 and 2010, the gains arising from the decrease in fair value of warrants (see Note 10) were $513,828 and $1,776,235, respectively.

Options

On May 9, 2008, the Board of Directors granted options to certain directors and employees for the purchase of 937,500 shares of the Company s common stock with an exercise price of $4.00 that immediate vest. These options expire on June 1, 2018.

On July 24, 2008, the Board of Directors granted options to three independent directors for the purchase of 60,000 shares of the Company s common stock with an exercise price of $4.00, of which 30,000 shares vest on January 24, 2009 and the remaining 30,000 shares vest on July 24, 2009. These options expire on July 24, 2018.

On January 7, 2010, the Board of Directors granted options to one employee for the purchase of 50,000 shares of the Company s common stock with an exercise price of $12.60 that immediate vest. These options expire on January 7, 2020.

On February 4, 2010, the Board of Directors granted options to a newly appointed director for the purchase of 20,000 shares of the Company s common stock with an exercise price of $10.66, of which 10,000 shares vest on August 4, 2010 and the remaining 10,000 shares vest on February 4, 2011. These options expire on February 4, 2020.

On July 11, 2010, the Board of Directors granted options to four directors and certain employees for the purchase of 160,000 shares and 811,000 shares of the Company s common stock with an exercise price of $12.26, respectively. These options vest in 12 equal quarters with an initial vesting date of October 11, 2010. These options expire on July 11, 2020.

On January 1, 2011, the Board of Directors granted options to each of the three independent directors for the purchase of 30,000 shares of the Company s common stock with an exercise price of $16.39. These options vest in four equal quarters over twelve months with an initial vesting date of April 1, 2011. These options expire on January 1, 2021.

On February 1, 2011, the Board of Directors granted options to the Company s President for the purchase of 25,000 shares of the Company s common stock with an exercise price of $15.97. These options vest in four equal quarters over twelve months with an initial vesting date of May 1, 2011. These options expire on February 1, 2021.

On February 27, 2011, the Board of Directors granted options to each of the two new directors for the purchase of 20,000 shares of the Company s common stock with an exercise price of $17.00. These options vest in four equal quarters over twelve months with an initial vesting date of May 27, 2011. These options expire on February 27, 2021.

The fair value of each option granted on each of aforementioned dates are estimated on the respective dates of grant using the Black-Scholes option pricing model with the following major assumptions:

Granted on	May 9, 2008	July 24, 2008	January 7, 2010	February 4, 2010	July 11, 2010	January 1, 2011	February 1, 2011	February 27, 2011
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate	3.56%	3.56%	2.62%	2.29%	1.85%	2.01%	1.95%	2.16%
Expected term (in years)	5	5	5	5	6.5	5	5	5
Expected volatility	59.4%	81.2%	130.0%	130.0%	135.0%	70.0%	70.0%	70.0%

The volatility of the Company s common stock was estimated by management based on the historical volatility of the Company s common stock. The risk free interest rate was based on Treasury Constant Maturity Rates published by the U.S. Federal Reserve for periods applicable to the estimated term of the options. The expected dividend yield was based on the Company s current and expected dividend policy. Changes in the management s estimates and assumptions regarding the expected volatility could significantly impact the estimated fair values of the share options determined under the Black-Scholes option pricing model and, as a result, the net income and the net income attributable to the Company s stockholders. The weighted average grant date fair value of options granted during the three months ended March 31, 2011 was $9.69. No options were exercised or forfeited during the three months ended March 31, 2011. For the three months ended March 31, 2011 and 2010, the Company recorded stock compensation expense of $1,174,882 and $571,893, respectively, in general and administrative expenses. As of March 31, 2011, approximately $9,126,115 of stock compensation expense with respect to the non-vested stock options is to be recognized over approximately 2.5 years.

NOTE 12 STATUTORY RESERVES

Each of the Company s PRC subsidiaries are required to allocate at least 10% of its after tax profits, as determined under generally accepted accounting principal in the PRC, to its statutory surplus reserve until the reserve balance reaches 50% of respective registered capital. The accumulated balance of the statutory reserve as of March 31, 2011 and December 31, 2010 was $31,338,532 and $28,820,686, respectively.

NOTE 13 FAIR VALUE MEASUREMENTS

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

º Short-term financial instruments (including cash and cash equivalents, accounts receivables, other receivables, short-term loans, accounts payable, other payables and accrued expenses, accrued interest, and amounts due to related parties) The carrying amounts of the short-term financial instruments approximate their fair values because of the short maturity of these instruments.

º Long-term other payable The fair value of the Company s long-term other payable is estimated by discounting future cash flows using current market interest rates offered to the Company and its subsidiaries for debts with substantially the same characteristics and maturities.

º Derivative liabilities (the embedded conversion option in the Notes and Warrants) The estimated fair values were determined by using Binominal Option Pricing Model with Level 2 inputs. The following table sets forth, by level within the fair value hierarchy, the Company s financial instruments that were measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010.

		Fair Value Measurements Using:		
March 31, 2011	Total	Quoted Prices in Active Markets for Identical Financial Assets and Liabilities Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Liabilities at fair value:				
Derivative liabilities embedded conversion option in the Notes	$ 14,053,624	$ -	$ 14,053,624	$ -
Derivative liabilities Warrants	10,581,764	-	10,581,764	-
December 31, 2010	Total	Level 1	Level 2	Level 3
Liabilities at fair value:				
Derivative liabilities embedded conversion option in the Notes	$ 14,561,661	$ -	$ 14,561,661	$ -
Derivative liabilities Warrants	11,095,592	-	11,095,592	-

NOTE 14 SALES

The Company s sales are primarily derived from the manufacture and sale of Human Albumin and Immunoglobulin products. The Company s sales by significant types of product for the three months ended March 31, 2011 and 2010 are as follows:

	For the three months ended	
	March 31, 2011	March 31, 2010
Human Albumin	$ 19,701,586	$ 12,699,407
Immunoglobulin products:		
Human Hepatitis B Immunoglobulin	2,215,681	3,332,307
Human Immunoglobulin for Intravenous Injection	10,427,387	5,395,465
Human Rabies Immunoglobulin	750,069	3,778,122
Human Tetanus Immunoglobulin	1,188,936	687,315
Human Immunoglobulin	-	649,973
Others	187,163	555,964
Totals	$ 34,470,822	$ 27,098,553

NOTE 15 COMMITMENTS AND CONTINGENCIES

Operating lease commitments

Total operating lease commitments for rental of offices and land use rights and buildings of the Company s PRC subsidiaries as of March 31, 2011 is as follows:

Period ending March 31,	
2012	$ 317,670
2013	211,447

2014		9,709
2015		7,877
2016		7,478
Years after		194,020
Total minimum payments required	$	748,201

For the three months ended March 31, 2011 and 2010, total lease expense amounted to $61,084 and $20,348, respectively.

Legal proceedings

Bobai County Collection Station

In January 2007, the Company's PRC subsidiary, Shandong Taibang, advanced $413,697 (RMB3.0 million) to Feng Lin, the 20% minority shareholder of Fang Cheng Plasma Company, a Company's majority owned subsidiary, for the purpose of establishing or acquiring a plasma collection station. Mr. Lin and Shandong Taibang intended to establish the Bobai Kangan Plasma Collection Co., Ltd. (Bobai) in Bobai County, Guangxi. On January 18, 2007, Shandong Taibang signed a letter of intent to acquire the assets of the Bobai Plasma Collection Station, which was co-owned by Mr. Lin and Mr. Keliang Huang. However, in January 2007, Hua Lan Biological Engineering Co., Ltd. (Hua Lan) filed suit in the District Court of Hong Qi District, Xin Xiang City, Henan Province, alleging that Feng Lin, Keliang Huang and Shandong Taibang established and/or sought to operate the Bobai Plasma Collection Station using a permit for collecting and supplying human plasma in Bobai County, that was originally granted to Hua Lan by the government of the Guangxi region, without Hua Lan's permission. The establishment and registration of Bobai was never realized as a result of this law suit. On January 29, 2007, on Hua Lan's motion, the District Court entered an order to freeze funds in the amount of approximately $386,100 (RMB3,000,000) held by the defendants in the case, including approximately $65,750 (RMB500,000) in funds held in Shandong Taibang's bank account in Tai'an City. A hearing was held on June 25, 2007 and judgment was entered against the defendants along with a $226,780 (RMB1,700,000) joint financial judgment. The Company appealed the District Court judgment to the Xinxiang City Intermediate Court. In November 2007, the Intermediate Court affirmed the judgment against the three defendants and increased the amount of the joint financial judgment to approximately $405,954 (RMB3,000,000).

In January 2008, Hua Lan enforced the judgment granted by the Intermediate Court to freeze the Company's bank accounts. Shandong Taibang filed a separate action against Hua Lan before the Tai'an City District Court to seek recovery of any losses in connection with Hua Lan's claim and to request that the Tai'an City District Court preserve Hua Lan's property or freeze up to approximately $411,300 (RMB 3 million) of Hua Lan's assets to secure the return of such funds to the Company. The intermediate court in Tai'an City accepted the application on February 14, 2008 but the matter is still pending. Pending the outcome of the proceedings, Shandong Taibang increased its loss contingency reserve during its fourth quarter of 2007 from approximately $75,593 (RMB566,667) to $133,400 (RMB1,000,000) to cover its share of the enforcement of this judgment. During the fourth quarter of 2008, full amount of the judgment, including Feng Lin and Keliang Huang's portions of the judgment and the related fees, of approximately $456,222 (RMB3,109,900) was withdrawn from Shandong Taibang's account. The Company recorded Feng Lin and Keliang Huang's portion of the judgment, of approximately $304,143 (RMB2,073,234), as receivable as a result of the withdrawal. As of December 31, 2008, the Company determined that it is unlikely that the Company will be able to recover such receivable from those two individuals and wrote off the receivable as bad debt expense. In January 2010, Feng Lin transferred his 20% equity in Fang Cheng Plasma Company as a repayment for such receivable he owed to the Company. As a result, the Company is now the 100% owner of the Fang Cheng Plasma Company.

In October 2009, Shandong Taibang appealed to the High Court of Henan Province requesting the court to reverse judgments from the Hong Qi District Court based on Shandong Taibang's belief that Hua Lan s involvement in Bobai was in violation of PRC Blood Products Regulations since Hua Lan did not invest, as Shandong Taibang did, in Bobai as required by the Regulation. The Company is awaiting the judgment of the Henan High Court as of the date of this report. In light of the foregoing, it is unlikely that the Company's plan acquisition of the assets of Bobai will go forward.

Dispute among Guizhou Taibang Shareholders over Raising Additional Capital

On May 28, 2007, a 91% majority of Guizhou Taibang's shareholders approved a plan to raise additional capital from private strategic investors through the issuance of an additional 20,000,000 shares of Guizhou Taibang equity interests at RMB2.80 per share. The plan required all existing Guizhou Taibang shareholders to waive their rights of first refusal to subscribe for the additional shares. The remaining 9% minority holder of Guizhou Taibang's shares, the Guizhou Jie'an Company, or Jie'an, did not support the plan and did not agree to waive its right of first refusal. On May 29, 2007, the majority shareholders caused Guizhou Taibang to sign an Equity Purchase Agreement with certain investors, pursuant to which the investors agreed to invest an aggregate of RMB50,960,000 (approximately $7,475,832) in exchange for 18,200,000 shares, or 21.4%, of Guizhou Taibang's equity interests. At the same time, Jie'an also subscribed for 1,800,000 shares, representing its 9% pro rata share of the 20,000,000 shares being offered. The proceeds from all parties were received by Guizhou Taibang in accordance with the agreement.

