THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in PW Medtech Group Limited (普华和顺集团公司), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was affected for transmission to the purchaser or the transferee.

PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

VERY SUBSTANTIAL ACQUISITION AND VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SUBSCRIPTION FOR CBPO SHARES IN CONSIDERATION OF THE DISPOSAL BUSINESS AND NOTICE OF EGM

A letter from the Board is set out on pages 5 to 22 of this circular. Notice convening the EGM to be held on December 1, 2017 (Friday) at 10:00 a.m. at 1002–1003, Block C, Focus Square, No. 6 Futong East Avenue, Wangjing, Chaoyang District, Beijing, PRC is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed.

Whether or not you intend to attend the EGM, you are requested to complete the proxy form enclosed with the notice of the EGM in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. not later than 10:00 a.m. (Hong Kong time) on Wednesday, November 29, 2017) or the adjourned meeting (as the case may be). Completion and return of the proxy form will not prevent the Shareholders from attending and voting in person at the EGM (or any adjournment thereof) should they so wish.

November 14, 2017

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Agreements"	the Share Exchange Agreement and the Investor Rights Agreement
"Articles of Association"	the articles of association of the Company, as amended, supplemented or modified from time to time
"Board"	the board of Directors
"CBPO"	China Biologic Products Holdings, Inc., a Cayman Islands exempted company, which changed its domicile from Delaware to the Cayman Islands on July 21, 2017 and has been listed on the NASDAQ since 2009
"CBPO Group"	CBPO and its subsidiaries
"CBPO Share(s)"	a total of 5,521,000 new shares of CBPO (subject to adjustment) to be issued by CBPO to the Company upon Closing pursuant to the Share Exchange Agreement
"Closing"	the closing under the Share Exchange Agreement
"Company"	PW Medtech Group Limited (普华和顺集团公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on May 13, 2011
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal"	the proposed disposal of the entire issued share capital of Health Forward held by the Company to CBPO in exchange for the CBPO Shares pursuant to the Share Exchange Agreement
"Disposal Business"	the regenerative medical biomaterial business, which was carried out by Tianxinfu and its subsidiaries
"Disposal Group"	Health Forward and its subsidiaries

"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Subscription and the Disposal and the transactions contemplated under the Agreements
"Group"	the Company and its subsidiaries from time to time
"Health Forward"	Health Forward Holdings Limited, a company incorporated under the laws of Hong Kong on January 21, 2010, and a direct wholly-owned subsidiary of the Company as at the Latest Practicable Date
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Investor Rights Agreement"	the investor rights agreement intended to be entered into between the Company and CBPO at the Closing in relation to the Company's rights and obligations as a shareholder of CBPO after the Closing
"Latest Practicable Date"	November 7, 2017, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"NASDAQ"	The NASDAQ Stock Market LLC
"New Group"	the Group immediately after the completion of both the Disposal and the Subscription
"Poison Pill Plan"	the amended and restated preferred shares rights agreement of CBPO dated July 31, 2017, pursuant to which CBPO declared a dividend of one right (the "Right") for each outstanding ordinary share and each Right will entitle its holder to purchase at an exercise price of US$550 (the "Exercise Price") for a number of ordinary share of CBPO having a then-current market value of twice the Exercise Price. The Rights will become exercisable if any person acquires 15% or more of the ordinary shares of CBPO without the approval of the board of directors of CBPO

"PRC" or "China"	the People's Republic of China, which expression for the purpose of this circular, except where the context requires otherwise, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) of US$0.0001 each in the issued share capital of the Company
"Share Exchange Agreement"	the share exchange agreement entered into between the Company and CBPO on October 12, 2017 in relation to the Subscription and the Disposal
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the proposed subscription for the CBPO Shares by the Company at the subscription price of US$93.0 (equivalent to approximately RMB611.9) per CBPO Share pursuant to the Share Exchange Agreement
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Tianxinfu"	Tianxinfu (Beijing) Medical Appliance Co., Ltd.* (天新福(北京)醫療器材股份有限公司), a company established on January 18, 2002 in the PRC with limited liability. As at the Latest Practicable Date, Tianxinfu is owned as to 80% by Health Forward and 20% by Xinyu Yongshuo Management and Consulting LLP (新餘永碩管理諮詢合夥企業(有限合夥)), an independent third party except for its interest in Tianxinfu
"Transaction"	the Subscription and the Disposal
"U.S."	the United States of America
"U.S. GAAP"	accounting principles generally accepted in the U.S.
"US$"	United States dollars, the lawful currency of the U.S.
"%"	per cent

In this circular, the English names of the PRC entities are translation of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

For the purpose of this circular, unless otherwise stated, the conversion of US$ into RMB is based on the approximate exchange rate of US$1.00 = RMB6.58, being the central parity rate published by the People's Bank of China on October 12, 2017.

* *For identification purpose only*

PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

Executive Directors:
Ms. Yue'e ZHANG
Mr. JIANG Liwei

Non-executive Director:
Mr. LIN Junshan

Independent Non-executive Directors:
Mr. ZHANG Xingdong
Mr. CHEN Geng
Mr. WANG Xiaogang

Registered Office:
The Grand Pavilion Commercial Centre
Oleander Way, 802 West Bay Road
P.O. Box 32052
Grand Cayman KY1-1208
Cayman Islands

Principal Place of Business in Hong Kong:
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

November 14, 2017

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SUBSCRIPTION FOR CBPO SHARES IN CONSIDERATION OF THE DISPOSAL BUSINESS AND NOTICE OF EGM

1. INTRODUCTION

Reference is made to the announcement of the Company dated October 12, 2017 (the "**Announcement**") in relation to the proposed subscription for CBPO Shares in consideration of the Disposal Business.

On October 12, 2017 (after trading hours), the Company and CBPO entered into the Share Exchange Agreement, pursuant to which the Company agreed to subscribe for the CBPO Shares in consideration of the Disposal Business in the form of the entire issued share capital of Health Forward, which in turn owns 80% equity interest in Tianxinfu, at a total value of approximately US$513.45 million (equivalent to approximately RMB3.38 billion) with a subscription price of US$93.0 (equivalent to approximately RMB611.9) per CBPO Share. Immediately following the Closing, the Company is expected to become the single largest shareholder of CBPO, with the CBPO Shares representing approximately 16.66% of the enlarged issued share capital of CBPO.

At the Closing, the Company and CBPO intend to enter into the Investor Rights Agreement in relation to the Company's rights and obligations as a shareholder of CBPO after the Closing. The Investor Rights Agreement provides, among others, that the Company may designate one director to the board of directors of CBPO as long as the shares of CBPO beneficially owned by the Company represent at least 10% of the issued and outstanding share capital of CBPO immediately after the Closing.

The highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Subscription is more than 100% and the highest applicable percentage ratio in respect of the Disposal is more than 75%. As a result, the Subscription constitutes a very substantial acquisition and the Disposal constitutes a very substantial disposal for the Company and accordingly the Subscription and the Disposal are subject to the announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The purpose of this circular is to provide you with, among other things (i) the audited financial information on CBPO for the three financial years ended December 31, 2016 and the unaudited financial information for the six months ended June 30, 2016 and 2017 prepared under U.S. GAAP; (ii) a line-by-line reconciliation of CBPO's financial information for the differences between CBPO's accounting policies under U.S. GAAP and the Company's accounting policies under HKFRS; (iii) accountant's report on the Group for the three financial years ended December 31, 2016, including the relevant financial information of the Disposal Business; (iv) the unaudited financial information for the six months ended June 30, 2017 of the Group, including the relevant financial information of the Disposal Business; and (v) the pro forma financial information of the New Group.

2. THE AGREEMENTS

A summary of the principal terms of the Share Exchange Agreement is set out below:

Date

October 12, 2017

Parties

(1) The Company; and

(2) CBPO;

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, CBPO and its ultimate beneficial owners are third parties independent of the Company and its connected persons, except for Mr. Marc Chan who is a beneficial owner of CBPO and a substantial shareholder of the Company. According to the latest Disclosure of Interest notice filed by Mr. Marc Chan with the Stock Exchange on August 23, 2017 and the Schedule 13G filed on February 8, 2017 by Parfield International Ltd., of which Mr. Marc Chan is the director and sole owner and assuming no subsequent changes, as at the Latest

Practicable Date, Mr. Marc Chan is (i) a substantial Shareholder indirectly holding approximately 26.03% of the issued share capital of the Company; and (ii) a shareholder of CBPO indirectly holding approximately 5.9% of the issued share capital of CBPO. As confirmed by CBPO, Mr. Marc Chan made his first public filing with respect to his beneficial ownership in CBPO on November 5, 2015 as a result of purchases of existing shares of CBPO and CBPO did not issue any new shares to Mr. Marc Chan.

To the best knowledge and belief of the Company after having made all reasonable enquiries, (i) other than Mr. Marc Chan's shareholding interests in CBPO, there is no relationship between any of the Company, its controlling Shareholder, directors and connected persons on the one hand, and CBPO on the other hand; and (ii) other than Mr. Marc Chan's shareholding interests in the Company, there is no relationship (including business relationship) between Mr. Marc Chan and the Company (including its connected persons). CBPO and the Subscription were introduced to the Company by a director of CBPO, who is, to the best knowledge and belief of the Company after having made all reasonable enquiries, independent of Mr. Marc Chan.

As confirmed by CBPO, there is no relationship (including business relationship) between Mr. Marc Chan and CBPO, other than his shareholding interests in CBPO.

Subject Matter

The Company agreed to subscribe for the CBPO Shares at the subscription price of US$93.0 (equivalent to approximately RMB611.9) per CBPO Share in consideration of the entire issued share capital of Health Forward, at a total value of approximately US$513.45 million (equivalent to approximately RMB3.38 billion).

Health Forward owns 80% equity interest of Tianxinfu, which is an indirect subsidiary of the Company and primarily engaged in the manufacturing and sale of regenerative medical biomaterial products. Further information on Tianxinfu is set out in the section headed "Information on the Parties and Tianxinfu".

CBPO is primarily engaged in the research, development, manufacturing and sales of plasma-based pharmaceutical products. Further information on CBPO is set out in the section headed "Information on the Parties and Tianxinfu".

Consideration

The Subscription is in consideration of the Disposal Business, at a total value of approximately US$513.45 million (equivalent to approximately RMB3.38 billion), which was determined after arm's length negotiations between the Company and CBPO with reference to (i) the historical financial position and business performance of Tianxinfu, including without limitation to, the historical revenue and profit of Tianxinfu; (ii) the historical financial position and business performance of CBPO, including without limitation to, the historical revenue and profit of CBPO; (iii) the prevailing market prices of the ordinary shares of CBPO; (iv) the benefits to the Company and CBPO after the Closing as elaborated below; and (v) the recent market conditions.

The CBPO Shares represent:

- approximately 20.00% of CBPO's issued share capital as at the date of the Announcement; and
- approximately 16.66% of CBPO's issued share capital as enlarged by the allotment and issue of the CBPO Shares, assuming that there is no other change in the issued share capital of CBPO before the Closing.

The subscription price of US$93.0 (equivalent to approximately RMB611.9) per CBPO Share under the Share Exchange Agreement represents:

- a discount of 1.20% of the average closing price per share of CBPO on the NASDAQ for 30 trading days immediately preceding the date of the Announcement;
- a discount of 0.83% of the average closing price per share of CBPO on the NASDAQ for 20 trading days immediately preceding the date of the Announcement;
- a discount of 4.47% of the average closing price per share of CBPO on the NASDAQ for five trading days immediately preceding the date of the Announcement; and
- a discount of 4.27% of the closing price per share of CBPO on the NASDAQ for the trading day immediately preceding the date of the Announcement.

The subscription price of the CBPO Shares was determined after arm's length negotiations between the Company and CBPO with reference to the prevailing market prices of the ordinary shares of CBPO, the recent market conditions and the historical financial position and business performance of CBPO.

The CBPO Shares to be issued by CBPO to the Company will be proportionally adjusted upon occurrence of any subdivision, combination or share or extraordinary dividend of or on CBPO's ordinary shares with an effective or record date during the period from the date of the Share Exchange Agreement until the Closing.

Conditions Precedent

The Closing is conditional upon the satisfaction or waiver (where permissible) of the following conditions precedent, among others:

(i) no governmental authority shall have enacted, issued, promulgated, enforced or entered any law which is then in effect (whether temporary, preliminary or permanent) and has the effect of enjoining, restraining, prohibiting or otherwise making the consummation of the transactions under the Share Exchange Agreement illegal;

(ii) the approval of the Shareholders at the EGM to the Share Exchange Agreement, the Investor Rights Agreement and the transactions contemplated thereunder shall have been obtained;

(iii) no material adverse effect shall have occurred to the business, assets, financial condition or results of operations of the CBPO Group following the date of the Share Exchange Agreement;

(iv) the representations and warranties of CBPO shall be true and correct in all material respects as of the date of the Share Exchange Agreement and the Closing, respectively;

(v) CBPO shall have performed and complied in all material respects with all agreements, covenants and conditions contained in the Share Exchange Agreement that are required to be performed or complied with by it at or prior to the Closing;

(vi) no material adverse effect shall have occurred to the business, assets, financial condition or results of operations of the Disposal Group following the date of the Share Exchange Agreement;

(vii) the representations and warranties of the Company shall be true and correct in all material respects as of the date of the Share Exchange Agreement and the Closing, respectively;

(viii) the Company shall have performed and complied in all material respects with all agreements, covenants and conditions contained in the Share Exchange Agreement that are required to be performed or complied with by it at or prior to the Closing; and

(ix) the Company shall have delivered supporting documents reasonably acceptable to CBPO to show that the available cash of the Disposal Group on a consolidated basis available immediately prior to the Closing is no less than (a) RMB570 million, if the Closing occurs prior to or on November 30, 2017; or (b) RMB580 million, if the Closing occurs on a date between December 1, 2017 (inclusive) and December 31, 2017 (inclusive).

The conditions precedent (iii), (iv) and (v) may be waived by the Company and the conditions precedent (vi), (vii), (viii) and (ix) may be waived by CBPO.

Closing

Closing is scheduled to take place within five business days after the last condition precedent having been satisfied or waived, or a later date as may be agreed by the parties in writing.

Indemnification

Following the Closing, CBPO shall indemnify and defend the Company and its representatives against, and shall hold each of them harmless from and against any and all losses actually suffered or incurred by, or imposed upon, the Company and its representatives arising out of or resulting from:

(i) any inaccuracy or breach of any representation or warranty made by CBPO under the Share Exchange Agreement, which losses (other than those relating to certain fundamental representations or warranties) shall be indemnifiable if exceeding RMB1 million but the indemnified amount shall not exceed RMB1 billion; or

(ii) any violation or non-performance of any covenant or agreement of CBPO under the Share Exchange Agreement.

Following the Closing, the Company shall indemnify and defend CBPO and its representatives against, and shall hold each of them harmless from and against any and all losses actually suffered or incurred by, or imposed upon, CBPO and its representatives arising out of or resulting from:

(i) any inaccuracy or breach of any representation or warranty made by the Company under the Share Exchange Agreement, which losses (other than those relating to certain fundamental representations or warranties) shall be indemnifiable if exceeding RMB1 million but the indemnified amount shall not exceed RMB1 billion;

(ii) any violation or non-performance of any covenant or agreement of the Company under the Share Exchange Agreement;

(iii) the Company's failure to timely pay any taxes imposed on the Company in connection with the transactions as contemplated under the Share Exchange Agreement and any corporate restructuring of the Disposal Group conducted in furtherance of such transactions under any applicable laws or any failure of any other person to withhold or to assist in withholding from payments to the Company pursuant to the Share Exchange Agreement under any applicable laws; or

(iv) other indemnity items as specified in the Share Exchange Agreement.

Termination

The Share Exchange Agreement may be terminated at any time prior to the Closing:

(i) by the mutual consent of CBPO and the Company;

(ii) by either CBPO by written notice to the Company or by the Company by written notice to CBPO, in the event that any governmental authority having competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any injunction which shall have become final and non-appealable;

(iii) by either CBPO by written notice to the Company or by the Company by written notice to CBPO, in the event that the Shareholders' approval shall not have been obtained at the EGM or any adjournment or postponement thereof at which the Share Exchange Agreement has been voted upon;

(iv) by either CBPO by written notice to the Company or by the Company by written notice to CBPO, in the event that the Closing shall not have occurred on or before December 31, 2017;

(v) by CBPO by written notice to the Company, if (a) the Company shall have breached any representation, warranty, covenant or agreement set forth in the Share Exchange Agreement, (b) such breach or misrepresentation is not cured within twenty (20) days after the Company receives written notice thereof from CBPO (or such shorter period between the date of such notice and December 31, 2017), and (c) such breach or misrepresentation would cause any of the conditions to obligations of CBPO not to be satisfied; or

(vi) by the Company by written notice to CBPO, if (a) CBPO shall have breached any representation, warranty, covenant or agreement set forth in the Share Exchange Agreement, (b) such breach or misrepresentation is not cured within twenty (20) days after CBPO receives written notice thereof from the Company (or such shorter period between the date of such notice and December 31, 2017), and (c) such breach or misrepresentation would cause any of the conditions to obligations of the Company not to be satisfied.

CBPO is liable for a termination fee of RMB20 million in immediately available funds if the Share Exchange Agreement is terminated by the Company pursuant to (vi) above. Such payment shall be made as promptly as possible (but in any event no later than five (5) business days) after the date of such termination. Such termination fee shall be the sole and exclusive remedy of the Company for any loss or damage suffered as a result of any breach of any representation, warranty, covenant or agreement under the Share Exchange Agreement, any failure to perform under the Share Exchange Agreement or other failure of the transactions under the Share Exchange Agreement to be consummated.

The Investor Rights Agreement

The Company and CBPO intend to enter into the Investor Rights Agreement at the Closing, which is in agreed form as an exhibit of the Share Exchange Agreement. A summary of the principal terms of the Investor Rights Agreement is set out below:

Parties

(1) The Company; and

(2) CBPO.

Registration Rights

The Company is entitled to customary registration rights under the laws and regulations of the U.S. for purpose of the subsequent offer and sale of the CBPO Shares to the public.

Board Representation

For as long as the shares of CBPO beneficially owned by the Company represent at least 10% of the issued and outstanding share capital of CBPO immediately after the Closing (after taking into account of any subdivision, combination, consolidation, reverse share split or reclassification of ordinary shares of CBPO or any dividend or distribution in ordinary shares of CBPO occurred after the Closing), the Company shall be entitled to designate one director to the board of directors of CBPO.

Transfer Restrictions

The Company shall not, and shall cause its affiliates not to, directly or indirectly, transfer, sell, hedge, assign, gift, pledge, encumber, hypothecate, mortgage, exchange or otherwise dispose of any securities of CBPO (any such occurrence, a "**Transfer**") prior to the date that is three years following the Closing (such date, the "**Lock-up Date**"), without the prior written consent of CBPO.

After the Lock-up Date, unless otherwise agreed by CBPO in writing, the Company shall not, and shall cause its affiliates not to, Transfer any securities of CBPO to any competitors of CBPO ("**CBPO Competitor(s)**") listed in the Investor Rights Agreement.

Investment Restrictions

For so long as the Company has the right to designate any director to the board of directors of CBPO, unless otherwise agreed by CBPO in writing, the Company shall not, and shall cause its affiliates not to (i) effect or participate in, including without limitation: (a) any acquisition of any securities or material assets of any CBPO Competitor; (b) any tender or exchange offer, merger, consolidation, amalgamation, scheme of arrangement, or other business combination with any CBPO Competitor; or (c) any recapitalization, restructuring, liquidation, dissolution or other extraordinary transaction with any CBPO Competitor; (ii) form any partnership, joint venture or other business entities with any CBPO Competitor; or (iii) take any action that would have the effect of any of the transactions described in (i) or (ii).

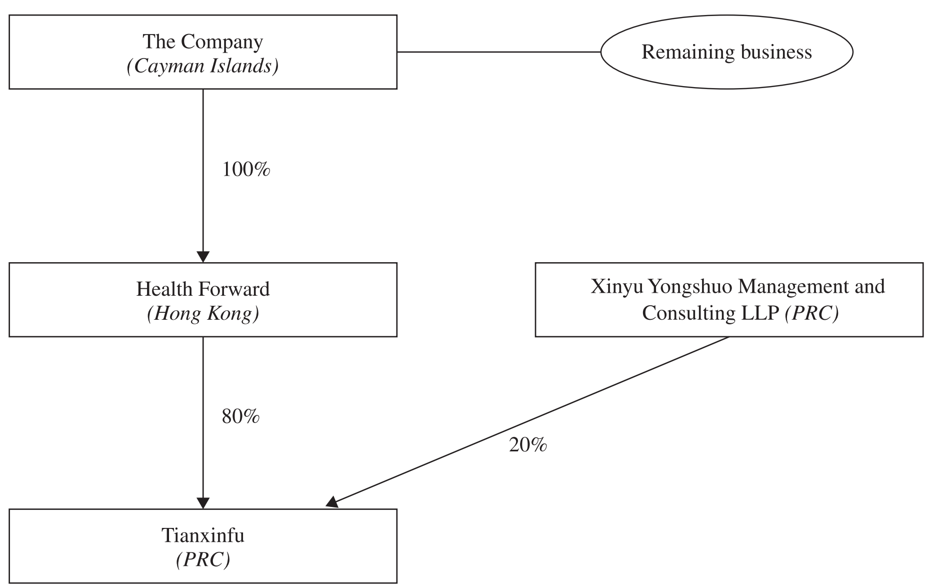
Voting Agreement

Until the Lock-up Date, the Company shall vote all shares of CBPO beneficially owned by it in the manner recommended by the board of directors of CBPO, provided that the Company is not required to take any actions that would (i) be inconsistent with the fiduciary duties of the Directors under applicable laws; or (ii) violate any applicable securities laws or stock exchange rules.

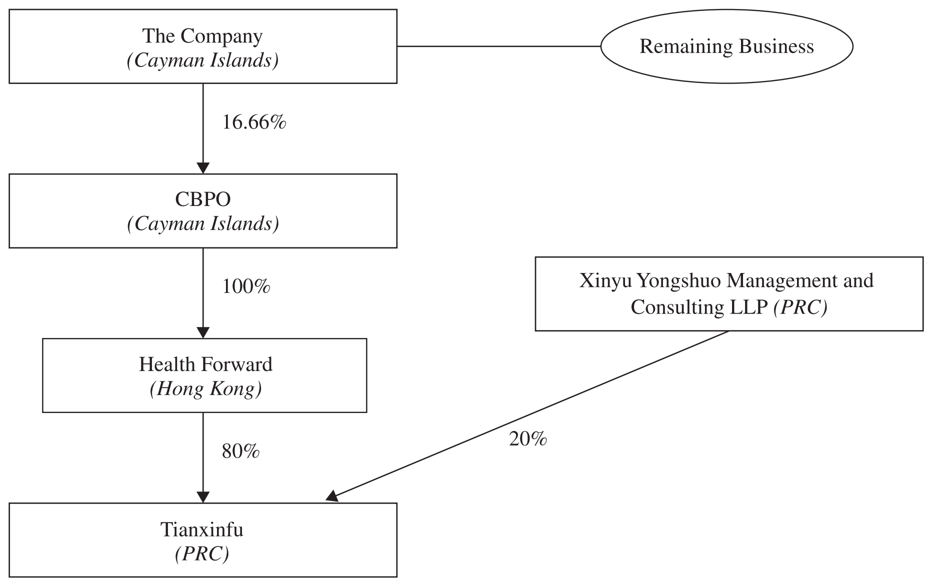
3. CORPORATE STRUCTURE OF THE GROUP

The simplified corporate structure of the Group before and after the Closing is illustrated as below:

Simplified corporate structure of the Group as at the Latest Practicable Date



Simplified corporate structure of the Group immediately after the Closing



4. INFORMATION ON THE PARTIES AND TIANXINFU

The Company

The Company was incorporated in the Cayman Islands on May 13, 2011 as an exempted company with limited liability under the laws of the Cayman Islands. The principal business activity of the Company is investment holding. The Group is principally engaged in the development, manufacturing and sale of regenerative medical biomaterial products and advanced infusion set products and other businesses including beauty products and orthopedic products.

Health Forward

Health Forward is a company incorporated under the laws of Hong Kong on January 21, 2010 and directly wholly owned by the Company. The principal business activity of Health Forward is investment holding. As at the Latest Practicable Date, Health Forward holds 80% equity interests of Tianxinfu after a series of intra-group reorganization and does not have any other business operation.