In June 2007, Jie'an brought suit in the High Court of Guizhou province, China, against Guizhou Taibang and the three other original Guizhou Taibang shareholders, alleging the illegality of the Equity Purchase Agreement. In its complaint, Jie'an alleged that it had a right to acquire the shares waived by the original Guizhou Taibang shareholders and offered to the investors in connection with the Equity Purchase Agreement. On September 12, 2008, the Guizhou High Court ruled against Jie'an and sustained the Equity Purchase Agreement. On November 2008, Jie'an appealed the Guizhou High Court judgment to the People's Supreme Court in Beijing. On May 13, 2009, the People's Supreme Court sustained the original ruling and denied the rights of first refusal of Jie'an over the additional shares waived by the original Guizhou Taibang's shareholders. The registration of the new investors as Guizhou Taibang's shareholders and the related increase in registered capital of Guizhou Taibang with the Administration for Industry and Commerce are still pending. On January 27, 2010, the strategic investors brought suit in the High Court of Guizhou Province against Guizhou Taibang alleging Guizhou Taibang s failure to register their equity interest in Guizhou Taibang with the local Administration for Industry and Commerce (AIC) and requesting the distribution of their share of Guizhou Taibang s dividends. Dalin was also joined as a co-defendant as it is the majority shareholder and exercises control over Guizhou Taibang s day-to-day operations. The Company does not expect the strategic investors to prevail because, upon evaluation of the Equity Purchase Agreement, the Company believes that the Equity Purchase Agreement is void due to certain invalid pre-conditions and the absence of shareholder authorization of the initial investment. In the event that Guizhou Taibang is required to return their original investment amount to the strategic investors, Guizhou Taibang has set aside the strategic investors initial fund along with RMB10,056,242 (approximately $1,525,532) in accrued interest, and RMB509,600 (approximately $77,306) for the 1% penalty imposed by the agreement for any breach as of December 31, 2010. If strategic investors prevail in their suit, Dalin's interests in Guizhou Taibang could be reduced to approximately 41.3%. The High Court of Guizhou heard the case on April 8, 2010 and encouraged, and accepted by both parties, to settle the dispute outside the court but both parties failed to reach a mutual agreeable term.

On October 14, 2010, the High Court of Guizhou ruled in favor of the Company and denied the strategic investors right as shareholders of Guizhou Taibang, as well as their entitlement to the dividends. On October 26, 2010, the strategic investors appealed to, and subsequently accepted by, the PRC Superior Court in Beijing on the ruling. As of the date of this report, the Company is waiting to hear the ruling from the Court.

During the second quarter of 2010, Jie an requested that Guizhou Taibang register its 1.8 million shares of additional capital infusion with the local AIC, pursuant to the Equity Purchase Agreement, and such request was approved by the majority shareholders of Guizhou Taibang in a shareholders meeting held in the second quarter of 2010. However, the Board of Directors of the Company is withholding its required ratification of the shareholders approval of Jie an s request until the outcome of the ongoing litigations. If the Company decides to ratify the approval, Dalin s ownership in Guizhou Taibang will be diluted from 54% to 52.54% and Jie an may be entitled to receive its pro rata share of Guizhou Taibang s profits since the date of Jie an s capital contribution became effective.

Guizhou Taibang's Guarantee to a Third Party

In 2007, as a condition to purchase Huang Ping Plasma Station, Guizhou Taibang entered into an agreement with Guizhou Zhongxin Investment Company, or Zhongxin, in which Guizhou Taibang agreed to repay Zhongxin's debt out of Guizhou Taibang's payables to Zhongxin arising from plasma purchased from Zhongxin. In the same agreement, Guizhou Taibang also delivered a guarantee to the Huang Ping County Hospital, the former co-owner of the Huang Ping Plasma Station, that it would pay RMB3,074,342 (approximately, $451,006) in debt that Zhongxin owed to the hospital. On June 1, 2009, Huang Ping Hospital brought suit, in the Huang Ping County People's Court of Guizhou Province, against Zhongxin for non-payment of its payables and debt due to Huang Ping Hospital and against Guizhou Taibang as the guarantor. On November 2, 2009, the court ruled in favor of the plaintiff and Guizhou Taibang as the guarantor became obligated to repay the Zhongxin s debt to the Huang Ping Hospital on behalf of Zhongxin. In October 2009, Guizhou Taibang appealed to the Middle Court of Kaili District in Guizhou Province which sustained the original judgment on April 8, 2010. Under the Equity Transfer Agreement pursuant to which the Company acquired a 90% interest in Dalin, Guizhou Taibang's then shareholders, provides that the sellers will be responsible, based on their pro rata equity interest in Guizhou Taibang, for damages incurred by Guizhou Taibang from Zhongxin's debt and that the sellers will repay Dalin their pro rata share of payments made by Guizhou Taibang to creditors in connection with Zhongxin's debt within 10 days after payment by Guizhou Taibang. The RMB3,074,342 contingent liability and proportionate share of the liability to be recovered from the sellers were properly reflected in the financials as of December 31, 2009. On December 31, 2010, Guizhou Taibang brought suit against Zhongxin in the Middle Court of Guiyang City, to recover the full judgment amount of RMB3,074,342 plus court fee of RMB32,340 that Guizhou Taibang has already paid on behalf of Zhongxin.

On September 13, 2010, Zhongxin countersued the Company for a consideration of RMB500,000 (approximately $74,850) for the alleged loss of its share of income from the Huang Ping Plasma Station since the Company acquired the station in April 2007. The Company believes Zhongxin s claim is unwarranted since the Company acquired the station from its rightful owner, the Treasury Department of Huangpin County, Guizhou Province.

NOTE 16 RELATED PARTY TRANSACTIONS

The material related party transactions undertaken by the Company with related parties are presented as follows:

Assets	Purpose	March 31, 2011	December 31, 2010
Accounts receivable related party (1)	Processing fees /sales	$ -	$ 212,611

Liabilities	Purpose	March 31, 2011	December 31, 2010
Other payable related parties (2)	Loan	$ 2,209,593	$ 2,195,123
Other payable related parties (3)	Contribution	1,011,221	997,017

Total other payable related parties	$	3,220,814	$	3,192,140

(1) Guizhou Taibang provides processing services for Guizhou Eakan Co., Ltd. (Guizhou Eakan), the affiliate of one of the Guizhou Taibang s noncontrolling interests holders. The Company s total processing services income from Guizhou Eakan amounted to $75,584 and $237,031 for the three months ended March 31, 2011 and 2010, respectively. As of March 31, 2011 and December 31, 2010, accounts receivable due from Guizhou Eakan amounted to $nil and $212,611, respectively.

(2) Guizhou Taibang has payables to Guizhou Eakan Investing Corp., amounting to approximately $2,209,593 (RMB14,470,160). Guizhou Eakan Investing Corp. is one of the noncontrolling interest holders of the Guizhou Taibang. The Company borrowed this interest free advance for working capital purpose for Guizhou Taibang. The balance is due on demand.

(3) Guizhou Taibang has payables to Guizhou Jie an, a noncontrolling interest holder of Guizhou Taibang, amounting to approximately $1,011,221 (RMB 6,619,840). In 2007, Guizhou Taibang received additional contributions from Guizhou Jie an of $962,853 to maintain Jie an equity interest in Guizhou Taibang at 9%. However, due to a legal dispute among shareholders over raising additional capital as discussed in the legal proceeding section (see Note 15), the money may be returned to Jie an. During the second quarter of 2010, Jie an requested that Guizhou Taibang register its 1.8 million shares of additional capital infusion with the local Administration for Industry and Commerce, pursuant to the equity purchase agreement, and such registration was approved by the majority shareholders of Guizhou Taibang in a shareholders meeting held in the second quarter of 2010. However, the Board of Directors of the Company is withholding its required ratification of the shareholders approval of Jie an s request until the outcome of the ongoing litigations. If the Company decided to ratify the approval, Dalin s ownership in Guizhou Taibang will be diluted from 54% to 52.54% and Guizhou Jie an will be entitled to receive its pro rata share of Guizhou Taibang s profits since the date of Jie an s capital contribution became effective.

NOTE 17 - EARNINGS PER SHARE

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

	For the three months ended			
		March 31, 2011		March 31, 2010
Numerator used in basic net income per share:				
Net income attributable to China Biologic Products, Inc.	$	6,308,975	$	10,663,749
Interest on the Notes		-		172,121
Change in fair value of embedded conversion option in the Notes		-		(2,057,342)
Change in fair value of warrants issued to Investors and placement agent		(513,828)		(1,776,235)
Numerator used in diluted net income per share	$	5,795,147	$	7,002,293
Weighted average shares:				

	For the three months ended			
		March 31, 2011		March 31, 2010
Basic		24,351,125		23,386,893
Effect of dilutive common share equivalents:				
Diluted effect of the Notes		-		1,910,138
Diluted effect of warrants issued to Investors and placement agent		659,993		609,197
Diluted effect of stock option		669,530		565,197
Diluted		25,680,648		26,471,425
Net income per ordinary share - basic	$	0.26	$	0.46
Earnings per share - diluted	$	0.23	$	0.26

During the three months ended March 31, 2011, the embedded conversion option in the Notes and 1,126,000 options with an average exercise price of $12.84 are excluded from the calculation of diluted earnings per share since they did not have any dilutive effect.

NOTE 18 CONCENTRATIONS AND CREDIT RISKS

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

The Company maintains balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for its bank accounts located in the United States or may exceed Hong Kong Deposit Protection Board insured limits for its bank accounts located in Hong Kong. Cash balances maintained at financial institutions or state-owned banks in the PRC are not covered by insurance. Total cash in banks as of March 31, 2011 and December 31, 2010 amounted to $55,935,784 and $64,443,315, respectively, of which $62,218 and $1,473,917 are insured, respectively. The Company has not experienced any losses in uninsured bank deposits and does not believe that it is exposed to any significant risks on its cash in bank accounts.

The Company s major product, human albumin: 20%/10ml, 20%/25ml, 20%/50ml, 10%/10ml, 10%/25ml and 10%/50ml, accounted for 57.2% and 46.9% of the total sales for the three months ended March 31, 2011 and 2010, respectively. If the market demands for human albumin cannot be sustained in the future or if the price of human albumin decreases, it would adversely affect the Company s operating results.

All of the Company s customers are located in the PRC. As of March 31, 2011 and 2010, the Company had no significant concentration of credit risk. There were no customers that individually comprised 10% or more of the sales during the three months ended March 31, 2011 and 2010. No individual customer represented 10% or more of trade receivables at March 31, 2011 and December 31, 2010. The Company performs ongoing credit evaluations of its customers financial condition and, generally, requires no collateral from its customers.

There was no vendor that individually comprised 10% or more of the purchase during the three months ended March 31, 2011 and there were two vendors that individually comprised 10% or more of the purchase during the same period in 2010. There was no individual vendor that represented more than 10% of accounts payables at March 31, 2011 and 2010, respectively.

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

Special Note Regarding Forward Looking Statements

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as believe, expect, anticipate, project, target, plan, optimistic, intend, aim expressions which are intended to identify forward-looking statements. Such statements include, among others, those concerning market and industry segment growth and demand and acceptance of new and existing products; any projections of sales, earnings, revenue, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding future economic conditions or performance; as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, including those identified in Item 1A, Risk Factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as well as assumptions, which, if they were to ever materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements.