Tianxinfu

Tianxinfu is an indirect subsidiary of the Company as at the Latest Practicable Date. It was established on January 18, 2002 in the PRC with limited liability and was acquired by the Group on August 5, 2014 from an independent third party. Tianxinfu carries out the Disposal Business and is primarily engaged in the manufacturing and sale of regenerative medical biomaterial products. As at the Latest Practicable Date, Tianxinfu is owned as to 80% by Health Forward and 20% by Xinyu Yongshuo Management and Consulting LLP (新餘永碩管理諮詢合夥企業(有限合夥)), an independent third party except for its interest in Tianxinfu.

CBPO

CBPO is a biopharmaceutical company principally engaged in the research, development, manufacturing and sales of human plasma-based biopharmaceutical products, or plasma products, in China. CBPO is among the top three producers of plasma products in China in terms of 2016 sales, according to CBPO's 2016 annual report. CBPO has been listed on the NASDAQ since 2009 and it changed its domicile from Delaware to Cayman Islands on July 21, 2017. As at the Latest Practicable Date, CBPO has a total issued and outstanding share capital of 27,609,341 ordinary shares and has no other class of shares issued and outstanding.

Financial Information on Tianxinfu and CBPO

(1) *Tianxinfu*

The following table sets forth the financial information attributable to Tianxinfu and its subsidiaries for the two years ended December 31, 2015 and 2016 based on the unaudited financial statements prepared under HKFRS.

	For the years ended December 31,	
	2015	**2016**
	(RMB'000)	*(RMB'000)*
Net profits before taxation	131,440	155,384
Net profits after taxation	112,819	132,528

	As of December 31,	
	2015	**2016**
	(RMB'000)	*(RMB'000)*
Total assets	821,199	810,259
Net assets	685,325	694,853

(2) *CBPO*

The following table sets forth the consolidated financial information of CBPO and its subsidiaries for the two years ended December 31, 2015 and 2016 as extracted from the audited financial statements as contained in the published annual reports of CBPO prepared under U.S. GAAP.

	For the years ended December 31,			
	2015		**2016**	
		Approximate		*Approximate*
	(US$'000)	*(RMB'000)*	*(US$'000)*	*(RMB'000)*
Net profits before taxation	135,098	888,945	153,919	1,012,787
Net profits after taxation	114,106	750,817	128,793	847,458

	As of December 31,			
	2015		**2016**	
		Approximate		*Approximate*
	(US$'000)	*(RMB'000)*	*(US$'000)*	*(RMB'000)*
Total assets	551,466	3,628,646	604,958	3,980,624
Net assets	466,962	3,072,610	521,137	3,429,081

Please refer to Appendices I–IV for more details of the financial information of the Group, Tianxinfu and CBPO.

The Company expects to recognise a collective profit of approximately RMB2.0 billion arising from the Disposal, which represents the difference between the consideration of the Disposal and the carrying amount of net asset value of the Disposal Group as at the date of the Closing, which is estimated by making reference to the unaudited aggregate net assets of the Disposal Group under HKFRS as at June 30, 2017, including the Group's goodwill attributable to the regenerative medical biomaterial products business which amounted to approximately RMB373 million, after taking into account estimated relevant tax expenses of the Disposal while may subject to changes caused by the activities and performance results of the Disposal Group subsequent to June 30, 2017. Please refer to Appendix V to this circular for more information about the financial effects of the Subscription and Disposal on the assets and liabilities of the Group.

5. REASONS FOR AND BENEFITS OF THE TRANSACTION

The Company considered the acquisition of the CBPO Shares is beneficial to the Company's business development for the following reasons:

- **Expansion into the plasma industry in the PRC.** By the acquisition of the CBPO Shares, the Company expands into a new area in medical industry in the PRC with fast-growing, high-margin and high-potential opportunities, which is in line with the Company's long-term strategies.

  China is the second largest plasma products market in the world, after the U.S.. According to The Marketing Research Bureau, Inc., or MRB, an independent research firm focused on blood and plasma industry data on a global level, China's plasma products market (excluding recombinant products) grew from US$0.80 billion (equivalent to approximately RMB5.26 billion) in 2009 to US$2.47 billion (equivalent to approximately RMB16.25 billion) in 2015 in terms of sales revenue, representing a compound annual growth rate of 20.7%. MRB expects that by 2018, China's plasma-derived products market will reach over US$3.3 billion (equivalent to approximately RMB21.71 billion), representing about a 35% increase from 2015, assuming domestic plasma supply continues to grow at least 8% annually.

  There is also a high industry entry barrier for China's plasma industry. The PRC State Council has ceased issuing new plasma fractionation licenses since 2001, and there are approximately 30 licensed producers of plasma products in China, of which only approximately 28 are currently in operation. As a result, the existing China-based producers with large production capacities, like CBPO, face relatively limited competition and are well positioned to gain more market share during the industry consolidation phase.

- **Leading market position of CBPO in the PRC.** CBPO has an established plasma business with good track record. It is a leading producer of plasma products in the PRC with strong growth potential. It is among the top three producers of plasma products in the PRC in terms of 2016 sales, according to CBPO's 2016 annual report. Please refer to the section headed "Information on the Parties and Tianxinfu" above for more information about CBPO.

- **Potential synergy between the businesses of Tianxinfu and CBPO.** Tianxinfu is the largest manufacturer of artificial dura mater in the PRC. As both Tianxinfu and CBPO are industry leaders in the biomaterial industry in the PRC with state of art technology and know-how, the Company believes that a smooth business combination could create a sharing platform for both Tianxinfu and CBPO to consolidate their leading market positions and realize rapid growth. In particular, Tianxinfu would be able to strengthen its core business by leveraging CBPO's existing market presence to cross-sell and offer bundle pricing opportunities, and expand its customer bases by growing into CBPO's sales channels, hospitals and departments. At the same time, the combined scale of Tianxinfu and CBPO could also reduce costs, optimize spending, broaden market exposure and improve bargaining power with distributors, customers and suppliers.

- **Effective way to optimize shareholder value.** The transactions under the Share Exchange Agreement are valued at a total amount of approximately US$513.45 million (equivalent to approximately RMB3.38 billion), which provides the Shareholders with an attractive valuation of the Disposal Group and, compared with the proposed A share listing of Tianxinfu, is expected to be consummated with more certainty and expedited timetable. The Company believes that the combination of Tianxinfu with CBPO would enhance the Company's overall valuation and create values for the Company and its shareholders.

- **Access to U.S. capital market.** Upon the Closing, the Company is expected to become the single largest shareholder of CBPO with CBPO board-approved exemption from triggering the Poison Pill Plan for any future increase of shareholding in CBPO prior to the Lock-up Date, which offers the Company an access to the U.S. capital market. Although the Company currently does not have any intention to further increase its shareholding in CBPO after Closing, it does not exclude the possibility of increasing its shareholding in CBPO in the future after reviewing its investment in CBPO from time to time based on market conditions and the Company's financial resources.

The Company is making a long-term strategic investment in CBPO, which also lays the foundation for future business partnership between the Company and CBPO. The investment restrictions and voting agreement under the Investor Rights Agreement are not uncommon in the strategic investment/partnership situations. Therefore, the Company does not consider such arrangements as significant restrictions on its rights as a shareholder of CBPO and believe they are acceptable in light of the overall commercial considerations for this strategic investment, which the Board believes is in the interests of the Company and its Shareholders. Moreover, the Company negotiated a fiduciary duty carve-out regarding the voting agreement to ensure appropriate discharge of the Board's fiduciary duties.

Accordingly, notwithstanding that the CBPO Shares held by the Company would only be treated as an investment in an associate of the Company at the outset, as a long-term strategic partner of CBPO and with the listing status on the Stock Exchange also with access to the U.S. capital market, the Company is expected to be exposed to diversified coverage and enhance its corporate image in two international financial centers, which could create more potentials and possibilities for the Company's future development.

Based on the above, the Directors believe that the terms of the Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. PROPOSED A SHARE LISTING OF TIANXINFU

Reference is made to the announcement of the Company dated July 24, 2017 in relation to the proposed spin-off and A share listing of Tianxinfu (the "**Tianxinfu A Share Listing**"). Under the Share Exchange Agreement, the Company shall cease to take any step toward the Tianxifu A Share Listing until the Closing, and CBPO undertakes that, if an initial public offering of the securities of a member of the Disposal Group is in the best interests of CBPO, it will use commercially reasonable efforts to effect such initial public offering on an internationally recognized stock exchange as and when such securities become eligible for listing on such stock exchange.

If the Share Exchange Agreement is terminated for any reason, the Company intends to implement the Tianxinfu A Share Listing in accordance with the proposals as set out in the circular of the Company dated August 8, 2017. If Tianxinfu (or other member of the Disposal Group) applies for a separate listing, the Company will comply with Practice Note 15 and other rules of the Listing Rules, to the extent applicable.

7. LISTING RULES IMPLICATIONS

The highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Subscription is more than 100% and the highest applicable percentage ratio in respect of the Disposal is more than 75%. As a result, the Subscription constitutes a very substantial acquisition and the Disposal constitutes a very substantial disposal for the Company and accordingly the Subscription and the Disposal are subject to the announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

8. WAIVER FROM STRICT COMPLIANCE WITH RULE 14.69(4)(A)(I) OF THE LISTING RULES AND CHAPTER 4 OF THE LISTING RULES

Pursuant to Rule 14.69(4)(a)(i) of the Listing Rules, the Company is required to include in this circular an accountant's report on CBPO prepared in accordance with the accounting policies used by the Company in the preparation of its own financial statements. The Company has considered that:

(i) upon the Closing, CBPO will not become a subsidiary of the Company and its results will not be consolidated in the financial statements of the Company. The Company's minority interest in CBPO would be treated as an investment in an associate and accounted for using the equity method of accounting;

(ii) CBPO is required to file its financial information with the U.S. Securities Exchange Commission (the "**SEC**") periodically within prescribed deadlines. CBPO published its audited financial statements on a yearly basis and its unaudited financial statements on a quarterly basis on SEC website. These financial disclosures published by CBPO were subject to regulation by NASDAQ and the SEC;

(iii) the financial statements of CBPO as of December 31, 2014, 2015, and 2016 and for the years then ended, which were prepared under U.S. GAAP, were audited by KPMG Huazhen LLP (the "**KPMG Huazhen**") in accordance with the standards of Public Company Accounting Oversight Board (United States) and published on the SEC website;

(iv) the financial statements of CBPO for the six months ended June 30, 2016 and 2017 were reviewed by KPMG Huazhen in accordance with the standards of the Public Company Accounting Oversight Board (United States) and published on the SEC website;

(v) KPMG Huazhen is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. KPMG Huazhen is also registered with a recognized body of accountants, namely the Beijing Institute of Certified Public Accountants;

(vi) as advised by CBPO, it is not able to give access to its accounting records and provide explanation in relation to the same for the Company's auditor to audit its accounts prepared under HKFRS given (a) CBPO is bound by the relevant securities regulations of the U.S. which require all publicly traded companies to disclose material information to all investors at the same time, as a result CBPO cannot disclose any non-public financial information to the Company; (b) it is not the prevailing market practice in the U.S. for an investor making a private minority investment in a public company to be granted access to non-public financial information; and (c) considerable amount of additional work will be required to convert CBPO's financial information for each of the three financial years ended December 31, 2016 and the six months ended June 30, 2016 and 2017 from U.S. GAAP to HKFRS, which is not commensurate with a transaction of the same nature. Accordingly, it would be unduly burdensome and impractical for the Company to produce an accountants' report on CBPO in the circular for the following reasons:

(a) the Company does not have access to non-public financial information of CBPO, as a result it would be impractical for the Company to prepare an accountants' report on CBPO due to the lack of access to CBPO's accounting records; and

(b) the Company would incur significant costs and expenses to conduct an audit or review of CBPO's accounts prepared in accordance with HKFRS and significantly delay completion of the Subscription, which may not be in the best interest of the Shareholders. The Company estimates that additional three to four months and approximately RMB13 million to RMB15 million audit fees could be incurred to audit or review the financial information of CBPO.

As an alternative to disclosure in compliance with Rule 14.69(4)(a)(i) of the Listing Rules, the following have been included in this circular:

(i) the audited financial information on CBPO for the three financial years ended December 31, 2016 and the unaudited financial information for the six months ended June 30, 2016 and 2017 prepared under U.S. GAAP;

(ii) a line-by-line reconciliation of CBPO's financial information for the differences between CBPO's accounting policies under U.S. GAAP and the Company's accounting policies under HKFRS; and

(iii) additional information which is required for an accountants' report under Chapter 4 of the Listing Rules but not disclosed in the published financial statements of CBPO.

Accordingly, the Company considers that the alternative disclosure would provide sufficient information to the Shareholders to make a properly informed assessment on the performance and financial information of CBPO and the Disposal Group to vote for or against the Subscription and Disposal at the EGM, and that the relaxation with the requirements under Rule 14.69(4)(a)(i) of the Listing Rules would be unlikely to result in undue risks to the Shareholders.

The Company has applied for, and has been granted, a waiver from strict compliance with the requirements under Rule 14.69(4)(a)(i) of the Listing Rules.

9. EGM AND PROXY ARRANGEMENT

The EGM will be held at 10:00 a.m. on December 1, 2017 (Friday), at 1002–1003, Block C, Focus Square, No. 6 Futong East Avenue, Wangjing, Chaoyang District, Beijing, PRC, at which an ordinary resolution will be proposed to consider and, if thought fit, approve the transactions as contemplated under the Agreements. Notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no Shareholder is required to abstain from voting at the EGM.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.pwmedtech.com). Whether or not you are able to attend the EGM, please complete and sign the form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time scheduled for holding the EGM (i.e. not later than 10:00 a.m. (Hong Kong time) on Wednesday, November

29, 2017) or any adjournment thereof (as the case may be). Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM if you so wish and in such event, your proxy form shall be deemed to be revoked.

10. CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from November 28, 2017 to December 1, 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the relevant share certificates are lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. (Hong Kong time) on November 27, 2017. Shareholders whose names are recorded in the register of members of the Company on December 1, 2017 are entitled to attend and vote at the EGM.

11. RECOMMENDATION

The Directors, including the independent non-executive Directors, consider that the terms of the Share Exchange Agreement and the Investor Rights Agreement, and the transactions contemplated therein are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, including the independent non-executive Directors, recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the terms of the Share Exchange Agreement and the Investor Rights Agreement, and the transactions contemplated therein.

12. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
PW Medtech Group Limited
普华和顺集团公司
Yue'e Zhang
Chairman

The following is the text of a report set out on pages I-1 to I-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF PW MEDTECH GROUP LIMITED

Introduction

We report on the historical financial information of PW Medtech Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-80, which comprises the consolidated and company balance sheets as at 31 December 2014, 2015 and 2016 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-80 forms an integral part of this report, which has been prepared for inclusion in the circular of the Company dated 14 November 2017 (the "Circular") in connection with the proposed subscription for shares of China Biologic Products Holdings, Inc., in consideration of the regenerative medical biomaterial business through the disposal of equity interests in Health Forward Holdings Limited by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Notes 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public

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Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2014, 2015 and 2016 and the consolidated financial position of the Group as at 31 December 2014, 2015 and 2016 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

The Historical Financial Information is stated after making such adjustments to the Historical Financial Statements as defined on page I-3 as were considered necessary.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

14 November 2017

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Historical Financial Information in this report was prepared by the directors of the Company based on the previously issued consolidated financial statements of the Group for the each of the years ended 31 December 2014, 2015 and 2016 respectively ("Historical Financial Statements"). During the year ended 31 December 2016, the business of development, manufacturing and sale of orthopedic implants products (the "Orthopedic Implant Business") was disposed of and presented as discontinued operations, accordingly the financial information for the year ended 31 December 2014 has been restated for inclusion in this accountant's report. The previously issued financial statements were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Consolidated Balance Sheets

		As at 31 December		
		2014	**2015**	**2016**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Land use rights	*6*	64,662	64,110	60,937
Property, plant and equipment	*7*	389,580	659,328	687,236
Intangible assets	*8*	994,894	967,798	841,381
Deferred income tax assets	*25*	14,777	10,179	4,357
Long-term prepayments	*13*	32,536	3,980	3,455
Trade receivables	*15*	—	24,071	—
		1,496,449	1,729,466	1,597,366
Current assets				
Inventories	*14*	101,121	123,983	53,745
Trade and other receivables	*15*	371,151	357,603	686,437
Restricted cash	*16*	260,000	—	—
Term deposits	*17*	—	40,000	—
Cash and cash equivalents	*18*	153,816	288,224	149,563
		886,088	809,810	889,745
Total assets		2,382,537	2,539,276	2,487,111

		As at 31 December		
		2014	2015	2016
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Equity attributable to owners of the Company				
Share capital	*19*	1,036	1,034	979
Share premium	*19*	1,674,404	1,666,821	1,528,311
Treasury shares	*19*	—	—	(8,890)
Other reserves	*20*	95,666	82,008	71,354
Retained earnings	*21*	339,053	547,635	742,584
		2,110,159	2,297,498	2,334,338
Non-controlling interests		1,167	1,167	(336)
Total equity		2,111,326	2,298,665	2,334,002
Liabilities				
Non-current liabilities				
Deferred income tax liabilities	*25*	65,316	60,855	53,438
Deferred income	*26*	7,282	6,169	1,283
		72,598	67,024	54,721
Current liabilities				
Trade and other payables	*23*	114,318	170,266	94,763
Current income tax liabilities		9,295	3,321	3,625
Borrowings	*24*	75,000	—	—
		198,613	173,587	98,388
Total liabilities		271,211	240,611	153,109
Total equity and liabilities		2,382,537	2,539,276	2,487,111

Balance sheets of the Company

		As at 31 December		
		2014	**2015**	**2016**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Investments in and loans to subsidiaries		572,394	571,633	565,616
Current assets				
Amounts due from subsidiaries		1,071,634	1,060,497	920,293
Trade and other receivables		48	244	520
Cash and cash equivalents		24,179	20,244	12,285
		1,095,861	1,080,985	933,098
Total assets		1,668,255	1,652,618	1,498,714
Equity and liabilities				
Equity attributable to owners of the Company				
Share capital		1,036	1,034	979
Share premium		1,674,404	1,666,821	1,528,311
Treasury shares		—	—	(8,890)
Other reserves	*20(b)*	28,012	22,463	13,724
Accumulated losses	*20(b)*	(44,739)	(48,971)	(48,596)
Total equity		1,658,713	1,641,347	1,485,528
Liabilities				
Current liabilities				
Amounts due to subsidiaries		8,713	10,316	11,963
Trade and other payables		829	955	1,223
		9,542	11,271	13,186
Total liabilities		9,542	11,271	13,186
Total equity and liabilities		1,668,255	1,652,618	1,498,714

Consolidated Income Statements

		Year ended 31 December		
		2014	**2015**	**2016**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)		
Continuing operations				
Revenue	*5*	445,451	515,587	566,822
Cost of sales	*28*	(127,527)	(129,170)	(148,629)
Gross profit		317,924	386,417	418,193
Selling expenses	*28*	(58,546)	(68,563)	(77,276)
Administrative expenses	*28*	(77,987)	(61,526)	(56,652)
Research and development expenses	*28*	(19,079)	(23,898)	(19,664)
Other gains — net	*27*	7,631	7,683	14,139
Operating profit		169,943	240,113	278,740
Finance income	*30*	22,197	6,518	4,485
Finance costs	*30*	(23,553)	(1,254)	—
Finance (costs)/income — net	*30*	(1,356)	5,264	4,485
Profit before income tax		168,587	245,377	283,225
Income tax expenses	*31*	(26,202)	(41,150)	(43,068)
Profit for the year from continuing operations		142,385	204,227	240,157
Discontinued operations				
Profit/(loss) for the year from discontinued operations	*33*	34,245	4,355	(46,711)
Profit for the year		176,630	208,582	193,446

		Year ended 31 December		
		2014	2015	2016
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)		
Profit/(loss) attributable to:				
Owners of the Company		176,630	208,582	194,949
Non-controlling interests		—	—	(1,503)
		176,630	208,582	193,446
Profit/(loss) attributable to owners of the Company arises from:				
Continuing operations		142,385	204,227	241,660
Discontinued operations		34,245	4,355	(46,711)
		176,630	208,582	194,949

		Year ended 31 December		
Earnings per share from continuing and discontinued operations attributable to owners of the Company for the year (expressed in RMB cents per share)		2014	2015	2016
		(Restated)		
Basic earnings per share	*38*			
From continuing operations		8.52	12.19	14.87
From discontinued operations		2.05	0.26	(2.87)
From profit for the year		10.57	12.45	12.00
Diluted earnings per share	*38*			
From continuing operations		8.30	12.05	14.85
From discontinued operations		2.00	0.26	(2.87)
From profit for the year		10.30	12.31	11.98

Consolidated Statements of Comprehensive Income

		Year ended 31 December		
		2014	**2015**	**2016**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)		
Profit for the year		176,630	208,582	193,446
Other comprehensive income:				
Items that may be reclassified to profit or loss				
Currency translation differences	*20*	103	1,232	105
Other comprehensive income for the year, net of tax		103	1,232	105
Total comprehensive income for the year		176,733	209,814	193,551
Attributable to:				
— Owners of the Company		176,733	209,814	195,054
— Non-controlling interests		—	—	(1,503)
Total comprehensive income for the year		176,733	209,814	193,551
Total comprehensive income attributable to owners of the Company arises from:				
Continuing operations		142,488	205,459	241,765
Discontinued operations		34,245	4,355	(46,711)
		176,733	209,814	195,054

Consolidated Statements of Changes in Equity

	Attributable to owners of the Company						
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2014	1,026	1,647,840	87,407	162,423	1,898,696	—	1,898,696
Comprehensive income							
Profit for the year	—	—	—	176,630	176,630	—	176,630
Other comprehensive income							
Currency translation differences	—	—	103	—	103	—	103
Total comprehensive income	—	—	103	176,630	176,733	—	176,733
Proceeds from employee share option exercised *(Note 19)*	10	10,582	—	—	10,592	—	10,592
Transfer to share premium upon exercise of share option *(Note 19)*	—	15,982	(15,982)	—	—	—	—
Share option reserve	—	—	24,138	—	24,138	—	24,138
Non-controlling interest arising from business combination	—	—	—	—	—	1,167	1,167
Total transactions with owners in their capacity as owners	10	26,564	8,156	—	34,730	1,167	35,897
Balance at 31 December 2014	1,036	1,674,404	95,666	339,053	2,110,159	1,167	2,111,326

	Attributable to owners of the Company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015	1,036	1,674,404	95,666	339,053	2,110,159	1,167	2,111,326
Comprehensive income							
Profit for the year	—	—	—	208,582	208,582	—	208,582
Other comprehensive income							
Currency translation differences	—	—	1,232	—	1,232	—	1,232
Total comprehensive income	—	—	1,232	208,582	209,814	—	209,814
Proceeds from employee share option exercised *(Note 19)*	8	8,656	—	—	8,664	—	8,664
Buy-back of shares *(Note 19)*	(10)	(29,671)	—	—	(29,681)	—	(29,681)
Transfer to share premium upon exercise of share option *(Note 19)*	—	13,432	(13,432)	—	—	—	—
Share option reserve	—	—	(1,458)	—	(1,458)	—	(1,458)
Total transactions with owners in their capacity as owners	(2)	(7,583)	(14,890)	—	(22,475)	—	(22,475)
Balance at 31 December 2015	1,034	1,666,821	82,008	547,635	2,297,498	1,167	2,298,665

	Attributable to owners of the Company							
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016	1,034	1,666,821	—	82,008	547,635	2,297,498	1,167	2,298,665
Comprehensive income								
Profit for the year	—	—	—	—	194,949	194,949	(1,503)	193,446
Other comprehensive income								
Currency translation differences	—	—	—	105	—	105	—	105
Total comprehensive income	—	—	—	105	194,949	195,054	(1,503)	193,551
Proceeds from employee share option exercised *(Note 19)*	—	102	—	—	—	102	—	102
Buy-back of shares *(Note 19)*	(55)	(138,776)	(8,890)	—	—	(147,721)	—	(147,721)
Transfer to share premium upon exercise of share option *(Note 19)*	—	164	—	(164)	—	—	—	—
Share option reserve	—	—	—	(10,595)	—	(10,595)	—	(10,595)
Total transactions with owners in their capacity as owners	(55)	(138,510)	(8,890)	(10,759)	—	(158,214)	—	(158,214)
Balance at 31 December 2016	979	1,528,311	(8,890)	71,354	742,584	2,334,338	(336)	2,334,002

Consolidated Statements of Cash Flows

		Year ended 31 December		
		2014	**2015**	**2016**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Cash generated from operations	*34(a)*	138,084	311,777	324,380
Interest paid		(15,744)	(1,254)	—
Income tax paid		(36,240)	(50,548)	(57,617)
Net cash generated from operating activities		86,100	259,975	266,763
Cash flows from investing activities				
Acquisition of subsidiaries-net of cash acquired	*34(d)*	(798,599)	—	—
Disposals of subsidiaries	*34(e)*	3,000	1,000	(29,908)
Payments for property, plant and equipment		(37,209)	(22,671)	(4,366)
Payments for construction in progress		(142,109)	(243,183)	(270,562)
Purchases of land use rights	*6*	(4,568)	(804)	(630)
Purchases of intangible assets	*8*	(1,161)	(90)	(1,218)
Purchases of available-for-sale financial assets	*10*	—	(280,000)	(309,700)
Net (increase)/decrease in restricted cash		(223,000)	260,000	—
Proceeds from disposals of available-for-sale financial assets		127,311	280,422	310,859
Proceeds from disposals of property, plant and equipment	*34(c)*	827	6,404	589
Interest received		—	6,281	3,979
Net (increase)/decrease in term deposits		—	(40,000)	40,000
Government grants relating to assets received		5,400	—	—
Net cash used in investing activities		(1,070,108)	(32,641)	(260,957)

		Year ended 31 December		
		2014	2015	2016
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from financing activities				
Buy-back of shares	*19*	—	(29,681)	(147,721)
Proceeds from employee share option exercised	*19*	10,592	8,664	102
Proceeds from borrowings		240,000	190,000	—
Repayment of borrowings		(258,000)	(265,000)	—
Net cash used in financing activities		(7,408)	(96,017)	(147,619)
Net (decrease)/increase in cash and cash equivalents		(991,416)	131,317	(141,813)
Cash and cash equivalents at beginning of the year	*18*	1,145,641	153,816	288,224
Exchange (losses)/gains on cash and cash equivalents		(409)	3,091	3,152
Cash and cash equivalents at end of the year		153,816	288,224	149,563

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE GROUP

1 GENERAL INFORMATION

PW Medtech Group Limited (the "Company", previously known as "Pyholding Limited") was incorporated in the Cayman Islands on 13 May 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company's registered office is the Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 November 2013.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the development, manufacturing and sale of (i) regenerative medical biomaterial products (the "Regenerative Medical Biomaterial Business"); (ii) advanced infusion set products (the "Infusion Set Business"); and (iii) orthopedic implants products in the People's Republic of China (the "PRC"). In 2016, the Orthopedic Implant Business was disposed of and presented as a discontinued operations during the Track Record Period (Note 33).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the historical financial information of the Group are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The Historical Financial Information of the Group have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available-for-sale financial assets, which are carried at fair value.