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

Use of Terms

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

- China Biologic, the Company, we, us, or our, are to the combined business of China Biologic Products, Delaware corporation, and its direct and indirect subsidiaries;
- Taibang Biological are to our wholly owned subsidiary Taibang Biological Limited, a BVI company, formerly, Logic Express Limited;
- Taibang Holdings are to our wholly-owned subsidiary Taibang Holdings (Hong Kong) Limited, a Hong Kong company, formerly Logic Holdings (Hong Kong) Limited;
- Logic China are to our wholly owned subsidiary Logic Management and Consulting (China) Co., Ltd., a PRC company;
- Logic Beijing are to our wholly owned subsidiary Logic Taibang Bio-Tech Institute (Beijing), a PRC company;
- Dalin are to our majority owned subsidiary Guiyang Dalin Biologic Technologies Co., Ltd., a PRC limited company;
- Shandong Taibang are to our majority owned subsidiary Shandong Taibang Biological Products Co. Ltd., a sino-foreign joint venture incorporated in China;
- Taibang Medical are to our wholly owned subsidiary Shandong Taibang Medical Company, a PRC company;
- Guizhou Taibang are to our majority owned subsidiary Guizhou Taibang Biological Products Co., Ltd., a PRC company, formerly, Guiyang Qianfeng Biological Products Co., Ltd.;
- Huitian are to our minority owned subsidiary Xi'an Huitian Blood Products Co., Ltd., a PRC company;
- BVI are to the British Virgin Islands;
- Hong Kong are to the Hong Kong Special Administrative Region of the People s Republic of China;
- PRC and China are to the People s Republic of China;
- SEC are to the Securities and Exchange Commission;

- Securities Act are to the Securities Act of 1933, as amended;
- Exchange Act are to the Securities Exchange Act of 1934, as amended;
- Renminbi and RMB are to the legal currency of China; and
- U.S. dollars, dollars and $ are to the legal currency of the United States.

Overview of Our Business

We are a biopharmaceutical company, through our indirect majority-owned PRC subsidiaries, Shandong Taibang and Guizhou Taibang, and our minority-owned PRC investee, Huitian, principally engaged in the research, development, manufacturing and sales of plasma-based pharmaceutical products in China. Shandong Taibang operates from our manufacturing facility located in Tai an, Shandong Province and Guizhou Taibang operates from our manufacturing facility located in Guiyang City, Guizhou Province. Our minority-owned investee, Huitian, operates from its facility in Shaanxi Province. The plasma-based biopharmaceutical manufacturing industry in China is highly regulated by both the provincial and central governments. Accordingly, the manufacturing process of our products is strictly monitored from the initial collection of plasma from human donors to finished products. Our principal products include our approved human albumin and immunoglobulin products.

We are approved to sell human albumin 20%/10ml, 20%/25ml, 20%/50ml, 10%/10ml, 10%/25ml, 10%/50ml and 25%/50ml. Human albumin is our top-selling product. Sales of these human albumin products represented approximately 57.2% and 46.9% of our total sales, respectively, for the each of the three months ended March 31, 2011 and 2010. Human albumin is principally used to increase blood volume while immunoglobulin, one of our other major products, is used for certain disease preventions and cures. Our approved human albumin and immunoglobulin products use human plasma as the basic raw material. Albumin has been used for almost 50 years to treat critically ill patients by replacing lost fluid and maintaining adequate blood volume and pressure. All of our products are prescription medicines administered in the form of injections.

We sell our products to customers in the PRC, mainly hospitals and inoculation centers directly or through approved distributors. Our sales have historically been made on the basis of short-term arrangements and our largest customers have changed over the years. For the three months ended March 31, 2011 and 2010, our top 5 customers accounted for approximately 13.5%, and 20.7%, respectively, of our total sales. As we continue to diversify our geographic presence, customer base and product mix, we expect that our largest customers will continue to change from year to year.

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

Our principal executive offices are located at No. 14 East Hushan Road, Tai an City, Shandong, the People s Republic of China 271000. Our corporate telephone number is (86) 538-620-2306 and our fax number is (86)538-620-3895. We maintain a website at http://www.chinabiologic.com that contains information about our company, but that information is not part of this report.

First Quarter Financial Performance Highlights

We continued to experience strong demand for our products and services during the three months ended March 31, 2011, which resulted in growth in our sales and net income. The following are some financial highlights for the three months ended March 31, 2011:

- ***Sales***: Sales increased $7,372,269, or 27.2%, to $34,470,822 for the three months ended March 31, 2011, from $27,098,553 for the same period in 2010.
- ***Gross Profit***: Gross profit increased $4,859,525 or 23.9%, to $25,159,224 for the three months ended March 31, 2011, from $20,299,699 for the same period in 2010.
- ***Income from operations***: Income from operations increased $1,308,295, or 9.9%, to $14,534,179 for the three months ended March 31, 2011, from $13,225,884 for the same period in 2010.
- ***Net income***: Net income decreased $4,354,774, or 40.8%, to $6,308,975 for the three months ended March 31, 2011, from $10,663,749 for the same period in 2010.

- ***Fully diluted net income per share***: Fully diluted net income per share was $0.23 for the three months ended March 31, 2011, as compared to $0.26 for the same period in 2010.

For the three months ended March 31, 2011 and 2010, we reported a net income of $6,308,975 and $10,663,749, respectively. Our results of operations in the first quarter of 2011, as compared to the same period in 2010, was materially impacted by unit price increases and sales volume increases of our products, as well as the reduction of change in derivative liabilities.

Results of Operations

Comparison of Three Months Ended March 31, 2011 and March 31, 2010

The following table sets forth key components of our results of operations for the periods indicated.