The preparation of the Historical Financial Information of the Group in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information of the Group are disclosed in Note 4.

2.1.1 *Changes in accounting policy and disclosures*

New standards and interpretations not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2017, and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 4 (Amendment)	Amendments regarding implementation of HKFRS 9	1 January 2018
HKFRS 15 (Amendment)	Revenue from contracts with customers — Clarifications	1 January 2018
Annual improvement 2014–2016	Amendments to other HKFRSs	1 January 2018
HK(IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16	Leases	1 January 2019
HK(IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2019

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group's operation. According to the preliminary assessment made by the directors of the Company, no significant impact on the financial performance and positions of the Group is expected when adopting HKFRS 9 and HKFRS 15. The directors also do not expect the adoption of HKFRS 16 would result in significant impact on the Group's financial performance and positions except for the recognition of the right-of use assets and corresponding lease liabilities arising from accounting for operating leases by the Group as a lessee.

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers'

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements.

At this stage, the Group is reviewing the contracts and will make more detailed assessments of the impact over the twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB2,765,000, see Note 36. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

2.2.1 ***Consolidation***

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combination*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposals of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the historical financial information of the Group of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the historical financial information of the Group of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The historical financial information of the Group are presented in RMB, which is the Company's functional currency and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the income statement within "Finance (costs)/income — net".

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(3) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.5 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

—	Buildings and facilities	10–48 years
—	Leasehold improvements	Shorter of remaining lease term or useful lives
—	Furniture, fittings and equipment	3–10 years
—	Machinery and equipment	5–10 years
—	Motor vehicles	5 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains — net" in the consolidated income statement.

2.7 Intangible assets

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposals. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Customer relationship*

Customer relationship acquired in a business combination is recognised at fair value at the acquisition date and are amortised using the straight-line method over their estimated useful lives of 6 years.

(c) *Trademarks and technology know-how*

Separately acquired trademarks and technology know-how at historical cost. Trademarks and technology know-how acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and technology know-how have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and technology know-how over their estimated useful lives of 15 years.

(d) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Non-current assets (or disposals groups) held-for-sale and discontinued operations

Non-current assets (or disposals groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposals groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposals, of the assets or disposals groups constituting the discontinued operation.

2.10 Financial assets

2.10.1 *Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "restricted cash", "term deposits" and "cash and cash equivalents" in the consolidated balance sheet (Note 15, 16, 17 and 18).

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 ***Recognition and measurement***

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within "Other gains — net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as "other gains — net".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2.11 Impairment of financial assets

(a) ***Asset carried at amortised cost***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(b) ***Asset classified as available for sale***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through the consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The cost excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, and short-term highly liquid investments with original maturity of three months or less.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade and othesr payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) ***Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) ***Deferred income tax***

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the historical financial information of the Group. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits

(a) *Pension obligations*

The full-time employees of the Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expenses as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leaves the Group.

(b) *Housing benefits*

The Group contributes to the state-prescribed housing fund. Such costs are charged to the consolidated income statement as incurred. Apart from those described above, the Group does not have other legal or constructive obligations over such benefits.

(c) *Bonus entitlements*

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.19 Share based payments

(a) *Equity-settled share-based payment transactions*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) ***Share-based payment transactions among Group entities***

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.20 Provisions and contingent liabilities

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after elimination of sales made within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) ***Sales of medical devices and related products***

Sales of medical devices and related products are recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a Group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) ***Interest income***

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

(c) ***Dividend income***

Dividend income is recognised when the right to receive payment is established.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight-line basis over the expected useful lives of the related assets.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.25 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by finance department and Chief Financial Officer under policies approved by the board of directors of the Company (the "Board"). Group treasury department identifies and evaluates in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, and non-derivative financial instruments, and investment of excess liquidity.

(a) *Market risk*

(i) *Foreign exchange risk*

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar ("USD"). Foreign exchange risk arises from foreign currencies held in certain overseas subsidiaries. The Group does not hedge against any fluctuation in foreign currency during the years. Management may consider entering into currency hedging transactions to manage the Group's exposure towards fluctuations in exchange rates in the future.

As at 31 December 2014, 2015 and 2016, the foreign exchange risk is immaterial to the Group.

(ii) *Cash flow and fair value interest rate risk*

Other than bank balances with variable interest rates, the Group has no other significant interest-bearing assets. Management does not anticipate any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

The Group's interest rate risk arises from borrowings including interest-free loan received from a related party. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is partially offset by cash, held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risks.

The Group adjusts the proportion of fixed interest rate debts and variable interest rate debts when the market environment change. As at 31 December 2014, 2015 and 2016, the Group's interest-bearing debt are as follows:

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
— Debt at floating rate	75,000	—	—

(iii) *Price risk*

The Group exposes to commodity price risk, mainly due to the fluctuations in prices of plastic, which are the key raw materials to the Group's products of its Infusion Set Business. During the period, the management considers the price risk exposure is not material, and the Group has the flexibility to pass the increases in raw material costs to the Group's customers.

(b) ***Credit risk***

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and available-for-sale financial assets represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

The credit risk of bank balances is limited because the counterparties are banks with good reputation and most of them are the four largest state-owned commercial banks in the PRC, or public listed companies. Most of the bank deposits of the Group are placed with financial commercial banks with a BBB+ or above Standard and Poor credit rating.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure the follow-up action is taken to recover overdue debts. We grant credit limits to certain customers in consideration of their payment history and business performance. Prepayment is usually required for orders placed over credit limits. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of the year to ensure adequate impairment losses are made for irrecoverable amounts.

Available-for-sale financial assets are short-term investments placed with state-owned financial institution in the PRC. There was no recent history of default and the executive directors of the Group are of the opinion that the credit risk related to the investment is low.

(c) ***Liquidity risk***

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

The following table details the remaining contractual maturities at the year end of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year end) and the earliest date the Group may be required to pay.

	Within 1 year	Between 1 and 2 years	Total
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2014			
Financial liabilities as included in trade and other payables *(Note 9)*	60,882	—	60,882
Borrowings, including interests	76,650	—	76,650
	137,532	—	137,532
At 31 December 2015			
Financial liabilities as included in trade and other payables *(Note 9)*	112,123	—	112,123
	112,123	—	112,123
At 31 December 2016			
Financial liabilities as included in trade and other payables *(Note 9)*	51,930	—	51,930
	51,930	—	51,930

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are current borrowings as shown in the consolidated balance sheet plus amounts due to related parties of non — trading nature. Total capital is calculated as "total equity" as shown in the consolidated balance sheet plus total borrowings.

	As at 31 December		
	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Total borrowings (RMB'000)	75,000	—	—
Total equity (RMB'000)	2,111,326	2,298,665	2,334,002
Total capital (RMB'000)	2,186,326	2,298,665	2,334,002
Gearing ratio	3.43%	—	—

3.3 Fair value estimation

(a) The Group adopts the amendment to HKFRS 9 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

(b) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2014.

	Available-for-sale financial assets *RMB'000*
At beginning of the year	—
Additions	126,537
Change in value of available-for-sale financial assets	774
Disposals	(127,311)
At end of the year	—

The following table presents the changes in level 3 instruments for the year ended 31 December 2015.

	Available-for-sale financial assets *RMB'000*
At beginning of the year	—
Additions	280,000
Change in value of available-for-sale financial assets	422
Disposals	(280,422)
At end of the year	—

The following table presents the changes in level 3 instruments for the year ended 31 December 2016.

	Available-for-sale financial assets
	RMB'000
At beginning of the year	—
Additions	309,700
Change in value of available-for-sale financial assets	1,159
Disposals	(310,859)
At end of the year	—

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) *Income taxes*

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% PRC withholding tax ("WHT"). If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the Track Record Period, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand the Group's business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of 31 December 2014, 2015 and 2016.

(b) *Impairment of trade and other receivables*

Management reviews its trade and other receivables for objective evidence of impairment. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered as objective evidence that a receivable is impaired. In determining this, management makes judgments as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect on the market and economic environment in which the debtor operates in. Where there is objective evidence of impairment, management makes judgments as to whether an impairment loss should be recorded as an expense.

(c) ***Estimated impairment of goodwill***

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7(a). The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

According to the valuations results produced by the management of the Company based on the assumptions as disclosed in Note 8, management considered that no impairment charge was required against goodwill arising from acquisitions during the Track Record Period.

In the opinion of the Company's directors, regarding Infusion Set Business, Orthopedic Implant Business or Regenerative Medical Biomaterial Business respectively, had the gross margin been 2% lower with other assumptions held constant, or had the terminal growth rate been 2% lower with other assumptions held constant, or had the discount rate been 1% higher with other assumptions held constant, there would be no impairment charge needed to be made against goodwill of the Group for the Track Record Period.

(d) ***Useful lives of property, plant and equipment***

The Group determines the estimated useful lives for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

5 SEGMENT INFORMATION

The chief operating decision-makers have been identified as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors consider the business from a product perspective, and determine that the Group has the following operating segments:

Continuing operations:

— Regenerative Medical Biomaterial Business — manufacturing and sale of regenerative medical biomaterial products;

— Infusion Set Business — manufacturing and sale of high-end infusion sets; and

— Others — operations of other businesses.

Discontinued operations:

— Orthopedic Implant Business — During 2016, Orthopedic Implant Business was disposed of and presented as discontinued operations and comparatives for the years ended 31 December 2014 and 2015 has been restated accordingly (Note 33).

The chief operating decision-makers assess the performance of the operating segments based on the operating profit of each segment. Substantially all of the businesses of the Group are carried out in the PRC.

	Continuing operations				Discontinued operations	
Year ended 31 December 2014 (Restated)	**Regenerative Medical Biomaterial Business** *RMB'000*	**Infusion Set Business** *RMB'000*	**Others** *RMB'000*	**Sub-total** *RMB'000*	**Orthopedic Implant Business** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	79,511	362,788	3,152	445,451	162,608	608,059
Cost of sales	(11,826)	(113,342)	(2,359)	(127,527)	(37,643)	(165,170)
Gross profit	67,685	249,446	793	317,924	124,965	442,889
Selling expenses	(12,707)	(44,133)	(1,706)	(58,546)	(35,678)	(94,224)
Administrative expenses	(5,649)	(68,197)	(4,141)	(77,987)	(30,050)	(108,037)
Research and development expenses	(3,382)	(14,902)	(795)	(19,079)	(16,102)	(35,181)
Other gains — net	2,488	5,068	75	7,631	679	8,310
Segment profit	48,435	127,282	(5,774)	169,943	43,814	213,757
Finance income						22,228
Finance costs						(24,663)
Finance costs — net						(2,435)
Profit before income tax						211,322
Segment assets	735,349	1,111,484	125,066	1,971,899	395,861	2,367,760
Deferred income tax assets						14,777
Total assets						2,382,537
Segment liabilities	32,024	146,396	1,533	179,953	25,942	205,895
Deferred income tax liabilities						65,316
Total liabilities						271,211
Other segment information						
Amortisation of land use rights	136	951	5	1,092	60	1,152
Depreciation of property, plant and equipment	1,199	12,176	48	13,423	10,620	24,043
Amortisation of intangible assets	9,150	4,084	—	13,234	958	14,192

Year ended 31 December 2015	Continuing operations				Discontinued operations	
	Regenerative Medical Biomaterial Business	Infusion Set Business	Others	Sub-total	Orthopedic Implant Business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	210,088	300,793	4,706	515,587	118,287	633,874
Cost of sales	(29,740)	(95,590)	(3,840)	(129,170)	(28,719)	(157,889)
Gross profit	180,348	205,203	866	386,417	89,568	475,985
Selling expenses	(27,198)	(37,990)	(3,375)	(68,563)	(31,937)	(100,500)
Administrative expenses	(19,700)	(41,624)	(202)	(61,526)	(39,809)	(101,335)
Research and development expenses	(8,529)	(13,495)	(1,874)	(23,898)	(12,070)	(35,968)
Other gains — net	468	7,215	—	7,683	2,086	9,769
Segment profit	125,389	119,309	(4,585)	240,113	7,838	247,951
Finance income						6,596
Finance costs						(1,254)
Finance income — net						5,342
Profit before income tax						253,293
Segment assets	803,056	1,168,863	18,585	1,990,504	538,593	2,529,097
Deferred income tax assets						10,179
Total assets						2,539,276
Segment liabilities	31,113	110,012	2,101	143,226	36,530	179,756
Deferred income tax liabilities						60,855
Total liabilities						240,611
Other segment information						
Amortisation of land use rights	333	956	7	1,296	60	1,356
Depreciation of property, plant and equipment	3,337	14,105	75	17,517	14,277	31,794
Amortisation of intangible assets	21,963	4,220	—	26,183	1,003	27,186

Year ended 31 December 2016	Continuing operations				Discontinued operations	
	Regenerative Medical Biomaterial Business	Infusion Set Business	Others	Sub-total	Orthopedic Implant Business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	241,745	319,583	5,494	566,822	121,108	687,930
Cost of sales	(35,096)	(109,277)	(4,256)	(148,629)	(28,677)	(177,306)
Gross profit	206,649	210,306	1,238	418,193	92,431	510,624
Selling expenses	(31,037)	(41,696)	(4,543)	(77,276)	(21,095)	(98,371)
Administrative expenses	(19,693)	(36,481)	(478)	(56,652)	(99,821)	(156,473)
Research and development expenses	(5,941)	(11,713)	(2,010)	(19,664)	(10,833)	(30,497)
Other gains — net	2,151	11,988	—	14,139	813	14,952
Segment profit	152,129	132,404	(5,793)	278,740	(38,505)	240,235
Finance income						4,511
Finance costs						(24)
Finance income — net						4,487
Profit before income tax						244,722
Segment assets	768,574	1,248,301	465,879	2,482,754	—	2,482,754
Deferred income tax assets						4,357
Total assets						2,487,111
Segment liabilities	33,439	63,870	2,362	99,671	—	99,671
Deferred income tax liabilities						53,438
Total liabilities						153,109
Other segment information						
Amortisation of land use rights	332	1,032	8	1,372	60	1,432
Depreciation of property, plant and equipment	3,252	15,357	74	18,683	16,047	34,730
Amortisation of intangible assets	21,970	4,270	—	26,240	1,003	27,243

(a) Concentration of customers

During the Track Record Period, revenue derived from sales made to one individual external customer amounted to 10% or more of the Group's total revenue. These revenues were in the Infusion Set Business segment. The revenue attributed from the customer is as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Infusion Set Business customer			
Company A	54,723	—	—
Company B	—	35,826	35,333

(b) Geographical segment information

The Group's operations, assets and most of the customers are located in the PRC. Accordingly, no geographical analysis of revenue, non-current assets and customers is presented.

6 LAND USE RIGHTS

The Group's interests in land use rights represent prepayments for operating lease of land located in the PRC, the net book values of which are analysed as follows:

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Opening net book amount	51,759	64,662	64,110
Additions	469	804	630
Acquisition of subsidiaries	13,586	—	—
Amortisation charge	(1,152)	(1,356)	(1,432)
Disposals of subsidiaries	—	—	(2,371)
Closing net book amount	64,662	64,110	60,937
Cost	67,749	68,553	66,181
Accumulated amortisation	(3,087)	(4,443)	(5,244)
	64,662	64,110	60,937

Amortisation of land use rights has been charged to the consolidated income statement as follows:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	353	444	419
Administrative expenses	799	912	1,013
	1,152	1,356	1,432

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Profit or loss of continuing operations *(Note 28)*	1,092	1,296	1,372
Profit or loss of discontinued operations	60	60	60
	1,152	1,356	1,432

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Leasehold improvements	Furniture, fittings and office equipment	Machinery and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2014							
Cost	79,367	14,050	8,304	81,113	7,161	43,686	233,681
Accumulated depreciation	(9,997)	(2,303)	(2,710)	(14,807)	(2,743)	—	(32,560)
Net book amount	69,370	11,747	5,594	66,306	4,418	43,686	201,121
Year ended 31 December 2014							
Opening net book amount	69,370	11,747	5,594	66,306	4,418	43,686	201,121
Additions	16,125	3,006	1,920	25,083	2,188	142,109	190,431
Acquisition of subsidiaries	16,214	—	121	8,298	48	—	24,681
Transfer	24,186	1,105	—	26,713	—	(52,004)	—
Disposals	—	—	(14)	(2,486)	(110)	—	(2,610)
Depreciation	(5,801)	(2,202)	(1,518)	(13,189)	(1,333)	—	(24,043)
Closing net book amount	120,094	13,656	6,103	110,725	5,211	133,791	389,580
At 31 December 2014							
Cost	141,011	18,161	16,845	148,121	9,898	133,791	467,827
Accumulated depreciation	(20,917)	(4,505)	(10,742)	(37,396)	(4,687)	—	(78,247)
Net book amount	120,094	13,656	6,103	110,725	5,211	133,791	389,580
Year ended 31 December 2015							
Opening net book amount	120,094	13,656	6,103	110,725	5,211	133,791	389,580
Additions	5,554	423	1,406	13,784	1,504	283,780	306,451
Transfer	11,228	336	73	16,492	—	(28,129)	—
Disposals	—	—	(102)	(4,766)	(41)	—	(4,909)
Depreciation	(7,874)	(2,598)	(2,298)	(17,448)	(1,576)	—	(31,794)
Closing net book amount	129,002	11,817	5,182	118,787	5,098	389,442	659,328
At 31 December 2015							
Cost	157,793	18,920	18,092	171,606	10,601	389,442	766,454
Accumulated depreciation	(28,791)	(7,103)	(12,910)	(52,819)	(5,503)	—	(107,126)
Net book amount	129,002	11,817	5,182	118,787	5,098	389,442	659,328

	Buildings and facilities	Leasehold improvements	Furniture, fittings and office equipment	Machinery and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2016							
Opening net book amount	129,002	11,817	5,182	118,787	5,098	389,442	659,328
Additions	251	—	2,861	1,027	227	229,965	234,331
Transfer	42,650	—	536	6,817	—	(50,003)	—
Disposals	—	—	(288)	(332)	(10)	—	(630)
Depreciation	(8,610)	(4,035)	(2,292)	(18,152)	(1,641)	—	(34,730)
Disposals of subsidiaries	(105,960)	(3,008)	(1,759)	(59,548)	(788)	—	(171,063)
Closing net book amount	57,333	4,774	4,240	48,599	2,886	569,404	687,236
At 31 December 2016							
Cost	83,972	6,831	14,583	86,778	6,939	569,404	768,507
Accumulated depreciation	(26,639)	(2,057)	(10,343)	(38,179)	(4,053)	—	(81,271)
Net book amount	57,333	4,774	4,240	48,599	2,886	569,404	687,236

As at 31 December 2014, 2015 and 2016, the Group is still in the process of applying the ownership certificates of certain buildings with the aggregated carrying amounts of RMB14,927,000, RMB8,579,000 and RMB8,102,000, respectively.

Depreciation of property, plant and equipment has been charged to the consolidated income statement as follows:

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	15,033	21,147	21,997
Administrative expenses	7,074	7,889	9,930
Selling and marketing expenses	791	850	1,180
Research and development expenses	1,145	1,908	1,623
	24,043	31,794	34,730

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Profit or loss of continuing operations *(Note 28)*	13,423	17,517	18,683
Profit or loss of discontinued operations	10,620	14,277	16,047
	24,043	31,794	34,730

Construction work in progress as at 31 December 2014, 2015 and 2016 mainly comprises new manufacturing factory under construction.

In 2015, the Group has capitalised borrowing costs amounting to RMB944,000 on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.25%. There was no capitalised borrowing cost for the years ended 31 December 2014 and 2016.

8 INTANGIBLE ASSETS

	Goodwill	Computer software	Trademarks	Technology know-how	Customer relationship	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2014						
Cost	249,727	198	11,755	50,343	5,012	317,035
Accumulated amortisation	—	(125)	(2,090)	(7,329)	(2,228)	(11,772)
Net book amount	249,727	73	9,665	43,014	2,784	305,263
Year ended 31 December 2014						
Opening net book amount	249,727	73	9,665	43,014	2,784	305,263
Acquisition of subsidiaries	373,229	—	22,956	306,477	—	702,662
Additions	—	1,161	—	—	—	1,161
Amortisation charge	—	(66)	(1,422)	(11,869)	(835)	(14,192)
Closing net book amount	622,956	1,168	31,199	337,622	1,949	994,894
At 31 December 2014						
Cost	622,956	1,359	34,711	356,820	5,012	1,020,858
Accumulated amortisation	—	(191)	(3,512)	(19,198)	(3,063)	(25,964)
Net book amount	622,956	1,168	31,199	337,622	1,949	994,894
Year ended 31 December 2015						
Opening net book amount	622,956	1,168	31,199	337,622	1,949	994,894
Additions	—	90	—	—	—	90
Amortisation charge	—	(248)	(2,314)	(23,789)	(835)	(27,186)
Closing net book amount	622,956	1,010	28,885	313,833	1,114	967,798
At 31 December 2015						
Cost	622,956	1,449	34,711	356,820	5,012	1,020,948
Accumulated amortisation	—	(439)	(5,826)	(42,987)	(3,898)	(53,150)
Net book amount	622,956	1,010	28,885	313,833	1,114	967,798

	Goodwill	Computer software	Trademarks	Technology know-how	Customer relationship	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2016						
Opening net book amount	622,956	1,010	28,885	313,833	1,114	967,798
Additions	—	898	—	320	—	1,218
Amortisation charge	—	(298)	(2,314)	(23,796)	(835)	(27,243)
Impairment of goodwill *(Note 33)*	(79,397)	—	—	—	—	(79,397)
Disposals of subsidiaries	(9,576)	(1,147)	—	(10,272)	—	(20,995)
Closing net book amount	533,983	463	26,571	280,085	279	841,381
At 31 December 2016						
Cost	533,983	858	34,711	343,237	5,012	917,801
Accumulated amortisation	—	(395)	(8,140)	(63,152)	(4,733)	(76,420)
Net book amount	533,983	463	26,571	280,085	279	841,381

Amortisation of intangible assets has been charged to the consolidated income statement as follows:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	10,944	22,862	22,869
Administrative expenses	991	1,175	1,225
Selling expenses	2,257	3,149	3,149
	14,192	27,186	27,243

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Profit or loss of continuing operations *(Note 28)*	13,234	26,183	26,240
Profit or loss of discontinued operations	958	1,003	1,003
	14,192	27,186	27,243

Impairment tests for goodwill

Goodwill acquired through business combinations has been primarily allocated to the Infusion Set Business, Orthopedic Implant Business and Regenerative Medical Biomaterial Business as below:

	Infusion Set Business	Orthopedic Implant Business (*)	Regenerative Medical Biomaterial Business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2014	160,754	88,973	373,229	622,956
As at 31 December 2015	160,754	88,973	373,229	622,956
As at 31 December 2016	160,754	—	373,229	533,983

Goodwill is monitored by the management at the operating segment level.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGU operates.