(All amounts, other than percentages, in U.S. dollars)

	Three Months Ended March 31, 2011	2010	$ Increase (Decrease)	% Increase (Decrease)
SALES				
External customers	$ 34,395,238	$ 26,861,522	$ 7,533,716	28.0%
Related party	75,584	237,031	(161,447)	(68.1%)
Total sales	34,470,822	27,098,553	7,372,269	27.2%
COST OF SALES				
External customers	9,277,204	6,798,854	2,478,350	36.5%
Related party	34,394	-	34,394	100%
Total cost of sales	9,311,598	6,798,854	2,512,744	37.0%
GROSS PROFIT	25,159,224	20,299,699	4,859,525	23.9%
OPERATING EXPENSES				
Selling expenses	2,449,913	942,908	1,507,005	159.8%
General and administrative expenses	7,464,141	4,962,252	2,501,889	50.4%
Research and development expenses	710,991	1,168,655	(457,664)	(39.2%)
Total operating expenses	10,625,045	7,073,815	3,551,230	50.2%
INCOME FROM OPERATIONS	14,534,179	13,225,884	1,308,295	9.9%
OTHER EXPENSES (INCOME)				
Equity in income of equity method investee	(270,394)	(188,541)	(81,853)	43.4%
Change in fair value of derivative liabilities	(1,021,865)	(3,833,577)	2,811,712	(73.3%)
Interest expense	1,680,922	333,589	1,347,333	403.9%
Interest income	(170,131)	(152,536)	(17,595)	11.5%
Other expenses / (income), net	224,231	(819,969)	1,044,200	(127.3%)
Total other expenses/(income), net	442,763	(4,661,034)	5,103,797	(109.5%)
EARNINGS BEFORE INCOME TAX EXPENSE	14,091,416	17,886,918	(3,795,502)	(21.2%)
INCOME TAX EXPENSES	4,263,216	3,071,147	1,192,069	38.8%
NET INCOME	$ 9,828,200	$ 14,815,771	$ (4,987,571)	(33.7%)
Less: Net income attributable to noncontrolling interest	3,519,225	4,152,022	(632,797)	(15.2%)
NET INCOME ATTRIBUTABLE TO COMPANY	$ 6,308,975	$ 10,663,749	$ (4,354,774)	(40.8%)

Sales. Our sales are derived primarily from the sales of human albumin and various types of immunoglobulin. Our sales increased 27.2%, or $7,372,269, to $34,470,822 for the three months ended March 31, 2011, compared to $27,098,553 for the three months ended March 31, 2010. The increase in sales during the 2011 period is primarily attributable to a general increase in the price and volume of plasma based products. Among the factors that contributed to the growth in revenue, foreign exchange translation accounted for 4.6% of the increase.

Most of our approved products recorded price increases ranging from 2.7% to 25.2%, except for human albumin products, which decreased by 4.9%. For the quarter ended March 31, 2011, the average price for our approved human albumin products, which contributed 57.2% to our total sales, decreased 4.9%, the average price for our approved human hepatitis B immunoglobulin products, which contributed 6.4% to our total sales, increased by 25.2%, the average price for our approved human immunoglobulin for intravenous injection products, which contributed 30.2% to our total sales, increased by 4.2%, the average price for our approved human rabies immunoglobulin products, which contributed 2.2% to our total sales, increased by 14.8%, and the average price for our approved human tetanus immunoglobulin products, which contributed 3.4% to our total sales, increased 2.7%, as compared to the same period in 2010. The general price increase of our immunoglobulin product group was primarily attributable to the continuing shortage in supply of such products, while the average price decrease in human albumin products is mainly due to the continuous increase in the imported volume of this product during the first quarter of 2011.

Volume in sales for our human albumin, human immunoglobulin for intravenous injection, and human tetanus immunoglobulin products increased by 63.2%, 85.5% and 68.5%, respectively, for the three months ended March 31, 2011, as compared to the same period in 2010. Volume in sales for our human hepatitis B immunoglobulin and human rabies immunoglobulin products decreased by 46.9% and 82.7%, respectively, for the three months ended March 31, 2011 as compared to the same period in 2010, mainly due to the lack of availability of qualified raw material supply for these hyper-immune immunoglobulin. We expect the supply of these types of raw material should go to its normal level in the second half of the 2011.

Cost of Sales. Our cost of sales increased $2,512,744, or 37.0%, to $9,311,598 for the three months ended March 31, 2011, from $6,798,854 during the same period in 2010. Cost of sales as a percentage of sales was 27.0% for the three months ended March 31, 2011, as compared to 25.1% during the same period in 2010. The increase in cost of sales is due to the increase in sales, while the increase in cost of sales as a percentage of sales is due to the increase in cost of plasma paid to donors, as well as a change in the mix of products that were sold during 2011.

Gross profit and gross margin. The gross profit increased by $4,859,525, or 23.9%, to $25,159,224 for the three months ended March 31, 2011 from $20,299,699 for the same period in 2010. As a percentage of sales, our gross profit decreased by 1.9% to 73.0% for the three months ended March 31, 2011, from 74.9% for the same period in 2010. The decrease in gross profit is due mainly to raw material cost increase and decreased sales volume of human hepatitis B immunoglobulin and human rabies immunoglobulin products during the 2011 period, as compared to 2010.

Operating expenses. Our total operating expenses increased by $3,551,230, or 50.2%, to $10,625,045 for the three months ended March 31, 2011, from $7,073,815 for the same period in 2010. The increase was primarily attributable to a 159.8% increase in our selling expense and a 50.4% increase in our general and administrative expenses during the 2011 period. As a percentage of sales, total expenses increased by 4.7% to 30.8% for the three months ended March 31, 2011 from 26.1% for the same period in 2010.

Selling expenses. For the three months ended March 31, 2011, our selling expenses increased to $2,449,913, from $942,908 for the three months ended March 31, 2010, an increase of $1,507,005, or 159.8%. As a percentage of sales, our selling expenses for the three months ended March 31, 2011 increased by 3.6% to 7.1%, from 3.5% for the three months ended March 31, 2010. The increase in selling expenses is primarily due to an increase in our promotional and conference activities as we continue our efforts in expanding our customer base into hospital and inoculation centers throughout the PRC.