* Orthopedic Implant Business was disposed in 2016. (Note 33).

The key assumptions used for value-in-use calculations in 2014, 2015 and 2016 are as follows:

	Infusion Set Business			Orthopedic Implant Business			Regenerative Medical Biomaterial Business		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**
Gross margin	64.0%	65.0%	65.0%	75.0%	75.0%	—	90.0%	84.0%	86.0%
Growth rate	2.5%	2.5%	2.5%	2.5%	2.5%	—	4.0%	4.0%	4.0%
Discount rate	17.6%	17.6%	17.6%	17.6%	17.6%	—	16.0%	16.0%	16.0%

These assumptions have been used for the analysis of the CGU within the operating segment.

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the operating segment.

Management does not foresee any significant change in the key assumptions used in the value-in-use calculation that will cause the recoverable amount of goodwill to be less than its carrying amount.

9 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables *RMB'000*
Assets as per balance sheet	
At 31 December 2014	
Trade and other receivables (excluding prepayments)	362,865
Term deposits	260,000
Cash and cash equivalents	153,816
Total	776,681
At 31 December 2015	
Trade and other receivables (excluding prepayments)	347,469
Term deposits	40,000
Cash and cash equivalents	288,224
Total	675,693
At 31 December 2016	
Trade and other receivables (excluding prepayments)	679,312
Cash and cash equivalents	149,563
Total	828,875

	Liabilities at amortised cost *RMB'000*
Liabilities as per balance sheet	
At 31 December 2014	
Trade and other payables (excluding advance from customers, salary and staff welfare payables and value added tax and other taxes)	60,882
Borrowings	75,000
Total	135,882
At 31 December 2015	
Trade and other payables (excluding advance from customers, salary and staff welfare payables and value added tax and other taxes)	112,123
Total	112,123
At 31 December 2016	
Trade and other payables (excluding advance from customers, salary and staff welfare payables and value added tax and other taxes)	51,930
Total	51,930

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	—	—	—
Additions	—	280,000	309,700
Acquisition of a subsidiary *(Note 32(a))*	126,537	—	—
Change in value of available-for-sale financial assets	774	422	1,159
Disposals	(127,311)	(280,422)	(310,859)
At end of the year	—	—	—

The investments represent short-term investments placed in certain PRC state-owned banking institution with maturity within 1 year and non-determinable return rate. These investments are all denominated in RMB.

11 SUBSIDIARIES

The Company has direct or indirect interests in the following subsidiaries:

Company name	Place of incorporation and operation/kind of legal entity	Date of incorporation/ establishment	Registered/Issued and paid-up capital	Effective equity interests held 31 December 2016	2015	2014	Principal activities
Directly owned:							
PWM Investment Holdings Company Limited	Hong Kong/Limited liability company	30 October 2009	211,447,750 ordinary shares of Hong Kong dollar ("HKD") 1 each	100%	100%	100%	Investment holding
Health Access Limited ("Health Access")	Hong Kong/Limited liability company	29 June 2011	480,026,001 ordinary shares of HKD1 each	100%	100%	100%	Investment holding
Indirectly owned:							
Health Forward Holdings Limited ("Health Forward")	Hong Kong/Limited liability company	21 January 2010	10,000 ordinary shares of HKD1 each	100%	100%	100%	Investment holding
PW Medtech (Beijing) Limited (普華和順(北京)醫療科技有限公司 "PW Medtech (Beijing)")	PRC/Limited liability company	10 August 2000	RMB154,300,000	100%	100%	100%	Investment holding
Jiangsu PW Medtech Medical Device Co., Ltd. (江蘇普華和順醫療器械有限公司)	PRC/Limited liability company	10 April 2014	RMB10,000,000	100%	100%	100%	Infusion Set Business
Beijing Fert Technology Co., Ltd. (北京伏爾特技術有限公司 "Fert Technology")	PRC/Limited liability company	23 September 1997	RMB126,000,000	100%	100%	100%	Infusion Set Business
Xuzhou Yijia Medical Device Co.,Ltd. (徐州一佳醫療器械有限公司 "Xuzhou Yijia")	PRC/Limited liability company	30 June 2003	RMB7,000,000	100%	100%	100%	Infusion Set Business
Beijing Zhong Jie Tian Gong Medtech Co., Ltd. (北京中杰天工醫療科技有限公司)	PRC/Limited liability company	22 September 2011	RMB10,000,000	100%	100%	100%	Infusion Set Business

Company name	Place of incorporation and operation/kind of legal entity	Date of incorporation/ establishment	Registered/Issued and paid-up capital	Effective equity interests held 31 December 2016	2015	2014	Principal activities
Shandong Fert Technology Co., Ltd. (山東伏爾特技術有限公司)	PRC/Limited liability company	8 January 2013	RMB10,000,000	100%	100%	100%	Infusion Set Business
Shandong Fert Medical Device Co., Ltd. (山東伏爾特醫療器械有限公司)	PRC/Limited liability company	28 July 2015	RMB20,000,000	70%	70%	—	Infusion Set Business
Beijing Fert Medtech Co., Ltd. (北京伏爾特醫療科技有限公司)	PRC/Limited liability company	18 October 2016	RMB 30,000,000	100%	—	—	Infusion Set Business
Tianxinfu (Beijing) Medical Appliance Co., Ltd. (天新福(北京)醫療器材股份有限公司 "Tianxinfu")	PRC/Limited liability company	18 January 2002	RMB45,000,000	100%	100%	100%	Regenerative Medical Biomaterial Business
Beijing Lima-TXF Medical Equipment Co., Ltd. (北京麗瑪天新福醫療器械有限責任公司)	PRC/Limited liability company	10 November 2005	EURO3,200,000/ EURO1,518,500	75%*	75%*	75%*	Regenerative Medical Biomaterial Business
Disposals of subsidiaries (i):							
Lhasa Tianqiong Investment Management Co., Ltd. (拉薩天穹投資管理有限公司)	PRC/Limited liability company	30 January 2013	RMB7,000,000	—	100%	100%	Investment holding
Tianjin Yingshang Technological Development Co., Ltd. (天津市英尚科技發展有限公司)	PRC/Limited liability company	16 October 2009	RMB6,000,000	—	100%	100%	Investment holding
Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼生物材料有限公司)	PRC/Limited liability company	8 November 2001	RMB100,000,000	—	100%	100%	Orthopedic Implant Business
Tianjin Shengge Biology Engineering Co., Ltd. (天津市聖格生物工程有限公司)	PRC/Limited liability company	21 March 2006	RMB10,000,000	—	100%	100%	Orthopedic Implant Business
Anyang Weili Metal Technology Co., Ltd. (安陽市偉力金屬科技有限責任公司)	PRC/Limited liability company	12 August 1996	RMB3,000,000	—	100%	100%	Orthopedic Implant Business
Shenzhen Bone Medical Device Co., Ltd. (深圳市博恩醫療器材有限公司)	PRC/Limited liability company	12 November 2002	RMB45,000,000	—	100%	100%	Orthopedic Implant Business
Disposals of a subsidiary (ii):							
Beijing Weikangtongda Medical Device Co., Ltd. (北京維康通達醫療器械技術有限公司 "Weikangtongda")	PRC/Limited liability company	31 July 2014	RMB50,000,000	—	100%	100%	Infusion Set Business

* The directors of the Company consider that the non-controlling interests of the subsidiary were insignificant to the Group and thus the individual financial information of the subsidiary is not disclosed.

The English names of certain subsidiaries referred to above represented the best efforts by management of the Company in translating the subsidiaries' Chinese names, as they do not have official English names.

(i) On 24 December 2016, the Group entered into an agreement to dispose of the subsidiaries, which engaged in the Orthopedic implant Business, to an independent third party at a consideration of RMB450,000,000. The transaction has been completed before 31 December 2016 and the results of the Orthopedic implant Business have been presented as discontinued operations during the Track Record Period (Note 33).

(ii) On 8 December 2016, Fert Technology entered into an agreement to dispose of one of its subsidiaries, namely Weikangtongda, to an independent third party at a consideration of RMB15,000,000. The gain on disposal was approximately RMB6,099,000 (Note 27).

12 INVESTMENT IN AN ASSOCIATE

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Investment in an associate (i)	4,366	4,366	4,366
Impairment provision (ii)	(4,366)	(4,366)	(4,366)
	—	—	—

(i) Beijing XinFu Mindacam Intelligent Engineering Co., Ltd. ("Xinfu Mindacam") was incorporated in the PRC on 23 May 2007 with limited liability under the Company Law of the PRC. The registered capital of the associate was USD1,500,000, out of which 40% equity interests was contributed by Tianxinfu, at a consideration of USD600,000 (equivalent to approximately RMB4,366,000).

(ii) Xinfu Mindacam was inactive during the years ended 31 December 2014, 2015 and 2016. The Board considered that the carrying amount of the investment was not recoverable and full impairment was made against the investment.

The Board considered that there was no material associate which warrants disclosure of separate financial information.

13 LONG-TERM PREPAYMENTS

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Prepayments for property, plant and equipment	32,315	3,774	3,264
Others	221	206	191
	32,536	3,980	3,455

14 INVENTORIES

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	33,886	35,061	20,556
Work in progress	19,805	18,598	9,224
Finished goods	47,430	70,324	23,965
	101,121	123,983	53,745

The cost of inventories recognised as expense and included in "cost of sales" of continuing operations amounted to RMB142,614,000, RMB138,987,000 and RMB118,910,000 for the years ended 31 December 2014, 2015 and 2016 respectively, which included inventory write-down of RMB546,000, RMB456,000 and RMB39,000.

As at 31 December 2014, 2015 and 2016, the ageing analysis of the inventories are as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Within 12 months	76,211	89,593	50,058
1 year to 2 years	19,780	20,844	2,561
Over 2 years	5,130	13,546	1,126
	101,121	123,983	53,745

Movements on the Group's provision for impairment of inventories are as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
As at January 1	7,570	8,116	9,972
Provision for impairment of inventories	546	1,856	39
Disposal of subsidiaries	—	—	(9,442)
As at December 31	8,116	9,972	569

15 TRADE AND OTHER RECEIVABLES

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	339,498	365,643	214,125
Less: provision for impairment (a), (c)	(6,871)	(8,076)	(866)
Less: non-current portion (b)	—	(24,071)	—
Trade receivables — net (c)	332,627	333,496	213,259
Bills receivable (d)	992	2,898	689
Prepayments	8,286	10,134	7,125
Receivables from disposals of Orthopedic Implant Business *(Note 34(e))*	—	—	443,833
Receivables from disposal of a subsidiary	12,520	—	15,000
Other receivables (e)	16,726	11,075	6,531
	371,151	357,603	686,437

As at 31 December 2014, 2015 and 2016, except for the prepayments which are not financial assets, the fair value of the trade and other receivables approximated its carrying amounts. As at 31 December 2014, 2015 and 2016, the carrying amounts of the trade and other receivables are denominated in RMB.

(a) As of 31 December 2014, 2015 and 2016, trade receivables of RMB6,914,000, RMB8,084,000 and RMB4,615,000 were impaired, provision of RMB6,871,000, RMB8,076,000 and RMB866,000 have been made against these impaired trade receivables respectively. The ageing of these receivables is as follows:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Up to 3 months	—	87	—
3 months to 6 months	—	26	—
6 months to 12 months	—	864	1,151
1 year to 2 years	114	356	3,464
2 years to 3 years	745	316	—
Over 3 years	6,055	6,435	—
	6,914	8,084	4,615

The individually impaired receivables mainly relate to certain customers, which are in unexpected difficult economic situations.

(b) Non-current portion of the trade receivables

As of July 2015, Fert Technology entered into an agreement (the "Agreement") with a major customer who owed an amount of approximately RMB59,227,000 to Fert Technology. Pursuant to the Agreement, the customer should settle the amount in cash by monthly instalment of RMB2 million from August 2015 till the outstanding balance is fully settled, thus the carrying amount of the receivables has been adjusted down to current value of estimated future cash flow discounted by effective interest rate of 4.75%. As at 31 December 2016, the discounted carrying amount is RMB21,471,000 which will be due in 2017.

(c) As at 31 December 2014, 2015 snd 2016, the ageing analysis of the trade receivables based on invoice date is as follows:

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Up to 3 months	144,552	109,088	83,950
3 months to 6 months	80,059	54,014	28,062
6 months to 12 months	89,230	86,863	48,744
1 year to 2 years	16,761	98,756	36,194
2 years to 3 years	2,025	8,846	16,309
	332,627	357,567	213,259

Trade receivables arose mainly from Infusion Set Business and Orthopedic Implant Business, as sales from Regenerative Medical Biomaterial Business were normally settled by advance payments from customers. The Group agreed with the customers of Infusion Set Business and Orthopedic Implant Business in settling trade receivables with reference to credit periods within 180 days to 365 days or outstanding balances within certain limits. No interests are charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of the goods. This provision has been determined by reference to past collection experience.

Movements on the Group's provision for impairment of trade receivables are as follows:

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	7,849	6,871	8,076
(Reversal)/provision for impairment of receivables	(978)	1,205	866
Disposals of subsidiaries	—	—	(8,076)
At 31 December	6,871	8,076	866

(d) The ageing of bills receivable is within 180 days, which is within the credit term.

(e) The breakdown of other receivables is as follows:

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Interest receivable	6,198	1,517	—
Advances to employees	2,890	2,112	2,308
Deposits	1,936	1,397	1,265
Others	5,702	6,049	2,958
	16,726	11,075	6,531

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

16 RESTRICTED CASH

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Restricted term deposits	260,000	—	—

17 TERM DEPOSITS

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Term deposits	—	40,000	—

18 CASH AND CASH EQUIVALENTS

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Cash on hand	955	705	118
Cash at banks	144,361	207,385	149,445
Short-term bank deposits	8,500	80,134	—
	153,816	288,224	149,563

The carrying amount of the cash and cash equivalents are denominated in the following currencies:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
RMB	127,767	203,814	134,988
HKD	16,388	15,878	12,544
USD	9,557	68,428	1,927
EUR	104	104	104
	153,816	288,224	149,563

19 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of ordinary shares	Share capital *RMB'000*	Share premium *RMB'000*	Treasury shares *RMB'000*	Total *RMB'000*
Balance at 1 January 2014	1,660,000,000	1,026	1,647,840	—	1,648,866
Proceeds from employee share option exercised (a)	16,926,761	10	10,582	—	10,592
Transfer from other reserves upon exercise of share option	—	—	15,982	—	15,982
Balance at 31 December 2014	1,676,926,761	1,036	1,674,404	—	1,675,440
Balance at 1 January 2015	1,676,926,761	1,036	1,674,404	—	1,675,440
Proceeds from employee share option exercised (a)	13,407,407	8	8,656	—	8,664
Buy-back of shares (b)	(17,312,000)	(10)	(29,671)	—	(29,681)
Transfer from other reserves upon exercise of share option	—	—	13,432	—	13,432
Balance at 31 December 2015	1,673,022,168	1,034	1,666,821	—	1,667,855
Balance at 1 January 2016	1,673,022,168	1,034	1,666,821	—	1,667,855
Proceeds from employee share option exercised (a)	159,236	—	102	—	102
Buy-back of shares (b)	(82,864,000)	(55)	(138,776)	(8,890)	(147,721)
Transfer from other reserves upon exercise of share option	—	—	164	—	164
Balance at 31 December 2016	1,590,317,404	979	1,528,311	(8,890)	1,520,400

(a) Options exercised during the year ended 31 December 2014, 2015 and 2016 resulted in 16,926,761 share, 13,407,407 shares and 159,236 shares were issued by the Company, respectively, with the cash proceeds of HKD13,335,000, HKD10,614,000 and HKD118,000 (equivalent to RMB10,592,000, RMB8,664,000 and RMB102,000) were received, respectively.

(b) During the year ended 31 December 2015, the Company acquired and cancelled 17,312,000 of its own shares through purchases on the Stock Exchange. During the year ended 31 December 2016, the Company acquired 87,743,000 of its own shares through purchases on the Stock Exchange, of which 82,864,000 shares and 4,879,000 shares have been cancelled in 2016 and 2017, respectively.

20 OTHER RESERVES

(a) Reserve movement of the Group

	Merger Reserve (i) *RMB'000*	Translation Reserve *RMB'000*	Capital reserve *RMB'000*	Share option reserve *RMB'000*	Total *RMB'000*
Balance at 1 January 2014	63,964	5,290	(1,703)	19,856	87,407
Currency translation differences	—	103	—	—	103
Transfer to share premium upon exercise of share options *(Note 19)*	—	—	—	(15,982)	(15,982)
Share option granted *(Note 22)*	—	—	—	24,138	24,138
Balance at 31 December 2014	63,964	5,393	(1,703)	28,012	95,666
Balance at 1 January 2015	63,964	5,393	(1,703)	28,012	95,666
Currency translation differences	—	1,232	—	—	1,232
Transfer to share premium upon exercise of share options *(Note19)*	—	—	—	(13,432)	(13,432)
Share option forfeited *(Note 22)*	—	—	—	(1,458)	(1,458)
Balance at 31 December 2015	63,964	6,625	(1,703)	13,122	82,008
Balance at 1 January 2016	63,964	6,625	(1,703)	13,122	82,008
Currency translation differences	—	105	—	—	105
Transfer to share premium upon exercise of share options *(Note19)*	—	—	—	(164)	(164)
Share option forfeited *(Note 22)*	—	—	—	(10,595)	(10,595)
Balance at 31 December 2016	63,964	6,730	(1,703)	2,363	71,354

(i) The merger reserve represents: (a) the total consideration paid for the acquisition of subsidiaries under common control upon the Reorganisation; and (b) the cash contribution to the Group by the then equity owners.

(b) Reserve movement of the Company

	Accumulated losses *RMB'000*	Other reserves *RMB'000*
At 1 January 2014	(27,997)	19,856
Loss for the year	(16,742)	—
Transfer to share premium upon exercise of share options *(Note 19)*	—	(15,982)
Share option reserve	—	24,138
At 31 December 2014	(44,739)	28,012
At 1 January 2015	(44,739)	28,012
Loss for the year	(4,232)	—
Currency translation differences	—	9,341
Transfer to share premium upon exercise of share options *(Note 19)*	—	(13,432)
Share option reserve	—	(1,458)
At 31 December 2015	(48,971)	22,463
At 1 January 2016	(48,971)	22,463
Profit for the year	375	—
Currency translation differences	—	2,020
Transfer to share premium upon exercise of share options *(Note 19)*	—	(164)
Share option reserve	—	(10,595)
At 31 December 2016	(48,596)	13,724

21 RETAINED EARNINGS

	Group *RMB'000*
At 1 January 2014	162,423
Profit for the year	176,630
At 31 December 2014	339,053
At 1 January 2015	339,053
Profit for the year	208,582
At 31 December 2015	547,635
At 1 January 2016	547,635
Profit for the year	194,949
At 31 December 2016	742,584

For the years ended 31 December 2014, 2015 and 2016, statutory reserves made by the PRC subsidiaries of the Company amounting to RMB12,545,000, RMB12,545,000 and RMB15,162,000 were included in retained earnings.

22 SHARE BASED PAYMENTS

(i) Share options

On 6 July 2013, the Board approved a share option scheme (the "Scheme") for the issuance of aggregate of shares in issue on the listing date of the Company, representing 70,891,722 shares.

The purpose of the Scheme is to attract, retain and motivate employees and directors, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees and directors to participate in the growth and profitability of the Group.

The principal terms of the Scheme, approved and by resolution of our shareholders passed on 3 July 2013 and amended by resolution of our shareholders on 14 October 2013. The options under the Scheme shall vest in 4 equal tranches (being 25% of each option granted, and each tranche is hereinafter referred to as a "Tranche") on the four dates (day immediately following the expiry of 6 months after the 8 November 2013 (the "First Vesting Date"); first anniversary of the First Vesting Date; second anniversary of the First Vesting Date and third anniversary of the First Vesting Date), respectively with performance conditions. Details of the Scheme was disclosed in the Company's prospectus dated 28 October 2013.

(ii) Outstanding share options

Movements in the number of share options outstanding:

	Number of share options		
	2014	**2015**	**2016**
At 1 January	70,891,722	49,347,126	35,621,248
Exercised	(16,926,761)	(13,407,407)	(159,236)
Forfeited	(4,617,835)	(318,471)	(17,245,226)
At 31 December	49,347,126	35,621,248	18,216,786

Details of the exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2014, 2015 and 2016 are as follows:

		Number of share options		
Vesting date	**Exercise price**	**2014**	**2015**	**2016**
7 May 2015	RMB0.63	16,449,044	3,041,637	2,882,401
7 May 2016	RMB0.63	16,449,049	16,289,813	—
7 May 2017	RMB0.63	16,449,033	16,289,798	15,334,385
		49,347,126	35,621,248	18,216,786

Pursuant to the principal terms of the Scheme, certain performance conditions in respective fiscal years should be met before exercise of share options. Share-based compensation expenses recognised in prior years in relation to the third and fourth Tranche (4 tranches in total) was reversed given certain performance conditions in relation to 2015 and 2016 were not met.

The exercisable period is 10 years from the grant date of the share options.

(iii) Fair value of share options

The directors of the Company have used the Binomial Model to determine the fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, was agreed by the management of the Group in applying the Binomial Model, which are summarised below.

Risk free rate	3.59%
Dividend yield	1.00%
Expected volatility	38.00%

The weighted average fair value of options granted was RMB0.94, RMB0.97, RMB0.99 and RMB1.00 respectively for each Tranche.

23 TRADE AND OTHER PAYABLES

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	29,126	39,132	26,679
Salary and staff welfare payables	34,350	29,831	32,096
Advances from customers	17,249	20,733	4,258
Payables for construction in progress	—	40,597	—
Provisions for sales rebate	9,049	7,254	8,309
Deposits	5,296	5,487	5,658
Payables for purchase of land use rights	3,901	3,901	4,277
Value added tax and other taxes	1,837	7,579	6,479
Auditors' remuneration	1,067	6,109	2,295
Research and development expenses payables	—	1,007	—
Other payables	12,443	8,636	4,712
	114,318	170,266	94,763

As at 31 December 2014, 2015 and 2016, except for the salary and staff welfare payables, advances from customers and value added tax and other taxes which are not financial liabilities, all trade and other payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

As at 31 December 2014, 2015 and 2016, the ageing analysis of the trade payables based on invoice date are as follows:

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Up to 3 months	25,941	25,697	21,197
3 months to 6 months	538	10,754	420
6 months to 12 months	1,777	1,590	3,811
1 year to 2 years	721	344	431
2 years to 3 years	12	714	100
Over 3 years	137	33	720
	29,126	39,132	26,679

All of the carrying amounts of the Group's trade payables are denominated in RMB.

24 BORROWINGS

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Current bank borrowings — secured/guaranteed	75,000	—	—

25 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balance after offsetting is as follows:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets:			
— to be recovered within 12 months	14,777	10,179	4,357
	14,777	10,179	4,357
Deferred tax liabilities:			
— to be recovered after more than 12 months	(60,788)	(56,370)	(49,072)
— to be recovered within 12 months	(4,528)	(4,485)	(4,366)
	(65,316)	(60,855)	(53,438)
Deferred tax liabilities — net	(50,539)	(50,676)	(49,081)

Movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred tax assets:

	Provision for impairment of receivables	**Write-down of inventories to the realisable value**	**Salary and staff welfare payable**	**Provision for sales rebate**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2014	1,176	2,417	2,543	—	2,249	8,385
Recognised in consolidated income statement	(145)	58	504	278	3,046	3,741
Acquisition of a subsidiary	33	193	939	1,079	407	2,651
At 31 December 2014	1,064	2,668	3,986	1,357	5,702	14,777
At 1 January 2015	1,064	2,668	3,986	1,357	5,702	14,777
Recognised in consolidated income statement	2,259	71	(4,032)	(269)	(2,627)	(4,598)
At 31 December 2015	3,323	2,739	(46)	1,088	3,075	10,179
At 1 January 2016	3,323	2,739	(46)	1,088	3,075	10,179
Recognised in consolidated income statement	130	(122)	46	158	653	865
Disposals of subsidiaries	(3,290)	(1,208)	—	—	(2,189)	(6,687)
At 31 December 2016	163	1,409	—	1,246	1,539	4,357

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of related tax benefits through future taxable profits is probable. As at 31 December 2014, 2015 and 2016, the Group did not recognise deferred income tax assets for tax losses carried forward with the amount of RMB42,852,000, RMB41,498,000 and RMB9,571,000. These tax losses will expire in 2017 to 2021.