General and administrative expenses. For the three months ended March 31, 2011, our general and administrative expenses increased to $7,464,141, from $4,962,252 for the three months ended March 31, 2010, a $2,501,889, or 50.4% increase. General and administrative expenses as a percentage of sales increased by 3.4% to 21.7% for the three months ended March 31, 2011 from 18.3% for the same period in 2010. The increase in general and administrative expenses is due mainly to an increase in expenses related to payroll and employee benefit as well as non-cash employee compensation. The increase in payroll is mainly due to our efforts to enhance corporate governance with the addition of two directors during the 2011 quarter and our December 2010 addition of a President, as well as our new corporate offices in Beijing.

Research and development expenses. For the three months ended March 31, 2011 and 2010, our research and development expenses were $710,991 and $1,168,655, respectively, a decrease of $457,664, or 39.2%. As a percentage of sales, our research and development expenses for the three months ended March 31, 2011 and 2010 were 2.1% and 4.3%, respectively. The decrease in research and development expenses is primarily due to the decreased cost associated with the development of two new products that are at the end of their respective development stage. We expect to receive SFDA approval for these two new products in mid-2011.

Change in fair value of derivative liabilities. The embedded derivatives (including the conversion option) in our senior secured convertible notes and warrants issued in June 2009 are classified as derivative liabilities carried at fair value. For the three months ended March 31, 2011 and 2010, we recognized an income from the change in fair value of derivative liabilities in the amounts of $1,021,865 and $3,833,577, respectively. The recognized income from the change in the fair value of derivative liabilities in the first quarter of 2011 is mainly due to a decrease in the price of our common stock from $16.39 to $15.96 as of December 31, 2010 to March 31, 2011, respectively. Future changes in the market price of our common stock could cause the fair value of these derivative financial instruments to change significantly in future periods.

Interest expense (income). Our interest expense increased $1,347,333 to $1,680,922 for the three months ended March 31, 2011, from $333,589 for the same period in 2010. Our interest income increased $17,595 to $170,131, for the three months ended March 31, 2011, from $152,536 for the same period in 2010. The increase in interest expense is primarily due to the effective interest charges on convertible notes of $1,458,489 and $99,318, respectively, for the three months ended March 31, 2011 and 2010.

Income tax. The Company s effective income tax rates were 30% and 17% for the three months ended March 31, 2011 and 2010, respectively. The effective income tax rate for the three months ended March 31, 2011 differs from the PRC statutory income tax rate of 25% primarily due to the tax effect of non-deductible expenses and the recognition of valuation allowances on deferred tax assets relating to entities which were in cumulative losses. Management believes it is more likely than not that such deferred tax assets will not be realized. As of March 31, 2011 and December 31, 2010, the valuation allowances were $2,734,304 and $2,575,574, respectively.

In February 2009, Shandong Taibang was granted the High and New Technology Enterprise qualification and was entitled to a 15% preferential income tax rate for a period of three years from 2008 to 2010. Further, Guizhou Taibang was entitled to the preferential income tax rate of 15% under the 10-year Western Development Tax Concession, which also ended in 2010. Accordingly, Shandong Taibang and Guizhou Taibang are subject to income tax at 25% from 2011 onwards. Shandong Taibang is in the process of reapplying the High and New Technology Enterprise qualification for an additional three years from 2011 to 2013.

Our provision for income taxes increased by $1,192,069, or 38.8%, to $4,263,216 for the three months ended March 31, 2011, from $3,071,147 for the same period in 2010.The increase of income tax provision was mainly attributable to the increase in applicable income tax rate from 15% to 25% of Shandong Taibang and Guizhou Taibang as well as our increase of net operating income for the three months ended March 31, 2011, compared with the same period in the prior year.

Our Company s PRC subsidiaries have cash balance of $56 million as of March 31, 2011 which is planned to be permanently reinvested in the PRC. The distributions from our PRC subsidiaries are subject to the U.S. federal income tax at 34%, less any applicable foreign tax credits. Due to our policy of indefinitely reinvesting our earnings in our PRC business, we have not provided for deferred tax liabilities on undistributed earnings of our PRC subsidiaries.

Net income. Our net income decreased $4,987,571, or 33.7%, to $9,828,200 for the three months ended March 31, 2011, from $14,815,771 for the same period in 2010. Net income as a percentage of sales was 28.5% and 54.7% for the three months ended March 31, 2011 and 2010, respectively, as a result of the foregoing factors.

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash flows from operations, augmented by short-term bank borrowings and equity contributions by our stockholders. As of March 31, 2011, we had $56,307,771 in cash and cash equivalents, primarily consisting of cash on hand and demand deposits.

The following table provides the statements of net cash flows for the three months ended March 31, 2011 compared to March 31, 2010 (Unaudited):

Cash Flow
(all amounts in U.S. dollars)

	Three Months Ended March 31, 2011		2010	
Net cash provided by operating activities	$	2,878,223	$	2,092,846
Net cash used in investing activities		(1,897,980)		(3,513,600)
Net cash used in financing activities		(10,181,320)		(1,177,882)
Effects of exchange rate change on cash		567,480		(54,890)
Net increase (decrease) in cash and cash equivalents		(8,633,597)		(2,653,526)
Cash and cash equivalents at beginning of the period		64,941,368		53,843,951
Cash and cash equivalent at end of the period	$	56,307,771	$	51,190,425

Operating activities

Net cash provided by operating activities was $2.9 million for the three months ended March 31, 2011, as compared to $2.1 million for the same period in 2010. The net cash provided by operating activities in the three months ended March 31, 2011 was mainly due to the net income of $12.9 million, which was offset by cash outflow for inventory, accounts receivable and other payables and accrued liabilities of $5.0 million, $3.1 million and $1.9 million, respectively. The cash outflow for inventory is a direct result of the implementation of the 90-day quarantine period by the PRC government, which caused a longer staging period for its raw material plasma inventory. As we increased our sales directly to the end-users, hospitals and inoculation centers with extended credit terms, we experienced a slower turn-over with our accounts receivable. The cash provided by operating activities in the same period in 2010 was mainly from net income of $13.5 million and offset by cash outflow for inventory, accounts receivable, other payables and accrued liabilities, and tax payable of $4.3 million, $2.0 million, $2.4 million, and $1.3 million, respectively.