Deferred tax liabilities:

	Fair value surplus arising from acquisition of subsidiaries	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2014	(16,079)	—	(16,079)
Acquisition of subsidiaries	(51,773)	—	(51,773)
Recognised in consolidated income statement	2,536	—	2,536
At 31 December 2014	(65,316)	—	(65,316)
At 1 January 2015	(65,316)	—	(65,316)
Recognised in consolidated income statement	4,485	(24)	4,461
At 31 December 2015	(60,831)	(24)	(60,855)
At 1 January 2016	(60,831)	(24)	(60,855)
Recognised in consolidated income statement	4,506	(41)	4,465
Disposals of subsidiaries	2,952	—	2,952
At 31 December 2016	(53,373)	(65)	(53,438)

26 DEFERRED INCOME

Deferred income represents government grants relating to acquisition of property, plant and equipment. These government grants are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. The movement of deferred income during the year are as follows:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	2,241	7,282	6,169
Additions	5,400	—	600
Credited to consolidated income statement	(359)	(1,113)	(714)
Disposals of subsidiaries	—	—	(4,772)
At end of year	7,282	6,169	1,283

27 OTHER GAINS — NET

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)		
Government grants			
— relating to costs	5,016	6,845	6,372
— relating to assets	200	—	200
Gain on disposals of a subsidiary *(Note 11(ii))*	—	—	6,099
Realised gain on available-for-sale financial assets	2,311	422	1,159
Sales of scraps	580	1	—
Loss on disposals of property, plant and equipment	(312)	(1)	(57)
Others	(164)	416	366
	7,631	7,683	14,139

28 EXPENSES BY NATURE

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)		
Raw materials and consumable used	44,631	47,242	61,870
Changes in inventories of finished goods and work in progress	17,907	(1,767)	(12,327)
Employee benefits expenses *(Note 29)*	88,042	91,893	108,728
Depreciation of property, plant and equipment *(Note 7)*	13,423	17,517	18,683
Advertising, promotions and business development costs	34,855	27,940	26,282
Office and communication expenses	5,542	6,269	7,601
Direct research costs	17,477	10,851	9,678
Travelling and entertainment expenses	5,834	8,120	12,292
Taxes and levies	7,403	8,302	8,285
Provision for impairment of receivables	—	—	866
Write-down of inventories	74	456	39
Low-value consumables	4,712	1,511	2,090
Operating lease payments	4,443	3,055	3,459
Transportation costs	4,454	7,455	8,701
Amortisation of land use rights *(Note 6)*	1,092	1,296	1,372
Amortisation of intangible assets *(Note 8)*	13,234	26,183	26,240
Professional fee	8,198	12,094	5,262
Auditor's remuneration			
— Audit services	1,720	3,200	2,700
— Non-audit services	—	70	—
Utilities	6,418	8,514	8,974
Others	3,680	2,956	1,426
Total cost of sales, selling expenses, administrative expenses and research and development expenses	283,139	283,157	302,221

29 EMPLOYEE BENEFITS EXPENSES

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)		
Wages, salaries and bonuses	60,819	78,414	95,490
Staff welfare	2,760	4,581	6,062
Social security costs	4,698	7,719	10,944
Housing fund	2,171	2,270	3,928
Recognition/(reversal) of share-based compensation expenses	17,594	(1,091)	(7,696)
Total employee benefits expenses	88,042	91,893	108,728

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for 2016 include two (2015: one; 2014: two) directors whose emoluments are reflected in the analysis shown in Note 41. The emoluments payable to the remaining three (2015: four; 2014: three) individuals during the year are as follows:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Share-based compensation	5,105	1,640	—
Wages, salaries and bonuses	1,560	2,008	2,322
Social security costs	147	77	64
Housing fund	55	101	86
	6,867	3,826	2,472

The emoluments of these individuals fell within the following bands:

	Number of individuals Year ended 31 December		
	2014	2015	2016
Emolument bands			
Nil to HKD 1,000,000	—	2	2
HKD 1,000,001–HKD1,500,000	—	1	1
HKD 1,500,001–HKD2,000,000	1	1	—
HKD 2,500,001–HKD3,000,000	1	—	—
HKD 3,500,001–HKD4,000,000	1	—	—
	3	4	3

30 FINANCE INCOME — NET

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)		
Finance income:			
— Net foreign exchange gain	—	(269)	(2,023)
— Interest income on short-term bank deposits	(22,197)	(6,249)	(2,462)
Total finance income	(22,197)	(6,518)	(4,485)
Finance costs:			
— Interest expense on bank borrowings	14,689	1,254	—
— Net foreign exchange loss	8,864	—	—
Total finance cost	23,553	1,254	—
Finance income — net	1,356	(5,264)	(4,485)

31 INCOME TAX EXPENSES

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)		
Current income tax	31,668	40,094	48,401
Deferred income tax	(5,466)	1,056	(5,333)
Income tax expenses	26,202	41,150	43,068

Below are the major tax jurisdictions that the Group operates during the Track Record Period.

(a) Cayman Islands profits tax

The Company has not been subject to any taxation in the Cayman Islands.

(b) Hong Kong profits tax

Companies incorporated in Hong Kong are subject to the Hong Kong profits tax at a rate of 16.5% during the Track Record Period.

(c) The PRC Corporate Income Tax (the "CIT")

Except for Tianxinfu and Fert Technology, the CIT of the Group in respect of its operations in mainland China is calculated at the tax rate of 25% on the estimated assessable profits for each of the year, based on the existing legislation interpretation and practices in respect thereof.

Tianxinfu and Fert Technology were qualified as "High and New Technology Enterprises" under the CIT Law. Therefore, they were entitled to a preferential income tax rate of 15% on their estimated assessable profits during the years. They will continue to enjoy the preferential tax rate in the subsequent periods, provided that they continue to be qualified as "High and New Technology Enterprises" during such periods.

(d) WHT

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

The Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand the Group's business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of the end of 2014, 2015 and 2016.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)		
Profit before income tax	168,587	245,377	283,225
Tax calculated at statutory tax rates applicable to profits in the respective countries	42,147	61,344	70,806
Tax effects of:			
Preferential income tax rates applicable to subsidiaries	(17,629)	(21,297)	(28,283)
Tax losses for which no deferred income tax asset was recognised	2,214	3,201	810
Additional deductible allowance for research and development expenses (i)	(1,507)	(1,516)	(1,341)
Deemed income for tax purpose	383	106	114
Expenses not deductible for tax purpose	594	788	986
Adjustment in respect of prior years	—	(1,476)	(24)
Tax charge	26,202	41,150	43,068

(i) Pursuant to the CIT Law, an additional tax deduction is allowed based on the actual research and development expense charged to the consolidated income statement calculated at 50% of such expenses incurred if approved by tax authorities.

32 BUSINESS COMBINATION

(a) Acquisition of Tianxinfu

On 1 August 2014, the Group acquired 100% equity interest in Tianxinfu at a cash consideration of RMB802,632,000. The goodwill of RMB373,229,000 arising from the acquisition is attributable to the synergy between Tianxinfu and the Group from consolidating the production and operation of the existing land use right, building and production line. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Tianxinfu, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the acquisition date.

Consideration paid:

At 1 August 2014	*RMB'000*
Cash consideration	802,632
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	24,681
Land use right	13,586
Intangible assets — technology know-how	306,477
Intangible assets — trademark	22,956
Deferred income tax assets	2,651
Inventories	9,602
Trade and other receivables	1520
Available-for-sale financial assets	126,537
Cash and cash equivalents	4,033
Trade and other payables	(29,700)
Deferred income tax liabilities	(51,773)
Total identifiable net assets	430,570
Non-controlling interest	(1,167)
Goodwill	373,229
Total	802,632

Acquisition-related costs of RMB3,910,000 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2014.

Tianxinfu contributed revenue of RMB82,663,000 and net profit of RMB42,755,000 for the period from the date of it was acquired by the Group to 31 December 2014 (Note 42).

33 DISCONTINUED OPERATIONS

During the year ended 31 December 2016, the Orthopedic Implant Business was disposed of and presented as discontinued operations, the financial information for the year ended 31 December 2014 and 2015 has been restated accordingly. Below shows the the financial impact of the disposal of Orthopedic Implant Business:

	2016
	RMB'000
Consideration	450,000
Less: net asset of Orthopedic Implant Business at date of disposal (a)	(529,397)
Impairment loss resulting from disposal (*)	(79,397)

* The impairment loss reduced the carrying amount of goodwill of the Orthopedic Implant Business before the disposal (Note 8), which was recorded in "administrative expenses" in result of the discontinued operations.

The movement of goodwill is as follows:

	2016
	RMB'000
Goodwill before impairment	88,973
Impairment	(79,397)
Goodwill after impairment at date of disposal	9,576

(a) Net assets disposed of (before impairment of goodwill):

	2016
	RMB'000
Land use rights	2,371
Property, plant and equipment	171,016
Intangible assets	10,935
Goodwill	88,973
Deferred income tax assets	5,837
Inventories	79,895
Trade and other receivables	203,280
Cash and cash equivalents	27,964
Deferred income tax liabilities	(2,952)
Deferred income	(4,772)
Trade and other payables	(55,314)
Prepaid income tax	2,164
	529,397

(b) Analysis of the result of the discontinued operations is as follows:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Revenue	162,608	118,287	121,108
Cost of sales	(37,643)	(28,719)	(28,677)
Gross profit	124,965	89,568	92,431
Selling expenses	(35,678)	(31,937)	(21,095)
Administrative expenses	(30,050)	(39,809)	(99,821)
Research and development expenses	(16,102)	(12,070)	(10,833)
Other gains, net	679	2,086	813
Operating profit/(loss)	43,814	7,838	(38,505)
Finance income	31	78	26
Finance costs	(1,110)	—	(24)
Finance (costs)/income — net	(1,079)	78	2
Profit/(loss) before income tax	42,735	7,916	(38,503)
Income tax expenses	(8,490)	(3,561)	(8,208)
Profit/(loss) for the year from discontinued operations	34,245	4,355	(46,711)
Profit/(loss) for the year from discontinued operations attributable to:			
Owners of the Company	34,245	4,355	(46,711)
Non-controlling interests	—	—	—
Profit/(loss) for the year from discontinued operations	34,245	4,355	(46,711)

(c) Analysis of cash flow of the discontinued operations is as follows:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Operating cash flows	(18,632)	55,740	42,964
Investing cash flows	(52,233)	(46,513)	(41,939)
Financing cash flows	27,731	—	—
Total cash flows	(43,134)	9,227	1,025

34 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax including discontinued operations	211,322	253,293	244,722
Adjustments for:			
Depreciation of property, plant and equipment *(Note 7)*	24,043	31,794	34,730
Amortisation of intangible assets *(Note 8)*	14,192	27,186	27,243
Amortisation of land use rights *(Note 6)*	1,152	1,356	1,432
Impairment loss of goodwill resulting from disposals of Orthopedic Implant Business *(Note 8)*	—	—	79,397
Gain on disposal of a subsidiary *(Note 11(ii))*	—	—	(6,099)
Share-based compensation expenses *(Note 29)*			
— Continuing operations	17,594	(1,091)	(7,696)
— Discontinued operations	6,544	(367)	(2,899)
(Gain)/loss on disposals of property, plant and equipment			
— Continuing operations	(1,898)	1	57
— Discontinued operations	2,201	(16)	(16)
Realised gain on available-for-sale financial assets	(2,311)	(422)	(1,159)
Interest income	(22,228)	(6,281)	(2,462)
Unrealised exchange gain	—	(3,091)	(2,737)
Finance costs	15,744	1,254	—
(Reversal)/provision for impairment of receivables	(978)	12,725	866
	265,377	316,341	365,379
Change in working capital			
Inventories	3,533	(22,862)	(9,657)
Trade and other receivables	(128,905)	(25,728)	(52,185)
Deferred income	(359)	(1,113)	(114)
Trade and other payables	(1,562)	45,139	20,957
Cash generated from operating activities	138,084	311,777	324,380

(b) Non-cash transactions

The principal non-cash transaction is the disposal of subsidiaries discussed in Note 34(e).

(c) In the consolidated cash flow statement, proceeds from disposals of property, plant and equipment comprise:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Net book amount *(Note 7)*	2,610	4,909	630
(Receivables)/receipt from disposal of property, plant and equipment	(1,480)	1,480	—
(Loss)/gain on disposals of property, plant and equipment	(303)	15	(41)
Proceeds from disposals of property, plant and equipment	827	6,404	589

(d) In the consolidated cash flow statement, acquisition of subsidiaries — net of cash acquired comprise:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Cash consideration paid	(802,632)	—	—
Cash and cash equivalents in the subsidiaries acquired	4,033	—	—
	(798,599)	—	—

(e) In the consolidated cash flow statement, disposals of subsidiaries comprise:

	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Cash considerations of disposal of subsidiaries	—	—	465,000
Cash and cash equivalents held by the subsidiaries disposed	—	—	(36,075)
Consideration of disposal of subsidiaries to be received (*)	—	—	(458,833)
Cash receipt from disposals of subsidiaries	3,000	1,000	—
	3,000	1,000	(29,908)

* Amounts mainly comprise the consideration of disposal of Orthopedic Implant Business of approximately RMB443,833,000.

35 CONTINGENCIES

(a) During the year ended 31 December 2015, one of the Group's subsidiaries (the "Subsidiary") received a Demand for Response Notice (應訴通知書) and corresponding litigation materials from a court in Beijing, the PRC, in which the plaintiff filed a civil action against the Subsidiary and its former shareholders before it was being acquired by the Group (collectively, the "Defendants") due to a dispute arising from the Technology Development Agreement (技術開發合同). The plaintiff required the Defendants to be liable for the profit dividend and interest of RMB10 million and the litigation costs of the case of RMB81,800. According to a written civil ruling issued by the court in charge of the case, the plaintiff's claim was previously rejected by the court. However, upon the plaintiff has appealed to the court of intellectual property, as of 7 June 2017 the litigation completed civil second instance and a retrial is required for the court in charge of the case. Despite such retrial, the directors of the Company and the Group's attorney agent still considered that since the Subsidiary is not a principal party of the said Technology Development Agreement, it is expected that it is unlikely for the Subsidiary to undertake legal liability for the litigation. Therefore, the directors estimate that the case will not make any substantial impact to the Group, nor will result in any material loss.

(b) During the year ended 31 December 2016, a PRC intermediate people's court issued a civil judgement ("First Instance Judgement"), pursuant to which one of the Group's subsidiary (the "Subsidiary") shall undertake joint guarantee liability with another independent guarantor for a loan granted by a bank (the "Borrowing Bank" or the "Plaintiff") to the original independent borrower (the "Borrower") with principal and interest thereon totalling approximately RMB15 million, as the loan has been default in repayment. The directors of the Company and its appointed attorney agent analysed the case and considered that the Borrower is suspected of loan fraud and the Borrowing Bank may have grave fault in granting the loan to the Borrower. Accordingly, in August 2016, the Subsidiary instituted an appeal to a PRC superior people's court on rejecting the First Instance Judgement.

On 10 July 2017, the litigation of second instance commenced and the Plaintiff submitted new evidence to support its ground to grant loan to the Borrower. Up to date of this interim condensed consolidated financial information, the second instance judgement is yet to finalise, the estimated joint guarantee liability including the original loan principal and accrued interest thereon amounted to approximately RMB20 million. The directors of the Company considered that the result of second instance judgement is uncertain and the Joint Guarantor is also obligated to the joint guarantee liability. Moreover, as the Group acquired the Subsidiary subsequent to its provision of the joint guarantee, the Group is entitled to make claims against the former shareholders of the Subsidiary if the joint guarantee obligation causes any losses to the Group. Therefore, despite any unfavourable judgement, the directors of the Company are of the view that the case will not make any substantial impact to the Group, nor will result in any material loss.

36 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	24,482	175,503	17,123

(b) Operating lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The non-cancellable lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at the market rate. The Group is required to give at least a one-month notice for the termination of these agreements. The lease expenditure and related management fee, water and electricity (if necessary) charged to the consolidated income statement during the Track Record Period are disclosed in Note 28.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
No later than 1 year	3,387	4,338	1,933
Later than 1 year and no later than 5 years	9,283	6,808	832
	12,670	11,146	2,765

37 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

Saved as disclosed elsewhere in this report, the following transactions were carried out between the Group and related parties. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Key management compensation

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other allowances	2,349	3,185	3,472
Share-based compensation	8,265	2,374	—
	10,614	5,559	3,472

38 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year (Note 18).

	2014	**2015**	**2016**
	(Restated)		
Profit attributable to owners of the Company:			
— Continuing operations (RMB'000)	142,385	204,227	241,660
— Discontinued operations (RMB'000)	34,245	4,355	(46,711)
	176,630	208,582	194,949
Weighted average number of ordinary shares in issue (thousands)	1,670,397	1,674,883	1,624,838
Basic earnings/(losses) per share:			
— Continuing operations (RMB cents per share)	8.52	12.19	14.87
— Discontinued operations (RMB cents per share)	2.05	0.26	(2.87)
	10.57	12.45	12.00

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary share: share options. The share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
	(Restated)		
Profit attributable to owners of the Company:			
— Continuing operations (RMB'000)	142,385	204,227	241,660
— Discontinued operations (RMB'000)	34,245	4,355	(46,711)
	176,630	208,582	194,949
Weighted average number of ordinary shares in issue (thousands)	1,670,397	1,674,883	1,624,838
Adjustments for:			
— Share options (thousands)	44,868	19,574	2,011
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,715,265	1,694,457	1,626,849
Diluted earnings/(losses) per share:			
— Continuing operations (RMB cents per share)	8.30	12.05	14.85
— Discontinued operations (RMB cents per share)	2.00	0.26	(2.87)
	10.30	12.31	11.98

39 DIVIDENDS

There was no dividend declared by the Company for the three years ended 31 December 2014, 2015 and 2016.

40 EVENTS AFTER THE BALANCE SHEET DATE

(a) The Company repurchased 18,956,000 shares at a total consideration of HKD34,860,000 after 31 December 2016. The shares have subsequently been cancelled before the date of this report.

(b) On 27 February 2017, Xinyu Yongshuo Management and Consulting LLP (the "Subscriber"), an independent third party, entered into a capital increase agreement with certain subsidiaries of the Group, namely Tianxinfu and Health Access and PW Medtech (Beijing), pursuant to which the Subscriber subscribed the 11,250,000 new shares of Tianxinfu at a consideration of RMB500 million.

41 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The emoluments of each director and the chief executive during the year are set out below:

For the year ended 31 December 2014

Name of directors	Share-based compensation	Wages, salaries and bonuses	Fees	Social security and housing fund	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chief executive officer and executive director					
— Mr. Jiang Liwei	2,431	1,500	—	75	4,006
Non-executive directors					
— Mr. Lin Junshan	4,862	300	—	—	5,162
— Ms. Yue'e Zhang (i)	—	—	—	—	—
— Mr. Feng Dai	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng	486	—	158	—	644
— Mr. Wang Xiaogang	486	—	158	—	644
— Mr. Zhang Xingdong	—	—	158	—	158

(i) Ms. Yue'e Zhang was elected as the chairman of the Board and was re-designated from a non-executive director to an executive director on 3 February 2015.

For the year ended 31 December 2015

Name of directors	Share-based compensation	Wages, salaries and bonuses	Fees	Social security and housing fund	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chief executive officer and executive director					
— Ms. Yue'e Zhang	—	862	—	—	862
— Mr. Jiang Liwei	698	1,504	—	33	2,235
Non-executive directors					
— Mr. Lin Junshan	1,396	300	—	—	1,696
— Mr. Fang Min (i)	—	—	—	—	—
— Mr. Feng Dai (ii)	—	—	—	—	—
Independent non-executive directors					
— Mr. Chen Geng	140	—	162	—	302
— Mr. Wang Xiaogang	140	—	162	—	302
— Mr. Zhang Xingdong	—	—	162	—	162

(i) Mr. Fang Min was appointed on 20 March 2015 and resigned on 25 August 2015.

(ii) Mr. Feng Dai was resigned on 20 March 2015.

For the year ended 31 December 2016

Name of directors	Share-based compensation	Wages, salaries and bonuses	Fees	Social security and housing fund	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chief executive officer and executive director					
— Ms. Yue'e Zhang	—	1,007	—	—	1,007
— Mr. Jiang Liwei	—	1,500	—	146	1,646
Non-executive directors					
— Mr. Lin Junshan	—	300	—	—	300
Independent non-executive directors					
— Mr. Chen Geng	—	—	173	—	173
— Mr. Wang Xiaogang	—	—	173	—	173
— Mr. Zhang Xingdong	—	—	173	—	173

42 SUBSEQUENT DISPOSAL OF BUSINESS

(a) On 12 October 2017, the Company and China Biologic Products Holdings ("CBPO") entered into a share exchange agreement, pursuant to which the Company agreed to subscribe for the CBPO Shares in consideration of Regenerative Medical Biomaterial Business (the "Disposal Business") in the form of the entire issued share capital of Health Forward, which in turn owns 80% equity interest in Tianxinfu, at a total value of approximately US$513.45 million (equivalent to approximately RMB3.38 billion) with a subscription price of US$93.0 (equivalent to approximately RMB611.9) per CBPO Share (the "Disposal"). During the years ended 31 December 2014, 2015 and 2016, the Disposal Business has been operated and owned by Tianxinfu and its subsidiaries. Health Forward, an investment holding and indirectly wholly-owned subsidiary of the Company, and a number of the Company's wholly owned subsidiaries (the "Group Vendor Companies") entered into a series of assets purchase agreements, pursuant to which the Group Vendor Companies would transfer their entire aggregate 80% interests in Tianxinfu to Health Forward (the "Reorganisation"). The Reorganisation had been completed on 19 September 2017.

The assets and liabilities related to the Disposal comprised the following:

(1) Assets and liabilities relating to the Disposal Business, which was carried out by Tianxinfu and its subsidiaries, indirectly owned by the Company as of 80% as of the date of this report; and

(2) Assets and liabilities of Health Forward. Health Forward is an investment holding company and owned 80% equity interest in Tianxinfu. As at 31 December 2016, assets and liabilities of Health Forward primarily consisted of amounts due from/to related parties, with net carrying amount of approximately RMB22.9 million. During the year ended 31 December 2016, net loss attributable to owners of Health Forward was approximately RMB45,696, resulting from the operating expenses, and led to net cash outflows in operating activities of approximately RMB184,768.

After the disposal of the Disposal Business, the Group retains mainly Infusion Set Business (the "Remaining Group").

(b) Financial Information of Tianxinfu

(i) *Basis of preparation*

As disclosed in the Note 32, on 1 August 2014, the Group acquired 100% equity interests of Disposal Business from a third party. The Group consolidated the Disposal Business since the date of the acquisition.

The unaudited financial information of the Disposal Business for the period from 1 January 2014 to 31 July 2014 has been prepared under the historical cost convention; for the period from 1 August 2014 to 31 December 2016, the unaudited financial information of the Disposal Business has been prepared as modified by the re-measurement of its identifiable assets and liabilities to fair value at the acquisition date.

(ii) Consolidated Balance Sheets of Tianxinfu as at 31 July 2014, 31 December 2014, 2015 and 2016

	As at 31 July	As at 31 December		
	2014	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Land use rights	1,157	13,445	13,105	12,765
Property, plant and equipment	21,393	23,894	21,575	20,839
Intangible assets	—	693,511	671,549	649,899
Deferred income tax assets	2,651	3,513	1,730	1,685
	25,201	734,363	707,959	685,188
Current assets				
Inventories	9,602	10,062	13,199	15,028
Amount due from related parties	—	175,000	—	20,321
Available-for-sale financial assets	126,357	—	—	—
Trade and other receivables	1,520	1,115	1,610	5,596
Cash and cash equivalents	4,033	8,333	98,431	84,126
	141,692	194,510	113,240	125,071
Total assets	166,893	928,873	821,199	810,259
Equity				
Equity attributable to owners of the Company				
Paid-in/share capital	25,000	25,000	25,000	45,000
Capital/share premium	137	137	137	638
Other reserves	14,037	679,106	679,128	681,769
Retained earnings/(accumulated losses)	96,852	139,607	(20,107)	(33,721)
	136,026	843,850	684,158	693,686
Non-controlling interests	1,167	1,167	1,167	1,167
Total equity	137,193	845,017	685,325	694,853

	As at 31 July	As at 31 December		
	2014	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Non-current liabilities				
Deferred income tax liabilities	—	50,349	46,958	43,583
	—	50,349	46,958	43,583
Current liabilities				
Amount due to related parties	—	—	56,025	36,295
Trade and other payables	29,700	28,759	27,981	33,494
Current income tax liabilities	—	4,748	4,910	2,034
	29,700	33,507	88,916	71,823
Total liabilities	29,700	83,856	135,874	115,406
Total equity and liabilities	166,893	928,873	821,199	810,259

(iii) Consolidated Income Statements of the Tianxinfu for the seven months ended 31 July 2014, five months ended 31 December 2014 and years ended 31 December 2015 and 2016

	Seven months ended 31 July	Five months ended 31 December	Year ended 31 December	
	2014	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	99,627	82,663	214,794	247,239
Cost of sales	(9,032)	(14,186)	(33,580)	(39,353)
	90,595	68,477	181,214	207,886
Gross profit				
Selling expenses	(11,587)	(14,414)	(30,573)	(35,580)
Administrative expenses	(15,108)	(2,545)	(9,381)	(11,331)
Research and development expenses	(3,757)	(4,176)	(10,402)	(7,952)
Other gains — net	631	2,563	468	2,151
Operating profit	60,774	49,905	131,326	155,174
Finance income	30	42	114	210
Profit before income tax	60,804	49,947	131,440	155,384
Income tax expenses	(9,181)	(7,192)	(18,621)	(22,856)
Profit for the period/year	51,623	42,755	112,819	132,528
Profit attributable to:				
Owners of the Company	51,623	42,755	112,819	132,528
Non-controlling interests	—	—	—	—
	51,623	42,755	112,819	132,528

(iv) Consolidated Statements Comprehensive Income of Tianxinfu for the seven months ended 31 July 2014, five months ended 31 December 2014 and years ended 31 December 2015 and 2016

	Seven months ended 31 July 2014	Five months ended 31 December 2014	Year ended 31 December 2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the period/year	51,623	42,755	112,819	132,528
Other comprehensive income:				
Items that may be reclassified to profit or loss				
Change in value of available-for-sale financial assets	1,537	1,537	—	—
Other comprehensive income for the period/year, net of tax	1,537	(1,537)	—	—
Total comprehensive income for the period/year	53,160	41,218	112,819	132,528
Attributable to:				
— Owners of the Company	53,160	41,218	112,819	132,528
— Non-controlling interests	—	—	—	—
Total comprehensive income for the period/year	53,160	41,218	112,819	132,528

(v) Consolidated Statements of Changes in Equity of Tianxinfu for the seven months ended 31 July 2014, five months ended 31 December 2014 and years ended 31 December 2015 and 2016

	Attributable to owners of the Company						
	Paid-in capital	Capital premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2014	25,000	137	12,674	45,229	83,040	1,167	84,207
Comprehensive income							
Profit for the period	—	—	—	51,623	51,623	—	51,623
Other comprehensive income							
Change in value of available-for-sale financial assets	—	—	1,537	—	1,537	—	1,537
Disposal of available-for-sale financial assets	—	—	(174)	—	(174)	—	(174)
Total comprehensive income	—	—	1,363	51,623	52,986	—	52,986
Balance at 31 July 2014	25,000	137	14,037	96,852	136,026	1,167	137,193

	Attributable to owners of the Company						
	Paid-in capital	Capital premium	Other reserves	Retained earnings/ (accumulated losses)	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 August 2014	25,000	137	14,037	96,852	136,026	1,167	137,193
The re-measurement of identifiable assets and liabilities to fair value at the acquisition date	—	—	666,606	—	666,606	—	666,606
Comprehensive income							
Profit for the period	—	—	—	42,755	42,755	—	42,755
Other comprehensive income							
Disposal of available-for-sale financial assets	—	—	(1,537)	—	(1,537)	—	(1,537)
Total comprehensive income	—	—	(1,537)	42,755	41,218	—	41,218
Balance at 31 December 2014	25,000	137	679,106	139,607	843,850	1,167	845,017
Balance at 1 January 2015	25,000	137	679,106	139,607	843,850	1,167	845,017
Comprehensive income							
Profit for the period (*)	—	—	—	112,819	112,819	—	112,819
Total comprehensive income	—	—	—	112,819	112,819	—	112,819
Profit distribution-appropriation of statutory surplus	—	—	22	(22)	—	—	—
Dividends relating to 2015	—	—	—	(272,511)	(272,511)	—	(272,511)
Total transactions with owners in their capacity as owners	—	—	22	(272,533)	(272,511)	—	(272,511)
Balance at 31 December 2015	25,000	137	679,128	(20,107)	684,158	1,167	685,325

	Attributable to owners of the Company						
	Paid-in capital	**Capital premium**	**Other reserves**	**Retained earnings/ (accumulated losses)**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016	25,000	137	679,128	(20,107)	684,158	1,167	685,325
Comprehensive income							
Profit for the year (*)	—	—	—	132,528	132,528	—	132,528
Total comprehensive income	—	—	—	132,528	132,528	—	132,528
Profit distribution-appropriation of statutory surplus	—	—	15,163	(15,163)	—	—	—
Dividends relating to 2016	—	—	—	(123,000)	(123,000)	—	(123,000)
Capitalisation of reserves	20,000	501	(12,522)	(7,979)	—	—	—
Total transactions with owners in their capacity as owners	20,000	501	2,641	(146,142)	(123,000)	—	(123,000)
Balance at 31 December 2016	45,000	638	681,769	(33,721)	693,686	1,167	694,853

* Profit for 2015 and 2016 included an amortisation of intangible assets, which recognised by the Company upon acquisition of Tianxinfu in 2014, of RMB18,668,000 and RMB18,668,000, respectively.

(vi) Consolidated Statements of Cash Flows of Tianxinfu for the seven months ended 31 July 2014, five months ended 31 December 2014 and years ended 31 December 2015 and 2016

	Seven months ended 31 July 2014	Five months ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Cash generated from operations	72,695	57,167	149,478	176,861
Income tax paid	(14,227)	(4,730)	(20,067)	(29,062)
Net cash generated from operating activities	58,468	52,437	129,411	147,799
Cash flows from investing activities				
Payments for property, plant and equipment	(249)	(552)	(1,519)	(1,516)
Payments for construction in progress	—	—	—	(762)
Purchases of available-for-sale financial assets	(62,000)	—	(280,000)	(309,700)
Proceeds from disposals of available-for-sale financial assets	2,674	125,000	280,422	310,859
Loans provided to related parties	—	(175,000)	(55,500)	(130,000)
Loan repayments received from related parties	—	—	16,750	—
Proceeds from disposals of property, plant and equipment	—	73	425	187
Interest received	30	42	114	325
Realised gain on available-for-sale financial assets	—	2,311	—	—
Net cash used in investing activities	(59,545)	(48,126)	(39,308)	(130,607)
Cash flows from financing activities				
Dividends paid to the Company's shareholders	—	—	—	(31,500)
Net cash used in financing activities	—	—	—	(31,500)
Net (decrease)/increase in cash and cash equivalents	(1,077)	4,311	90,103	(14,308)
Cash and cash equivalents at beginning of the period/year	5,110	4,033	8,333	98,431
Exchange (losses)/gains on cash and cash equivalents	—	(11)	(5)	3
Cash and cash equivalents at end of the period/year	4,033	8,333	98,431	84,126

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2016 and up to the date of this report. No dividend or distribution has been declared or made by the Company in respect of any period subsequent to 31 December 2016. In August 2017, Tianxinfu reached a dividends distribution resolution according to the attributable net profits, which amounted to RMB96.50 million. According to the resolution, RMB12.66 million was paid to Xinyuyongshuo, its minority shareholder.

羅兵咸永道

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION OF PW MEDTECH GROUP LIMITED

(incorporated in Cayman Islands with limited liability)

To the Board of Directors of PW Medtech Group Limited

Introduction

We have reviewed the historical financial information set out on pages II-3 to II-37 which comprise the consolidated balance sheets of PW Medtech Group Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2017, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the six months ended 30 June 2016 and 30 June 2017 (the "Relevant Periods") and explanatory notes (the "interim financial information"). The interim financial information has been prepared solely for the purpose of inclusion in the circular to be issued by the Company in connection with the proposed subscription for shares of China Biologic Products Holdings, Inc., in consideration of the regenerative medical biomaterial business through the disposal of equity interests in Health Forward Holdings Limited in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The directors of the Company are responsible for the presentation and preparation of the interim financial information of the Group in accordance with the basis of preparation set out in note 2 to the interim financial information and paragraph 14.68(2)(a)(i) of the Listing Rules. The directors are also responsible for such internal control as management determines is necessary to enable the preparation of interim financial information that is free from material misstatement, whether due to fraud or error. The interim financial information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 "Presentation of Financial Statements" or an interim financial report as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by HKICPA and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by HKICPA. A review of the interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the interim financial information.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 November 2017

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

	Note	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Assets			
Non-current assets			
Land use rights	7	60,237	60,937
Property, plant and equipment	8	830,440	687,236
Intangible assets	9	828,270	841,381
Deferred income tax assets	19	3,874	4,357
Long-term prepayments	11	4,923	3,455
		1,727,744	1,597,366
Current assets			
Inventories	12	64,048	53,745
Trade and other receivables	13	269,141	686,437
Available-for-sale financial assets	10	600,373	—
Cash and cash equivalents	14	415,739	149,563
		1,349,301	889,745
Total assets		3,077,045	2,487,111
Equity			
Equity attributable to owners of the Company			
Share capital	15	973	979
Share premium	15	1,511,415	1,528,311
Treasury shares	15	—	(8,890)
Other reserves	16	406,514	71,354
Retained earnings		824,301	742,584
		2,743,203	2,334,338
Non-controlling interests		177,643	(336)
Total equity		2,920,846	2,334,002

	Note	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	*19*	51,941	53,438
Deferred income	*20*	1,183	1,283
		53,124	54,721
Current liabilities			
Trade and other payables	*18*	101,418	94,763
Current income tax liabilities		1,657	3,625
		103,075	98,388
Total liabilities		156,199	153,109
Total equity and liabilities		3,077,045	2,487,111

The notes on page II-11 to II-37 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS

		Unaudited Six months ended 30 June	
		2017	**2016**
	Note	*RMB'000*	*RMB'000*
Continuing operations			
Revenue	*6*	258,314	264,531
Cost of sales	*6*	(70,479)	(68,439)
Gross profit		187,835	196,092
Selling expenses		(43,306)	(33,586)
Administrative expenses		(32,329)	(32,640)
Research and development expenses		(11,079)	(9,493)
Other gains — net	*21*	7,222	4,890
Operating profit		108,343	125,263
Finance income — net		1,476	1,775
Profit before income tax		109,819	127,038
Income tax expenses	*22*	(18,306)	(19,985)
Profit for the period from continuing operations		91,513	107,053
Discontinued operations			
Profit for the period from discontinued operations	*23*	—	10,837
Profit for the period		91,513	117,890
Profit attributable to:			
Owners of the Company		81,717	118,835
Non-controlling interests		9,796	(945)
		91,513	117,890
Profit attributable to owners of the Company arises from:			
Continuing operations		81,717	107,998
Discontinued operations		—	10,837
		81,717	118,835

	Note	Unaudited Six months ended 30 June 2017	2016
Earnings per share from continuing and discontinued operations attributable to owners of the Company for the period (expressed in RMB cents per share)			
Basic earnings per share	*27*		
From continuing operations		5.17	6.57
From discontinued operations		—	0.66
From profit for the period		5.17	7.23
Diluted earnings per share	*27*		
From continuing operations		5.16	6.52
From discontinued operations		—	0.65
From profit for the period		5.16	7.17

The notes on page II-11 to II-37 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Profit for the period	91,513	117,890
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Change in value of available-for-sale financial assets	3,930	95
Currency translation differences	(56)	934
Other comprehensive income for the period, net of tax	3,874	1,029
Total comprehensive income for the period	95,387	118,919
Total comprehensive income for the period attributable to:		
— Owners of the Company	84,805	119,864
— Non-controlling interests	10,582	(945)
Total comprehensive income for the period	95,387	118,919
Total comprehensive income attributable to owners of the Company arises from:		
Continuing operations	84,805	109,027
Discontinued operations	—	10,837
	84,805	119,864

The notes on page II-11 to II-37 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Attributable to owners of the Company							
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Treasury shares** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2017	979	1,528,311	(8,890)	71,354	742,584	2,334,338	(336)	2,334,002
Comprehensive income								
Profit for the period	—	—	—	—	81,717	81,717	9,796	91,513
Currency translation differences	—	—	—	(56)	—	(56)	—	(56)
Change in value of available-for-sale financial assets	—	—	—	3,144	—	3,144	786	3,930
Total comprehensive income	—	—	—	3,088	81,717	84,805	10,582	95,387
Transactions with owners								
Exercise of employee share options *(Note 15)*	—	921	—	(531)	—	390	—	390
Buy-back and cancellation of shares *(Note 15)*	(6)	(17,817)	8,890	—	—	(8,933)	—	(8,933)
Changes in ownership interest in subsidiaries without change of control *(Note 16)*	—	—	—	332,603	—	332,603	167,397	500,000
Total transactions with owners	(6)	(16,896)	8,890	332,072	—	324,060	167,397	491,457
Balance at 30 June 2017	973	1,511,415	—	406,514	824,301	2,743,203	177,643	2,920,846

	Unaudited							
	Attributable to owners of the Company							
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016	1,034	1,666,821	—	82,008	547,635	2,297,498	1,167	2,298,665
Comprehensive income								
Profit for the period	—	—	—	—	118,835	118,835	(945)	117,890
Currency translation differences	—	—	—	934	—	934	—	934
Change in value of available-for-sale financial assets	—	—	—	95	—	95	—	95
Total comprehensive income	—	—	—	1,029	118,835	119,864	(945)	118,919
Transactions with owners								
Proceeds from exercise of employee share options	—	100	—	—	—	100	—	100
Buy-back of shares	(28)	(61,846)	(14,901)	—	—	(76,775)	—	(76,775)
Transfer to share premium upon exercise of share options	—	157	—	(157)	—	—	—	—
Share option reserve	—	—	—	1,615	—	1,615	—	1,615
Total transactions with owners	(28)	(61,589)	(14,901)	1,458	—	(75,060)	—	(75,060)
Balance at 30 June 2016	1,006	1,605,232	(14,901)	84,495	666,470	2,342,302	222	2,342,524

The notes on page II-11 to II-37 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

		Six months ended 30 June	
		2017	**2016**
	Note	*RMB'000*	*RMB'000*
		(Unaudited)	(Unaudited)
Cash flows from operating activities			
Cash generated from operations		83,952	146,138
Income tax paid		(21,981)	(26,841)
Cash flows from operating activities — net		61,971	119,297
Cash flows from investing activities			
Purchases of property, plant and equipment		(6,663)	(630)
Payments for development costs of construction in progress		(140,730)	(151,706)
Purchases of land use rights		—	(115)
Purchases of available-for-sale financial assets	*10*	(730,750)	(175,000)
Proceeds from disposal of available-for-sale financial assets	*10*	135,831	155,720
Proceeds from disposal of subsidiaries	*13(c), (d)*	453,833	—
Net decrease in term deposits		—	40,000
Proceeds from disposal of property, plant and equipment		—	707
Interest received		1,476	3,301
Cash flows from investing activities — net		(287,003)	(127,723)
Cash flows from financing activities			
Buy-back of shares	*15*	(8,933)	(76,775)
Proceeds from capital injection by non-controlling interests	*16*	500,000	—
Proceeds from exercise of employee share options		390	100
Cash flows from financing activities — net		491,457	(76,675)
Net increase/(decrease) in cash and cash equivalents		266,425	(85,101)
Cash and cash equivalents at beginning of the period		149,563	288,224
Exchange (losses)/gains		(249)	1,535
Cash and cash equivalents at end of the period	*14*	415,739	204,658

The notes on page II-11 to II-37 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE GROUP

PW Medtech Group Limited (the "Company") was incorporated in the Cayman Islands on 13 May 2011 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company's registered office is the Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 8 November 2013.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the development, manufacturing and sale of (i) regenerative medical biomaterial products (the "Regenerative Medical Biomaterial Business"); (ii) advanced infusion set products (the "Infusion Set Business") in the People's Republic of China (the "PRC") during the period. Previously, the Group was also engaged in the development, manufacturing and sale of orthopedic implants products (the "Orthopedic Implant Business") which has been substantially disposed in December 2016 (Note 23).

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting". This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of preparation of the Group's annual financial statements for the year ended 31 December 2016, as described in therein.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following amendments to standards have been adopted by the Group for the financial year beginning on or after 1 January 2017:

HKAS 12 (Amendment)	Income taxes
HKAS 7 (Amendment)	Statement of cash flows
HKFRS 12 (Amendment)	Disclosure of interest in other entities

The adoption of these amendments did not have any significant impact on the Group.

The following new standards and amendments to standards have been issued and are relevant to the Group, but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 4 (Amendment)	Amendments regarding implementation of HKFRS 9	1 January 2018
HKFRS 15 (Amendment)	Revenue from contracts with customers — Clarifications	1 January 2018
Annual improvement 2014–2016	Amendments to other HKFRSs	1 January 2018
HK(IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16	Leases	1 January 2019
HK(IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2019

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group's operation. According to the preliminary assessment made by the directors of the Company, no significant impact on the financial performance and positions of the Group is expected when adopting HKFRS 9 and HKFRS 15. The directors also do not expect the adoption of HKFRS 16 would result in significant impact on the Group's financial performance and positions except for the recognition of the right of use assets and corresponding lease liabilities arising from accounting for operating leases by the Group as a lessee.

4 ESTIMATES

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 31 December 2016.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in the risk management policies since the year end.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

5.3 Fair value estimation

(a) The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

(b) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the six months ended 30 June 2017.

	Available-for-sale financial assets *RMB'000*
At beginning of the period	—
Additions	730,750
Change in value of available-for-sale financial assets	5,454
Disposals	(135,831)
At end of the period	600,373

6 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

Continuing operations:

— Regenerative Medical Biomaterial Business — manufacturing and sale of regenerative medical biomaterial products;

— Infusion Set Business — manufacturing and sale of high-end infusion sets; and

— Others — operations of other businesses.

Discontinued operations:

— Orthopedic Implant Business — In December 2016, the Group has substantially disposed of its Orthopedic Implant Business which constitutes discontinued operations to the Group and accordingly the segment information for the six months ended 30 June 2016 has been restated.

The chief operating decision-makers assess the performance of the operating segments based on the operating profit of each segment. All of the businesses of the Group are carried out in the PRC.

	Continuing operations				Discontinued operations	
Six months ended 30 June 2017	**Regenerative Medical Biomaterial Business**	**Infusion Set Business**	**Others**	**Sub-total**	**Orthopedic Implant Business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	125,440	130,276	2,598	258,314	—	258,314
Cost of sales	(19,064)	(49,392)	(2,023)	(70,479)	—	(70,479)
Gross profit	106,376	80,884	575	187,835	—	187,835
Selling expenses	(16,108)	(24,732)	(2,466)	(43,306)	—	(43,306)
Administrative expenses	(11,315)	(20,864)	(150)	(32,329)	—	(32,329)
Research and development expenses	(4,620)	(5,188)	(1,271)	(11,079)	—	(11,079)
Other gains — net	1,487	5,735	—	7,222	—	7,222
Segment profit	75,820	35,835	(3,312)	108,343	—	108,343
Finance income — net						1,476
Profit before income tax						109,819

Six months ended 30 June 2016	Continuing operations				Discontinued operations	
	Regenerative Medical Biomaterial Business	Infusion Set Business	Others	Sub-total	Orthopedic Implant Business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	110,643	151,919	1,969	264,531	55,292	319,823
Cost of sales	(16,852)	(49,953)	(1,634)	(68,439)	(13,581)	(82,020)
Gross profit	93,791	101,966	335	196,092	41,711	237,803
Selling expenses	(12,592)	(19,309)	(1,685)	(33,586)	(10,460)	(44,046)
Administrative expenses	(10,393)	(22,143)	(104)	(32,640)	(12,464)	(45,104)
Research and development expenses	(3,862)	(4,576)	(1,055)	(9,493)	(4,451)	(13,944)
Other gains — net	769	4,145	(24)	4,890	426	5,316
Segment profit	67,713	60,083	(2,533)	125,263	14,762	140,025
Finance income — net						1,784
Profit before income tax						141,809

Reportable segments' assets are reconciled to total assets as follows:

	Continuing operations				Discontinued operations	
	Regenerative Medical Biomaterial Business	Infusion Set Business	Others	Sub-total	Orthopedic Implant Business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 June 2017						
Segment assets	1,345,932	1,690,626	36,613	3,073,171	—	3,073,171
Deferred income tax assets						3,874
Total assets						3,077,045
Segment liabilities	44,565	54,257	5,436	104,258	—	104,258
Deferred income tax liabilities						51,941
Total liabilities						156,199
As at 31 December 2016						
Segment assets	768,574	1,248,301	465,879	2,482,754	—	2,482,754
Deferred income tax assets						4,357
Total assets						2,487,111
Segment liabilities	33,439	63,870	2,362	99,671	—	99,671
Deferred income tax liabilities						53,438
Total liabilities						153,109

7 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
In the PRC, held on:		
Leases of between 47 to 50 years	60,237	60,937

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
At beginning of the period	60,937	64,110
Additions	—	491
Amortisation charge	(700)	(713)
At end of the period	60,237	63,888

Amortisation of land use rights has been charged to the consolidated income statement as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit or loss of continuing operations	700	683
Profit or loss of discontinued operations	—	30
	700	713

8 PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
At beginning of the period	687,236	659,328
Additions	152,156	121,725
Disposals	(3)	(992)
Depreciation	(8,949)	(18,015)
At end of the period	830,440	762,046

Depreciation of property, plant and equipment has been charged to the consolidated income statement as follows:

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit or loss of continuing operations	8,949	8,768
Profit or loss of discontinued operations	—	9,247
	8,949	18,015

9 INTANGIBLE ASSETS

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
At beginning of the period	841,381	967,798
Amortisation charge	(13,111)	(13,615)
At end of the period	828,270	954,183

Amortisation of intangible assets has been charged to the interim condensed consolidated income statement as follows:

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit or loss of continuing operations	13,111	13,113
Profit or loss of discontinued operations	—	502
	13,111	13,615

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
At beginning of the period	—	—
Additions	730,750	175,000
Change in value of available-for-sale financial assets	5,454	815
Disposals	(135,831)	(155,720)
At end of the period	600,373	20,095

The investments represent short-term investments placed in certain PRC state-owned banking institutions with maturity within 1 year and without fixed return. These investments are denominated in RMB.

11 LONG-TERM PREPAYMENTS

	30 June 2017	**31 December 2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayments for property, plant and equipment	4,923	3,264
Others	—	191
	4,923	3,455

12 INVENTORIES

	30 June 2017	**31 December 2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials	19,880	20,556
Work in progress	13,685	9,224
Finished goods	30,483	23,965
	64,048	53,745

13 TRADE AND OTHER RECEIVABLES

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	210,954	214,125
Less: provision for impairment	(866)	(866)
Trade receivables — net *(Note (a))*	210,088	213,259
Bills receivable *(Note (b))*	1,535	689
Prepayments	39,696	7,125
Receivables from disposals of Orthopedic Implant Business *(Note (c))*	5,000	443,833
Receivables from disposal of a subsidiary *(Note (d))*	—	15,000
Value added tax recoverable	4,878	—
Other receivables	7,944	6,531
	269,141	686,437

As at 30 June 2017 and 31 December 2016, except for the prepayments which are not financial assets, the fair value of the trade and other receivables approximated its carrying amounts. As at 30 June 2017 and 31 December 2016, the carrying amount of the trade and other receivables is denominated in RMB.

(a) As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade receivables based on invoice date is as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Up to 3 months	52,074	83,950
3 months to 6 months	37,362	28,062
6 months to 12 months	60,180	48,744
1 year to 2 years	50,964	36,194
2 years to 3 years	9,508	16,309
	210,088	213,259

Trade receivables arose mainly from Infusion Set Business. Advanced payments were normally required for sales in Regenerative Medical Biomaterial Business. For the major customers of Infusion Set Business, the Group normally granted credit periods in a range from 180 days to 365 days or set certain limits. No interests are charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of the goods. This provision has been determined by reference to past collection experience.