Investing activities

Net cash used in investing activities for the three months ended March 31, 2011 was $1.9 million, as compared to $3.5 million for the same period of 2010. During the three months ended March 31, 2011, we paid $1.9 million for equipment for Shandong Taibang and for buildings and construction in progress at Guizhou Taibang.

Financing activities

Net cash used in financing activities for the three months ended March 31, 2011 totaled $10.2 million, as compared to $1.2 million for the same period of 2010. The increase of the cash used in financing activities was mainly attributable to the $7.6 million payment to acquire the remaining 10% interest in our 90% majority owned subsidiary.

We believe that we have sufficient cash on hand and continuing positive cash inflow, from the sale of our plasma-based products in the PRC market. Our management expects continued growth in sales throughout the term of the convertible notes, largely due to the ongoing limited supply of plasma-based products in the PRC market due to the introduction of more stringent health and safety measures which we already meet. In light of the foregoing, we believe that we will have the financial ability to fulfill our payment obligations under the convertible notes when they come due.

Obligations under Material Contracts

The following table sets forth our material contractual obligations as of March 31, 2011:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Convertible notes	$ 2,654,722	$ 2,654,722	$ -	$ -	$ -
Due to related parties	2,209,593	2,209,593	-	-	-
Operating lease commitment	748,201	317,670	221,156	15,355	194,020
Total	$ 5,612,516	$ 5,181,985	$ 221,156	$ 15,355	$ 194,020

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Interest Rate Risk

We are exposed to interest rate risk primarily with respect to our short-term and long-term bank loans. Although our short-term loans are fixed for the terms of the loans, the terms are typically three to twelve months for short-term bank loans and interest rates are subject to change upon renewal. There were no material changes in interest rates for short-term bank loans renewed during the three months ended March 31, 2011.

A hypothetical 1.0% increase in the annual interest rates for all of our credit facilities under which we had outstanding borrowings as of March 31, 2011, would decrease net income before provision for income taxes by approximately $15,270 for the three months ended March 31, 2011. Management monitors the banks prime rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

Foreign Exchange Risk

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

The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China s political and economic conditions. Since July 2005, the RMB has not been pegged to the U.S. dollar. Although the People s Bank of China regularly involved in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar or Euro in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in RMB exchange rate and lessen involvement in the foreign exchange market.

Account Balances

We maintain balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for the banks located in the United States or may exceed Hong Kong Deposit Protection Board insured limits for the banks located in Hong Kong. Balances at financial institutions or state-owned banks within the PRC are not covered by insurance. Total cash in banks as of March 31, 2011 and 2010 amounted to $55,935,784 and $50,943,464, respectively, $62,218 and $39,396 of which are covered by insurance, respectively. We have not experienced any losses in such accounts and we do not believe that we are exposed to any significant risks on our cash in bank accounts.

Inflation

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

Market for Human Albumin

Our major product, human albumin: 20%/10ml, 20%/25ml, 20%/50ml, 10%/10ml, 10%/25ml and 10%/50ml, accounted for 57.2% and 46.9% of the total sales for the three months ended March 31, 2011 and 2010, respectively. If the market demands for human albumin cannot be sustained in the future or if the price of human albumin decreases, it would adversely affect our operating results.

ITEM 4. CONTROLS AND PROCEDURES.
Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(e), our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer, Mr. Chao Ming Zhao and our Chief Financial Officer, Mr. Y. Tristan Kuo, of the effectiveness of the design and operation of our disclosure controls and procedures, as of March 31, 2011. Based upon, and as of the date of this evaluation, Messrs. Zhao and Kuo, determined that, because of the material weaknesses described in Item 9A Controls and Procedures of our Annual Report on Form 10-K for the year ended December 31, 2010, which we are still in the process of remediating as of March 31, 2011, our disclosure controls and procedures were not effective. Investors are directed to Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2010 for the description of these weaknesses.

Changes in Internal Control over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

During its evaluation of the effectiveness of internal control over financial reporting as of December 31, 2010, our management identified ineffective review controls on the recognition of deferred tax liabilities and derivative instrument valuation, because of lack of resources with expertise in non-recurring transactions, which resulted an inadvertent omission of the callable feature when measuring the fair value of the warrants and misinterpretation of US GAAP regarding the recognition of deferred tax liabilities upon business combination. We have already taken measures to remediate these material weaknesses by adding two additional qualified accountants in late 2010 and enhancing the supervision, monitoring and reviewing of financial statement preparation processes. Furthermore, we have already engaged outside consultants specializing in deferred tax accounting and derivative instrument valuation, as well as in reinforcing the rigorous process for collecting and reviewing information required for the preparation of the financial statements including footnotes.

Other than the foregoing changes, there were no changes in our internal controls over financial reporting during the first quarter of fiscal 2011 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business. Other than the legal proceedings described in Item 3 Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2010, we are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results. Investors are directed to Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2010 for the description of these legal proceedings. There have been no material developments to these legal proceedings during the first quarter of 2011.

ITEM 1A. RISK FACTORS.

There are no material changes from the risk factors previously disclosed in Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2010.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.

We have no information to disclose that was required to be in a report on Form 8-K during the period covered by this report, but was not reported. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

ITEM 6. EXHIBITS.

The following exhibits are filed as part of this report or incorporated by reference:

Exhibit No.	Description
31.1	Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 9, 2011	**CHINA BIOLOGIC PRODUCTS, INC.**	
	By:	/s/ Chao Ming Zhao Chao Ming Zhao, Chief Executive Officer *(Principal Executive Officer)*
	By:	/s/ Y. Tristan Kuo Y. Tristan Kuo, Chief Financial Officer *(Principal Financial Officer and Principal Accounting Officer)*