As at 30 June 2017, trade receivables of RMB4,615,000 (31 December 2016: RMB4,615,000) were impaired and provision of RMB866,000 (31 December 2016: RMB866,000) has been made. The individually impaired receivables mainly relate to certain customers, which are in unexpected difficult economic situations.

Movements on the Group's provision for impairment of trade receivables are as follows:

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
At beginning of the period	866	8,076
Reversal of impairment of receivables	—	(683)
At end of the period	866	7,393

(b) The ageing of bills receivable is within 180 days, which is within the credit term.

(c) On 24 December 2016, the Group entered into an agreement to dispose of the subsidiaries in Orthopedic Implant Business to an independent third party at a consideration of RMB450,000,000. The transaction has been completed by 31 December 2016. During the period, part of the consideration of RMB438,833,000 has been received.

(d) On 8 December 2016, Beijing Fert Technology Co., Ltd. ("Fert Technology") entered into an agreement to dispose of one of its subsidiaries, namely Weikangtongda, to an independent third party at a consideration of RMB15,000,000. The gain on disposal was approximately RMB6,099,000. The consideration of RMB15,000,000 has been received during the six months ended 30 June 2017.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

14 CASH AND CASH EQUIVALENTS

	30 June	31 December
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cash on hand	146	118
Cash at banks	415,593	149,445
	415,739	149,563

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	30 June	31 December
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
RMB	412,902	134,988
HKD	2,053	12,544
USD	680	1,927
EUR	104	104
	415,739	149,563

15 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of ordinary shares	Share capital *RMB'000*	Share premium *RMB'000*	Treasury shares *RMB'000*	Total *RMB'000*
Unaudited					
Balance at 1 January 2017	1,590,317,404	979	1,528,311	(8,890)	1,520,400
Proceeds from employee share options exercised (a)	557,325	—	390	—	390
Buy-back and cancellation of shares (b)	(10,027,000)	(6)	(17,817)	8,890	(8,933)
Transfer from other reserves upon exercise of share options	—	—	531	—	531
Balance at 30 June 2017	1,580,847,729	973	1,511,415	—	1,512,388
Unaudited					
Balance at 1 January 2016	1,673,022,168	1,034	1,666,821	—	1,667,855
Proceeds from employee share options exercised	159,236	—	100	—	100
Buy-back of shares	(42,422,000)	(28)	(61,846)	(14,901)	(76,775)
Transfer from other reserves upon exercise of share options	—	—	157	—	157
Balance at 30 June 2016	1,630,759,404	1,006	1,605,232	(14,901)	1,591,337

(a) Options exercised during the six months ended 30 June 2017 resulted in 557,325 shares being issued with cash proceeds of HKD442,000 (equivalent to RMB390,000).

(b) During the period, the Company acquired 5,148,000 of its own shares through purchases on The Stock Exchange of Hong Kong Limited and cancelled all the treasury shares.

16 OTHER RESERVES

	Merger reserve	Translation reserve	Capital reserve	Share option reserve	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unaudited						
Balance at 1 January 2017	63,964	6,730	(1,703)	2,363	—	71,354
Currency translation differences	—	(56)	—	—	—	(56)
Change in value of available-for-sale financial assets	—	—	—	—	3,144	3,144
Transfer to share premium upon exercise of share options *(Note 15)*	—	—	—	(531)	—	(531)
Changes in ownership interest in subsidiaries without change of control (a)	—	—	332,603	—	—	332,603
Balance at 30 June 2017	63,964	6,674	330,900	1,832	3,144	406,514
Unaudited						
Balance at 1 January 2016	63,964	6,625	(1,703)	13,122	—	82,008
Currency translation differences	—	934	—	—	—	934
Change in value of available-for-sale financial assets	—	—	—	—	95	95
Transfer to share premium upon exercise of share options *(Note 15)*	—	—	—	(157)	—	(157)
Share option reserve	—	—	—	1,615	—	1,615
Balance at 30 June 2016	63,964	7,559	(1,703)	14,580	95	84,495

(a) On 27 February 2017, Xinyu Yongshuo Management and Consulting LLP, an independent third party, subscribed 11,250,000 new shares issued by Tianxinfu (Beijing) Medical Appliance Co., Ltd. ("Tianxinfu", an indirectly wholly-owned subsidiary of the Company) at a cash consideration of RMB500 million which accounts for 20% equity interest of Tianxinfu.

17 SHARE BASED PAYMENTS

(i) Share options

On 6 July 2013, the Board approved a share option scheme (the "Scheme") for the issuance of aggregate of shares in issue on the listing date of the Company, representing 70,891,722 shares.

The purpose of the Scheme is to attract, retain and motivate employees and directors, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow such employees and directors to participate in the growth and profitability of the Group.

The principal terms of the Scheme were approved by resolution of the shareholders of the Company on 3 July 2013 and amended by resolution of the shareholders of the Company on 14 October 2013. The options under the Scheme shall vest in 4 equal tranches (being 25% of each option granted, and each tranche is hereinafter referred to as a "Tranche") on the four dates (day immediately following the expiry of six months after the listing date, 8 November 2013 (the "First Vesting Date"); first anniversary of the First Vesting Date; second anniversary of the First Vesting Date and third anniversary of the First Vesting Date), respectively, with performance conditions. Details of the Scheme are disclosed in the Company's prospectus dated 28 October 2013.

(ii) Outstanding share options

Movements in the number of share options outstanding:

	Number of share options	
	2017	**2016**
At 1 January	18,216,786	35,621,248
Exercised	(557,325)	(159,236)
Forfeited	(15,334,385)	(16,926,755)
At 30 June	2,325,076	18,535,257

Details of the exercise prices and the respective numbers of share options which remained outstanding as at 30 June 2017 and 31 December 2016 are as follows:

		Number of share options outstanding	
		30 June	**31 December**
Vesting date	**Exercise price**	**2017**	**2016**
7 May 2015	RMB0.63	2,325,076	2,882,401
7 May 2017	RMB0.63	—	15,334,385
		2,325,076	18,216,786

The exercisable period is 10 years from the grant date of the share options

(iii) Fair value of share options

The directors of the Company have used the Binomial Model to determine the fair value of the options granted. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, made by the management in applying the Binomial Model, are summarised below.

Risk free rate	3.59%
Dividend yield	1%
Expected volatility	38%

The weighted average fair value of each Tranche of options is RMB0.94, RMB0.97, RMB0.99 and RMB1.00 respectively.

18 TRADE AND OTHER PAYABLES

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	19,676	26,679
Salary and staff welfare payables	28,046	32,096
Advances from customers	17,583	4,258
Payables for construction in progress	6,422	—
Provisions for sales rebate	6,769	8,309
Deposits from distributors	5,685	5,658
Payables for purchase of land use rights	4,277	4,277
Value added tax and other taxes	4,604	6,479
Professional fee	2,836	2,295
Other payables	5,520	4,712
	101,418	94,763

As at 30 June 2017 and 31 December 2016, except for the salary and staff welfare payables, advances from customers and value added tax and other taxes which are not financial liabilities, all trade and other payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

At 30 June 2017 and 31 December 2016, the ageing analysis of the trade payables based on invoice date are as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Up to 3 months	13,313	21,197
3 months to 6 months	919	420
6 months to 12 months	689	3,811
1 year to 2 years	3,686	431
2 years to 3 years	264	100
Over 3 years	805	720
	19,676	26,679

All of the carrying amounts of the Group's trade payables are denominated in RMB.

19 DEFERRED INCOME TAX

Deferred income tax assets

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
At beginning of the period	4,357	10,179
Charged to profit or loss	(483)	(213)
At end of the period	3,874	9,966

Deferred income tax liabilities

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
At beginning of the period	(53,438)	(60,855)
Credited to profit or loss	2,190	2,202
Charged to other comprehensive income	(693)	—
At end of the period	(51,941)	(58,653)

20 DEFERRED INCOME

Deferred income represents government grants relating to acquisition of property, plant and equipment. These government grants are deferred and recognised in the interim condensed consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. The movements of deferred income are as follows:

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
At beginning of the period	1,283	6,169
Credited to profit or loss	(100)	(357)
At end of the period	1,183	5,812

21 OTHER GAINS — NET

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Government grants	6,252	4,012
— relating to costs	6,152	3,912
— relating to assets	100	100
Realised gain on available-for-sale financial assets	831	720
Loss on disposal of property, plant and equipment	—	(24)
Others	139	182
	7,222	4,890

22 INCOME TAX EXPENSES

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current income tax	20,013	22,739
Deferred income tax	(1,707)	(2,754)
Income tax expenses	18,306	19,985

Below are the major tax jurisdictions that the Group operates during the period.

(a) Cayman Islands profits tax

The Company has not been subject to any taxation in the Cayman Islands.

(b) Hong Kong profits tax

Companies incorporated in Hong Kong are subject to the Hong Kong profits tax at a rate of 16.5%.

(c) The PRC Corporate Income Tax (the "CIT")

Except for Tianxinfu, Fert Technology and Xuzhou Yijia Medical Device Co.,Ltd. ("Xuzhou Yijia"), the CIT of the Group in respect of its operations in mainland China is calculated at the tax rate of 25% on the estimated assessable profits for each of the year, based on the existing legislation interpretation and practices in respect thereof.

Tianxinfu, Fert Technology and Xuzhou Yijia were qualified as "High and New Technology Enterprises" under the CIT Law. Therefore, they were entitled to a preferential income tax rate of 15% on their estimated assessable profits during the year. They will continue to enjoy the preferential tax rate in the subsequent periods, provided that they continue to be qualified as "High and New Technology Enterprises" during such periods.

(d) Withholding tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant WHT rate will be reduced from 10% to 5%.

The Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand the Group's business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of the end of the period.

23 DISCONTINUED OPERATIONS

In December 2016, the Group has substantially disposed of its Orthopedic Implant Business which constitutes discontinued operations.

(a) Analysis of the result of the discontinued operations for the six months ended 30 June 2016 is as follows:

	Six months ended 30 June 2016 *RMB'000*
Revenue	55,292
Cost of sales	(13,581)
Gross profit	41,711
Selling expenses	(10,460)
Administrative expenses	(12,464)
Research and development expenses	(4,451)
Other gains — net	426
Operating profit	14,762
Finance income — net	9
Profit before income tax	14,771
Income tax expenses	(3,934)
Profit for the period from discontinued operations	10,837
Profit for the period from discontinued operations attributable to:	
Owners of the Company	10,837
Non-controlling interests	—
Profit for the period from discontinued operations	10,837

(b) Analysis of cash flow of the discontinued operations for the six months ended 30 June 2016 is as follows:

	Six months ended 30 June 2016
	RMB'000
Operating cash flows	8,443
Investing cash flows	(8,543)
Financing cash flows	—
Total cash flows	(100)

24 CONTINGENCIES

(a) During the year ended 31 December 2015, one of the Group's subsidiaries (the "Subsidiary") received a Demand for Response Notice (應訴通知書) and corresponding litigation materials from a court in Beijing, the PRC, in which the plaintiff filed a civil action against the Subsidiary and its former shareholders before it was being acquired by the Group (collectively, the "Defendants") due to a dispute arising from the Technology Development Agreement (技術開發合同). The plaintiff required the Defendants to be liable for the profit dividend and interest of RMB10 million and the litigation costs of the case of RMB81,800. According to a written civil ruling issued by the court in charge of the case, the plaintiff's claim was previously rejected by the court. However, upon the plaintiff has appealed to the court of intellectual property, as of 7 June 2017 the litigation completed civil second instance and a retrial is required for the court in charge of the case. Despite such retrial, the directors of the Company and the Group's attorney agent still considered that since the Subsidiary is not a principal party of the said Technology Development Agreement, it is expected that it is unlikely for the Subsidiary to undertake legal liability for the litigation. Therefore, the directors estimate that the case will not make any substantial impact to the Group, nor will result in any material loss.

(b) During the year ended 31 December 2016, a PRC intermediate people's court issued a civil judgement ("First Instance Judgement"), pursuant to which one of the Subsidiary shall undertake joint guarantee liability with another independent guarantor for a loan granted by a bank (the "Borrowing Bank" or the "Plaintiff") to the original independent borrower (the "Borrower") with principal and interest thereon totalling approximately RMB15 million, as the loan has been default in repayment. The directors of the Company and its appointed attorney agent analysed the case and considered that the Borrower is suspected of loan fraud and the Borrowing Bank may have grave fault in granting the loan to the Borrower. Accordingly, in August 2016, the Subsidiary instituted an appeal to a PRC superior people's court on rejecting the First Instance Judgement.

On 10 July 2017, the litigation of second instance commenced and the Plaintiff submitted new evidence to support its ground to grant loan to the Borrower. Up to date of this interim condensed consolidated financial information, the second instance judgement is yet to finalise, the estimated joint guarantee liability including the original loan principal and accrued interest thereon amounted to approximately RMB20 million. The directors of the Company considered that the result of second instance judgement is uncertain and the Joint Guarantor is also obligated to the joint guarantee liability. Furthermore, as the Group acquired the Subsidiary subsequent to its provision of the joint guarantee, the Group is entitled to make claims against the former shareholders of the Subsidiary if the joint guarantee obligation causes any losses to the Group. Therefore, despite any unfavourable judgement, the directors of the Company are of the view that the case will not make any substantial impact to the Group, nor will result in any material loss.

25 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the period but not yet incurred is as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	117,723	17,123

(b) Operating lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The majority of these non-cancellable leases are renewable at the end of the lease period at the market rate. The Group is required to give at least one-month notice for termination of these agreements. The lease expenditure and related management fee, water and electricity expenses (if necessary) were charged to the interim condensed consolidated income statements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
No later than 1 year	441	1,933
Later than 1 year and no later than 5 years	683	832
	1,124	2,765

26 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

The following transactions were carried out between the Group and related parties. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and in accordance with the terms negotiated between the Group and the respective related parties.

(a) Key management compensation

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries and other allowances	1,425	1,575
Share-based compensation	—	702
	1,425	2,277

27 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2017.

	Unaudited Six months ended 30 June	
	2017	**2016**
Profit attributable to owners of the Company:		
— Continuing operations (RMB'000)	81,717	107,998
— Discontinued operations (RMB'000)	—	10,837
	81,717	118,835
Weighted average number of ordinary shares in issue (thousands)	1,582,004	1,644,310
Basic earnings per share:		
— Continuing operations (RMB cents per share)	5.17	6.57
— Discontinued operations (RMB cents per share)	—	0.66
	5.17	7.23

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all dilutive potential ordinary shares arising from share options granted by the Company (collectively forming the denominator for computing the diluted earnings per share). No adjustment is made to earnings (numerator).

	Unaudited Six months ended 30 June	
	2017	**2016**
Profit attributable to owners of the Company:		
— Continuing operations (RMB'000)	81,717	107,998
— Discontinued operations (RMB'000)	—	10,837
	81,717	118,835
Weighted average number of ordinary shares in issue (thousands)	1,582,004	1,644,310
Adjustments for:		
— Share options (thousands)	1,537	12,281
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,583,541	1,656,591
Diluted earnings per share:		
— Continuing operations (RMB cents per share)	5.16	6.52
— Discontinued operations (RMB cents per share)	—	0.65
	5.16	7.17

28 DIVIDENDS

The Board does not propose an interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil).

29 SUBSEQUENT DISPOSAL OF BUSINESS

(a) On 12 October 2017, the Company and China Biologic Products Holdings (the "CBPO") entered into a share exchange agreement, pursuant to which the Company agreed to subscribe for the CBPO Shares in consideration of the Disposal Business in the form of the entire issued share capital of Health Forward, which in turn owns 80% equity interest in Tianxinfu, at a total value of approximately US$513.45 million (equivalent to approximately RMB3.38 billion) with a subscription price of US$93.0 (equivalent to approximately RMB611.9) per CBPO. During the years ended 31 December 2014, 2015 and 2016 and six months ended 30 June 2017, the Disposal Business has been operated and owned by Tianxinfu (Beijing) Medical Appliance Co., Ltd ("Tianxinfu") and its subsidiaries. Subsequent to 30 June 2017, Health Forward, an investment holding and indirectly wholly-owned subsidiary of the Company, and a number of the Company's wholly owned subsidiaries (the "Group Vendor Companies") entered into a series of assets purchase agreements, pursuant to which the Group Vendor Companies would transfer their entire aggregate 80% interests in Tianxinfu to Health Forward (the "Reorganisation"). The Reorganisation had been completed on 19 September 2017.

The assets and liabilities related to the Disposal comprised the following:

(1) Assets and liabilities relating to the Disposal Business, which was carried out by Tianxinfu and its subsidiaries, indirectly owned by the Company as of 80% as of the date of this report; and

(2) Assets and liabilities of Health Forward. Health Forward is an investment holding company and owned 80% equity interest in Tianxinfu. As at 30 June 2017, assets and liabilities of Health Forward primarily consisted of amounts due from/to related parties, with net carrying amount approximately RMB23.1 million. During the six months ended 30 June 2017, net loss attributable to owners of Health Forward was approximately RMB46,912, resulting from the operating expenses, and led to net cash outflows in operating activities of approximately RMB40,862.

After the disposal of the Disposal Business, the Group retains mainly Infusion Set Business (the "Remaining Group").

(b) Financial Information of Tianxinfu

(i) ***Basis of preparation***

On 1 August 2014, the Group acquired 100% equity interests of Disposal Business from a third party.

For the Relevant Periods, the unaudited financial information of the Disposal Business has been prepared as modified by the re-measurement of its identifiable assets and liabilities to fair value at the acquisition date.

(ii) ***Interim Condensed Consolidated Balance Sheet of Tianxinfu.***

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Assets		
Non-current assets		
Land use rights	12,595	12,765
Property, plant and equipment	28,201	20,839
Intangible assets	638,902	649,899
Deferred income tax assets	1,481	1,685
	681,179	685,188
Current assets		
Inventories	18,557	15,028
Amount due from related parties	20,632	20,321
Trade and other receivables	4,473	5,596
Available-for-sale financial assets	600,373	—
Cash and cash equivalents	67,983	84,126
	712,018	125,071
Total assets	1,393,197	810,259
Equity		
Equity attributable to owners of the Company		
Share capital	360,000	45,000
Share premium	185,638	638
Other reserves	693,253	681,769
Retained earnings/(accumulated losses)	24,589	(33,721)
	1,263,480	693,686
Non-controlling interests	1,167	1,167
Total equity	1,264,647	694,853
Liabilities		
Non-current liabilities		
Deferred income tax liabilities	42,576	43,583
	42,576	43,583
Current liabilities		
Amount due to related parties	36,295	36,295
Trade and other payables	48,785	33,494
Current income tax liabilities	894	2,034
	85,974	71,823
Total liabilities	128,550	115,406
Total equity and liabilities	1,393,197	810,259

(iii) ***Interim Condensed Consolidated Income Statement of Tianxinfu.***

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Revenue	128,245	112,612
Cost of sales	(21,485)	(18,487)
Gross profit	106,760	94,125
Selling expenses	(18,432)	(14,277)
Administrative expenses	(6,683)	(6,045)
Research and development expenses	(5,891)	(4,917)
Other gains — net	1,487	746
Operating profit	77,241	69,632
Finance income — net	354	59
Profit before income tax	77,595	69,691
Income tax expenses	(11,731)	(10,179)
Profit for the period	65,864	59,512
Profit attributable to:		
Owners of the Company	65,864	59,512
Non-controlling interests	—	—
	65,864	59,512

(iv) ***Interim Condensed Consolidated Statement of Comprehensive Income of Tianxinfu.***

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Profit for the period	65,864	59,512
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Change in value of available-for-sale financial assets	3,930	95
Other comprehensive income for the period, net of tax	3,930	95
Total comprehensive income for the period	69,794	59,607
Total comprehensive income for the period attributable to:		
— Owners of the Company	69,794	59,607
— Non-controlling interests	—	—
Total comprehensive income for the period	69,794	59,607

(v) *Interim Condensed Consolidated Statements of Changes in Equity of Tianxinfu.*

	Attributable to owners of the Company						
	Share capital	Share premium	Other reserves	Retained earnings/ accumulated losses)	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017	45,000	638	681,769	(33,721)	693,686	1,167	694,853
Comprehensive income							
Profit for the year	—	—	—	65,864	65,864	—	65,864
Change in value of available-for-sale financial assets	—	—	3,930	—	3,930	—	3,930
Total comprehensive income	—	—	3,930	65,864	69,794	—	69,794
Profit distribution-appropriation of statutory surplus	—	—	7,554	(7,554)	—	—	—
Capital contribution from owner	315,000	185,000	—	—	500,000	—	500,000
Total transactions with owners in their capacity as owners	315,000	185,000	7,554	(7,554)	500,000	—	500,000
Balance at 30 June 2017	360,000	185,638	693,253	24,589	1,263,480	1,167	1,264,647

	Attributable to owners of the Company						
	Share capital	Share premium	Other reserves	Retained earnings/ accumulated losses)	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016	25,000	137	679,128	(20,107)	684,158	1,167	685,325
Comprehensive income							
Profit for the year	—	—	—	59,512	59,512	—	59,512
Change in value of available-for-sale financial assets	—	—	95	—	95	—	95
Total comprehensive income	—	—	95	59,512	59,607	—	59,607
Capitalisation of reserves	20,000	501	(12,522)	(7,979)	—	—	—
Total transactions with owners in their capacity as owners	20,000	501	(12,522)	(7,979)	—	—	—
Balance at 30 June 2016	45,000	638	666,701	31,426	743,765	1,167	744,932

(vi) *Interim Condensed Consolidated Statements of Cash Flow of Tianxinfu.*

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	94,983	86,349
Income tax paid	(14,367)	(15,837)
Cash flows from operating activities — net	80,616	70,512
Cash flows from investing activities		
Purchases of property, plant and equipment	(552)	(240)
Payments for development costs of construction in progress	(1,648)	(147)
Purchases of available-for-sale financial assets	(730,750)	(175,000)
Proceeds from disposal of available-for-sale financial assets	135,831	155,720
Loans provided to related parties	—	(60,000)
Interest received	354	59
Cash flows from investing activities — net	(596,765)	(79,608)
Cash flows from financing activities		
Proceeds from capital injection by owner	500,000	—
Dividends	—	(31,500)
Cash flows from financing activities — net	500,000	(31,500)
Net decrease in cash and cash equivalents	(16,149)	(40,596)
Cash and cash equivalents at beginning of the period	84,126	98,431
Exchange gains	6	4
Cash and cash equivalents at end of the period	67,983	57,839

30 EVENT OCCURRING AFTER THE BALANCE SHEET DATE

(a) The Company repurchased 13,808,000 shares at a total consideration of HKD24,851,000 after 30 June 2017. The shares have subsequently been cancelled before the date of this report.

(b) In August 2017, Tianxinfu reached a dividends distribution resolution according to the attributable net profits, which amounted to RMB96.50 million. According to the resolution, RMB12.66 million was paid to Xinyuyongshuo, its minority shareholder.

1. INDEBTEDNESS STATEMENT

As at the close of business on September 30, 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, liabilities under acceptance (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages, charges, guarantees of other material contingent liabilities.

2. STATEMENT OF SUFFICIENCY OF WORKING CAPITAL

Taking into account the expected financial resources available to the Group including the internally generated funds, the Directors are of the opinion that, following the completion of the Disposal and the Subscription, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

3. FINANCIAL EFFECTS OF THE TRANSACTION ON THE GROUP

Immediately following the Closing, the Company is expected to become the single largest shareholder of CBPO, with the CBPO Shares representing approximately 16.66% of the enlarged issued share capital of CBPO; Health Forward and Tianxinfu will cease to be subsidiaries of the Company. Therefore, the results, assets and liabilities of the Disposal Group will no longer be consolidated into the financial statements of the Company. Instead, the results, assets and liabilities of the Disposal Group will be consolidated into the financial statements of CBPO.

Immediately following the Closing, CBPO will not become a subsidiary of the Company and its results will not be consolidated in the financial statements of the Company. The CBPO Shares held by the Company would be treated as an investment in an associate and accounted for using the equity method of accounting. Under the equity method of accounting, the Company's share of the CBPO's results of operations would be included in the Company's consolidated income statement. Under the equity method of accounting, the Company's share of the CBPO's financial position, together with any intangible assets and goodwill identified in the purchasing accounting at acquisition date, subject to amortisation if applicable, would be included in the Company's consolidated balance sheets.

After completion of the Subscription, the Company is expected to rely on (i) its inspection rights under the company laws of the Cayman Islands where CBPO was incorporated and its information rights in accordance with CBPO's articles of association and relevant U.S. securities laws and regulations; and (ii) the Company's right under the Investor Rights Agreement to request CBPO to furnish or make available its books and records to comply with applicable securities laws and stock exchange rules for the preparation of the Group's consolidated financial results for so long as the investment by the Company in CBPO is treated as an investment in associate and accounted for using the equity method of accounting. Accordingly, the Company expects that it would be able to prepare its consolidated financial results with the investment by the Company in CBPO treated as an investment in associate and accounted for using the equity method of accounting upon completion of the Subscription.

Appendix V to this circular sets out certain unaudited pro forma financial information of the New Group, which illustrates the financial effects of the Subscription and Disposal on the assets and liabilities of the Group assuming Closing had taken place on June 30, 2017, and the financial effects of the Subscription and Disposal on the performance results of the Group for the year ended December 31, 2016 assuming Closing had taken place on 1 January 2016.

As set out in Appendix V to this circular, as a result of the Subscription and Disposal:

(i) the total assets of the Group would increase from approximately RMB3,077.05 million to approximately RMB4,817.61 million for the New Group;

(ii) the total liabilities of the Group would decrease from approximately RMB156.20 million to approximately RMB70.70 million for the New Group;

(iii) the revenue of the Group would decrease from approximately RMB566.82 million to approximately RMB319.58 million for the New Group; and

(iv) the profit before income tax would increase from approximately RMB283.23 million to approximately RMB2,875.18 million, including the other gains amounted approximately RMB2,675.80 million arising from the Subscription and Disposal, which represents the difference between the consideration and the carrying amount of net asset value of the Disposal Group assuming the Closing had taken place on January 1, 2016. The profit for the year of the Group would increase from approximately RMB193.45 million to approximately RMB2,543.30 million for the New Group.

The Directors are of the view that the Subscription and Disposal is not expected to have any material adverse impact on the financial position of the Group. As set out in "*Working Capital*" in Appendix III to this circular, the Directors are of the opinion that the New Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

Shareholders should note that the earnings contribution from CBPO after Closing will depend on the future performance of CBPO, and the actual effect of the Transaction on the assets and liabilities of the Group will depend on the financial position of CBPO as of the date of Closing, which cannot be quantified as of the Latest Practicable Date. The unaudited proforma financial information of the New Group set out in Appendix V to this circular has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group and the New Group at any future date.

4. FINANCIAL AND TRADING PROSPECTS OF THE NEW GROUP

(a) Investment in CBPO

By the acquisition of the CBPO Shares, the Company expands into a new niche market in medical industry in the PRC with fast-growing, high-margin and high-potential opportunities, which is in line with the Company's long-term strategies. CBPO has an established business with good track record in developing its plasma business. It is a leading producer of plasma products in the PRC with strong growth potential. It is among the top three producers of plasma products in the PRC in terms of 2016 sales, according to CBPO's 2016 annual report.

Tianxinfu is the largest manufacturer of artificial dura mater in the PRC. As both Tianxinfu and CBPO are industry leaders in the biomaterial industry in the PRC with state of art technology and know-how, the Company believes that a smooth business combination could create a sharing platform for both Tianxinfu and CBPO to consolidate their leading market positions and realize rapid growth. In particular, Tianxinfu would be able to strengthen its core business by leveraging CBPO's existing market presence to cross-sell and offer bundle pricing opportunities, and expand its customer bases by growing into CBPO's sales channels, hospitals and departments. At the same time, the combined scale of Tianxinfu and CBPO could also reduce costs, optimize spending, broaden market exposure and improve bargaining power with distributors, customers and suppliers.

The transactions under the Share Exchange Agreement are valued at a total amount of approximately US$513.45 million (equivalent to approximately RMB3.38 billion), which provides the Shareholders with an attractive valuation of the Disposal Group and, compared with the proposed A share listing of Tianxinfu, is expected to be consummated with more certainty and expedited timetable. The Company believes that the combination of Tianxinfu with CBPO would enhance the Company's overall valuation and create values for the Company and its shareholders. Accordingly, notwithstanding that the CBPO Shares held by the Company would only be treated as an investment in an associate of the Company at the outset, as a long-term strategic partner of CBPO and with the listing status on the Stock Exchange also with access to the U.S. capital market, the Company is expected to be exposed to diversified coverage and enhance its corporate image in two international financial centers, which could create more potentials and possibilities for the Company's future development.

(b) Infusion Set Business

The infusion set business includes producing precision filter infusion sets and non-polyvinyl-chloride-based infusion sets. Throughout the years, the "Fert (伏爾特)" brand under the Group has been focusing on providing a safer and more efficient solution for infusion therapy, and has been maintaining the second largest market share in the domestic advanced infusion sets market and ranking number one in Beijing market for years.

In July 2016, the Group has obtained the product registration certificate for disposable intravenous cannula (留置針). In the future, the Group will keep focusing on infusion therapy and provide a more comprehensive product portfolio for infusion therapy, thus to make contributions to the safety and efficiency of China's medical care. Furthermore, as a leader in the infusion set business of China, with the benefits driven by the favorable government policy and market potential, the Group will take advantage of the great favorable economic and industrial environments to introduce and nurture high-quality talents and improve production technologies, with a view to maintaining the competitive edges of its infusion sets products in the market.

(c) Other Businesses

The other businesses of the Group comprised the Group's other operations not classified as the regenerative medical biomaterial business or the infusion set business, mainly including the Group's beauty products in the brand name of "LE SEUL (諾頌)" newly launched in 2016.

In 2017, the Group further promoted its medical beauty mask brand "LE SEUL" and in a short term, achieved a milestone success. In the first half of 2017, the number of the varieties of our mask products increased to eight, covering the field of basic skincare needs and medium to high-end skincare needs. The Group will continue to uphold the rigorous attitude to create medical cosmetic skincare products trusted by consumers, and the quality of such mask products is superior to that of similar products available in the domestic market.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

The management discussion and analysis of the Group for (i) the period ended June 30, 2017 is disclosed in the interim report of the Company; and (ii) the three years ended December 31, 2014, 2015 and 2016 is disclosed in the annual reports of the Company, all of which have been published on the website of the Stock Exchange (**www. hkexnews.hk**) and the Company (**www.pwmedtech.com**).

1. PUBLISHED FINANCIAL INFORMATION OF THE CBPO GROUP OF EACH OF THE THREE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016 AND THE SIX MONTHS ENDED JUNE 30, 2017

(1) The following is an extract of the audited financial statements of the CBPO Group for the year ended December 31, 2014, which were prepared in accordance with U.S. GAAP, from the 2014 annual report of CBPO.

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2014 *USD*	December 31, 2013 *USD*
ASSETS			
Current Assets			
Cash and cash equivalents		80,820,224	144,138,487
Time deposit		—	6,608,612
Restricted cash deposits	*9*	63,677,610	—
Accounts receivable, net of allowance for doubtful accounts	*3*	19,402,820	17,270,132
Inventories	*5*	101,304,932	88,634,855
Prepayments and other current assets, net of allowance for doubtful accounts	*4*	14,781,658	7,641,061
Total Current Assets		279,987,244	264,293,147
Property, plant and equipment, net	*7*	80,230,888	73,149,072
Land use rights, net		11,909,136	8,213,145
Deposits related to land use rights	*8*	12,792,355	13,667,130
Restricted cash and cash deposits, excluding current portion	*9*	40,230,250	30,523,674
Equity method investment	*10*	18,221,777	11,349,807
Other non-current assets		3,475,442	2,585,232
Total Assets		446,847,092	403,781,207
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term bank loans, including current portion of long-term bank loans	*11*	57,902,600	9,822,000
Accounts payable		4,829,350	4,445,732
Due to related parties	*20*	—	7,206,970
Other payables and accrued expenses	*12*	49,692,757	37,761,593
Income tax payable		8,257,133	4,202,405
Total Current Liabilities		120,681,840	63,438,700
Long-term bank loans, excluding current portion	*11*	40,000,000	30,000,000
Deferred income		2,765,024	3,003,895
Other liabilities		8,138,498	3,369,003
Total Liabilities		171,585,362	99,811,598

	Note	December 31, 2014 USD	December 31, 2013 USD
Stockholders' Equity			
Common stock:			
par value $0.0001;			
100,000,000 shares authorized;			
27,865,871 and 27,341,744 shares issued at December 31, 2014 and 2013, respectively;			
24,806,167 and 25,862,040 shares outstanding at December 31, 2014 and 2013, respectively		2,787	2,734
Additional paid-in capital		24,008,281	72,031,864
Treasury stock: 3,059,704 and 1,479,704 shares at December 31, 2014 and 2013, respectively, at cost	*16, 23*	(76,570,621)	(29,594,080)
Retained earnings		244,661,391	173,744,551
Accumulated other comprehensive income		19,985,189	21,506,494
Total equity attributable to China Biologic Products, Inc.		212,087,027	237,691,563
Noncontrolling interest		63,174,703	66,278,046
Total Stockholders' Equity		275,261,730	303,969,609
Commitments and contingencies	*19*	—	—
Total Liabilities and Stockholders' Equity		446,847,092	403,781,207

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		For the Years Ended		
		December 31, 2014	December 31, 2013	December 31, 2012
	Note	*USD*	*USD*	*USD*
Sales	*18*	243,251,658	203,356,856	184,813,495
Cost of sales		80,025,375	65,484,153	58,835,998
Gross profit		163,226,283	137,872,703	125,977,497
Operating expenses				
Selling expenses		10,707,409	10,643,149	14,421,258
General and administrative expenses		32,129,985	36,073,871	34,034,360
Research and development expenses		4,161,901	4,223,165	3,032,719
Provision for other receivables in respect of an employee housing development project	*6*	5,068,075	—	—
Income from operations		111,158,913	86,932,518	74,489,160
Other income (expenses)				
Equity in income of an equity method investee	*10*	8,646,181	2,170,473	2,665,881
Change in fair value of derivative liabilities		—	—	1,769,140
Interest income		6,644,886	4,433,326	2,910,297
Interest expense		(3,697,819)	(1,134,952)	(1,269,850)
Other income (expense), net		—	—	570,511
Total other income, net		11,593,248	5,468,847	6,645,979
Earnings before income tax expense		122,752,161	92,401,365	81,135,139
Income tax expense	*13*	26,639,527	15,540,301	15,163,147
Net income		96,112,634	76,861,064	65,971,992
Less: Net income attributable to noncontrolling interest		25,195,794	22,259,513	20,749,803
Net income attributable to China Biologic Products, Inc.		70,916,840	54,601,551	45,222,189

		For the Years Ended		
		December 31, 2014	December 31, 2013	December 31, 2012
	Note	*USD*	*USD*	*USD*
Net income per share of common stock:	*21*			
Basic		2.85	2.05	1.73
Diluted		2.71	1.96	1.62
Weighted average shares used in computation:	*21*			
Basic		24,427,196	26,410,819	26,153,540
Diluted		25,685,064	27,572,111	26,839,723
Net income		96,112,634	76,861,064	65,971,992
Other comprehensive income:				
Foreign currency translation adjustment, net of nil income taxes		(1,918,715)	9,126,218	1,735,492
Comprehensive income		94,193,919	85,987,282	67,707,484
Less: Comprehensive income attributable to noncontrolling interest		24,798,384	23,951,559	21,163,655
Comprehensive income attributable to China Biologic Products, Inc.		69,395,535	62,035,723	46,543,829

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common stock								
	Number of Shares	Par value	Additional paid-in capital	Retained earnings	Treasury Stock	Accumulated cother comprehensive income	Equity attributable to China Biologic Products, Inc.	Noncontrolling interest	Total equity
		USD	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*
Balance as of January 1, 2012	**25,601,125**	**2,560**	**48,838,311**	**73,920,811**	**—**	**12,750,682**	**135,512,364**	**43,528,677**	**179,041,041**
Net income	—	—	—	45,222,189	—	—	45,222,189	20,749,803	65,971,992
Other comprehensive income	—	—	—	—	—	1,321,640	1,321,640	413,852	1,735,492
Dividend declared to noncontrolling interest shareholders	—	—	—	—	—	—	—	(2,742,884)	(2,742,884)
Share-based compensation	—	—	4,544,927	—	—	—	4,544,927	—	4,544,927
Common stock issued in connection with:									
— Exercise of stock options	90,990	9	727,308	—	—	—	727,317	—	727,317
— Exercise of warrants	937,500	94	8,141,185	—	—	—	8,141,279	—	8,141,279
Balance as of December 31, 2012	**26,629,615**	**2,663**	**62,251,731**	**119,143,000**	**—**	**14,072,322**	**195,469,716**	**61,949,448**	**257,419,164**
Net income	—	—	—	54,601,551	—	—	54,601,551	22,259,513	76,861,064
Other comprehensive income	—	—	—	—	—	7,434,172	7,434,172	1,692,046	9,126,218
Dividend declared to noncontrolling interest shareholders	—	—	—	—	—	—	—	(18,323,710)	(18,323,710)
Acquisition of noncontrolling interests	—	—	(664,662)	—	—	—	(664,662)	(1,299,251)	(1,963,913)
Share repurchase	—	—	—	—	(29,594,080)	—	(29,594,080)	—	(29,594,080)
Share-based compensation	—	—	5,050,796	—	—	—	5,050,796	—	5,050,796
Common stock issued in connection with:									
— Exercise of stock options	648,379	65	5,394,005	—	—	—	5,394,070	—	5,394,070
— Vesting of restricted shares	63,750	6	(6)	—	—	—	—	—	—
Balance as of December 31, 2013	**27,341,744**	**2,734**	**72,031,864**	**173,744,551**	**(29,594,080)**	**21,506,494**	**237,691,563**	**66,278,046**	**303,969,609**
Net income	—	—	—	70,916,840	—	—	70,916,840	25,195,794	96,112,634
Other comprehensive income	—	—	—	—	—	(1,521,305)	(1,521,305)	(397,410)	(1,918,715)
Dividend declared to noncontrolling interest shareholders	—	—	—	—	—	—	—	(13,056,733)	(13,056,733)
Acquisition of noncontrolling interests	—	—	(68,802,855)	—	—	—	(68,802,855)	(15,122,799)	(83,925,654)
Share repurchase	—	—	—	—	(70,000,000)	—	(70,000,000)	—	(70,000,000)
Share-based compensation	—	—	5,396,271	—	—	—	5,396,271	—	5,396,271
Excess tax benefits from stock option exercises	—	—	1,333,594	—	—	—	1,333,594	277,805	1,611,399
Reissuance of treasury stock	—	—	10,189,059	—	23,023,459	—	33,212,518	—	33,212,518
Common stock issued in connection with:									
— Exercise of stock options	417,002	42	3,860,359	—	—	—	3,860,401	—	3,860,401
— Vesting of restricted shares	107,125	11	(11)	—	—	—	—	—	—
Balance as of December 31, 2014	**27,865,871**	**2,787**	**24,008,281**	**244,661,391**	**(76,570,621)**	**19,985,189**	**212,087,027**	**63,174,703**	**275,261,730**

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended		
	December 31, 2014	December 31, 2013	December 31, 2012
	USD	*USD*	*USD*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	96,112,634	76,861,064	65,971,992
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	6,989,222	6,096,650	5,792,418
Amortization	758,232	1,365,734	3,088,320
Loss (gain) on sale of property, plant and equipment	172,032	(123,777)	828,296
(Reversal of) provision for allowance for doubtful accounts, net — accounts receivable	(24,462)	31,567	(1,904)
Allowance for doubtful accounts — other receivables and prepayments	5,068,075	65,094	110,123
Write-down of obsolete inventories	324,584	—	—
Deferred tax expense	3,483,890	112,632	1,127,433
Share-based compensation	5,396,271	5,050,796	4,544,927
Change in fair value of derivative liabilities	—	—	(1,769,140)
Equity in income of an equity method investee	(8,646,181)	(2,170,473)	(2,665,881)
Excess tax benefits from share-based compensation arrangements	(1,611,399)	—	—
Change in operating assets and liabilities:			
Accounts receivable	(2,191,118)	(5,667,386)	5,689,638
Prepayment and other current assets	(9,236,125)	(624,159)	(268,498)
Inventories	(13,418,971)	(10,432,492)	(3,750,200)
Accounts payable	405,071	1,621,917	(2,184,674)
Other payables and accrued expenses	4,525,635	2,496,390	(5,244,915)
Due to related parties	(276,984)	66,349	734,037
Income tax payable	5,683,912	(446,911)	(904,655)
Net cash provided by operating activities	93,514,318	74,302,995	71,097,317
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for property, plant and equipment	(17,194,201)	(20,492,159)	(13,886,045)
Payment for intangible assets and land use rights	(4,677,358)	(1,327,148)	(14,059,397)
Refund of deposits related to land use right	1,635,200	2,100,150	—
Dividends received	—	565,425	1,109,115
Purchase of time deposit	—	(6,608,612)	—
Proceeds upon maturity of time deposit	6,608,612	—	—
Proceeds from sale of property, plant and equipment	220,135	194,749	83,134
Net cash used in investing activities	(13,407,612)	(25,567,595)	(26,753,193)

	For the Years Ended		
	December 31, 2014 *USD*	December 31, 2013 *USD*	December 31, 2012 *USD*
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stock option exercised	3,860,401	5,394,070	727,317
Proceeds from warrants exercised	—	—	4,500,000
Payment for share repurchase	(70,000,000)	(29,594,080)	—
Proceeds from short-term bank loans	44,500,340	9,693,000	11,076,100
Repayment of short-term bank loans	(22,833,400)	(8,014,000)	(14,286,800)
Proceeds from long-term bank loans	70,000,000	30,000,000	—
Repayment of long-term bank loans	(33,700,000)	—	—
Payment for cash deposit as security for long-term bank loans	(72,290,922)	(30,000,000)	—
Payment for cash deposit as security for short-term bank loan	(31,881,083)	—	—
Proceeds from maturity of cash deposit as security for long-term bank loan	30,370,670	—	—
Net proceeds from reissuance of treasury stock	33,212,518	—	—
Acquisition of noncontrolling interest	(86,830,499)	(1,963,913)	—
Excess tax benefits from share-based compensation arrangements	1,611,399	—	—
Dividend paid by subsidiaries to noncontrolling interest shareholders	(8,846,984)	(16,931,149)	(7,120,693)
Contribution from noncontrolling interest shareholders	—	2,891,422	—
Net cash used in financing activities	(142,827,560)	(38,524,650)	(5,104,076)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(597,409)	4,318,420	957,434
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(63,318,263)	14,529,170	40,197,482
Cash and cash equivalents at beginning of year	144,138,487	129,609,317	89,411,835
Cash and cash equivalents at end of year	80,820,224	144,138,487	129,609,317
Supplemental cash flow information			
Cash paid for income taxes	17,652,514	15,947,939	14,940,369
Cash paid for interest expense	3,150,381	347,602	446,381
Noncash investing and financing activities:			
Transfer from prepayments and deposits to property, plant and equipment	1,433,376	7,728,824	38,452
Land use right acquired with prepayments made in prior periods	—	1,147,561	—
Acquisition of property, plant and equipment included in payables	3,300,284	4,252,428	104,300
Exercise of warrants that were liability classified	—	—	3,641,279
Restricted cash spent for property, plant and equipment	—	2,928,421	—

See accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014, 2013 and 2012

NOTE 1 — DESCRIPTION OF BUSINESS AND SIGNIFICANT CONCENTRATIONS AND RISKS

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

Cash Concentration

The Company maintains cash balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for its bank accounts located in the United States. Cash balances maintained at financial institutions or state-owned banks in the PRC are not covered by insurance. Total cash and cash equivalents at banks and restricted cash and cash deposits as of December 31, 2014 and December 31, 2013 amounted to $184,186,306 and $180,858,848, respectively, of which $86,744 and $679,022 are insured, respectively. The Company has not experienced any losses in uninsured bank deposits and does not believe that it is exposed to any significant risks on cash held in bank accounts.

Sales Concentration

The Company's two major products are human albumin and human immunoglobulin for intravenous injection ("IVIG"). Human albumin accounted for 39.3%, 44.1% and 44.6% of the total sales for the years ended December 31, 2014, 2013 and 2012, respectively. IVIG accounted for 40.4%, 38.0% and 39.0% of the total sales for the years ended December 31, 2014, 2013 and 2012, respectively. If the market demands for human albumin and IVIG cannot be sustained in the future or the price of human albumin and IVIG decreases, the Company's operating results could be adversely affected.

Substantially all of the Company's customers are located in the PRC. There were no customers that individually comprised 10% or more of sales during the years ended December 31, 2014, 2013 and 2012. No individual customer represented 10% or more of trade receivables as at December 31, 2014 and 2013. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

Purchase Concentration

There were no suppliers that comprised 10% or more of the total purchases during the years ended December 31, 2014, 2013 and 2012, respectively. There was one vendor that represented more than 10% of accounts payables as at December 31, 2014. There were no vendors that represented more than 10% of accounts payables as at December 31, 2013.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; the allowance for doubtful accounts; the fair value determinations of financial and equity instruments and the valuation of share-based compensation, assets acquired and liabilities assumed in a business combination, deferred tax assets and inventories; the recoverability of land use right and property, plant and equipment; and reserves for income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Foreign Currency Translation

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

Revenue Recognition

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

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

Fair Value Measurements

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

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

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

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

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

See Note 17 to the Consolidated Financial Statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits. The Company considers all highly liquid investments with original maturities of three-month or less at the time of purchase to be cash equivalents. Cash and cash equivalents at December 31, 2014 and 2013 include $38,489,045 and $74,352,540 of certificates of deposit with an initial term of three months or less.

As of December 31, 2014 and 2013, the Company maintained cash and cash equivalents at banks in the following locations:

	December 31, 2014 *USD*	**December 31, 2013** *USD*
PRC, excluding Hong Kong	77,627,358	143,047,540
U.S.	2,651,088	679,022
Total	80,278,446	143,726,562

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Repair and maintenance costs are expensed as incurred.

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

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

Equity Method Investment

Investment in an investee in which the Company has the ability to exercise significant influence, but does not have a controlling interest is accounted for using the equity method. Significant influence is generally presumed to exist when the Company has an ownership interest in the voting stock between 20% and 50%, and other factors, such as representation on the board of directors and participation in policy-making processes, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the Company's share of the investee's results of operations is included in other income (expenses) in the Company's consolidated statements of comprehensive income. Deferred taxes are provided for the difference between the book and tax basis of the investment. The Company recognizes a loss if it is determined that other than temporary decline in the value of the investment exists. The process of assessing and determining whether an impairment on a particular equity investment is other than temporary requires a significant amount of judgment. To determine whether an impairment is other-than-temporary, management considers whether the Company has the ability and intent to hold the investment until recovery and whether evidence indicating the carrying value of the investment is recoverable outweighs evidence to the contrary. No impairment loss was recognized by the Company for the years ended December 31, 2014, 2013 and 2012.

Government Grants

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

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

For the year ended December 31, 2013, the Company received government grants of RMB18,350,000 (approximately $2,989,215) related to the technical upgrade of the manufacturing facilities in Guizhou Taibang, which was recorded as deferred income. These grants are amortized as the related assets are depreciated. The grants amortized amounted to $224,191 and nil for the years ended December 31, 2014 and 2013, respectively.

Land Use Rights

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

Research and Development Expenses

Research and development costs are expensed as incurred. Research and development expenses for the years ended December 31, 2014, 2013 and 2012 were $4,161,901, $4,223,165 and $3,032,719, respectively. These expenses include the costs of the Company's internal research and development activities.

Product Liability

The Company's products are covered by two separate product liability insurances each with coverages of approximately $3,258,000 (or RMB20,000,000) for the products sold by Shandong Taibang Biological Products Co., Ltd. ("Shandong Taibang") and Guizhou Taibang Biological Products Co., Ltd. ("Guizhou Taibang"), respectively. There were no product liability claims as of December 31, 2014.

Income Taxes

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

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

Share-based Payment

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

Long-lived Assets

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

Net Income per Share

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

Segment Reporting

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

Contingencies

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

NOTE 3 — ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2014 and 2013 consisted of the following:

	December 31, 2014 *USD*	**December 31, 2013** *USD*
Accounts receivable	19,836,768	17,730,821
Less: Allowance for doubtful accounts	(433,948)	(460,689)
Total	19,402,820	17,270,132

The activity in the allowance for doubtful accounts — accounts receivable for the years ended December 31, 2014, 2013 and 2012 are as follows:

		For the Years Ended	
	December 31, 2014 *USD*	**December 31, 2013** *USD*	**December 31, 2012** *USD*
Beginning balance	460,689	415,607	414,092
Provisions	6,211	31,567	—
Recoveries	(30,673)	—	(1,904)
Write-offs	—	—	—
Foreign currency translation adjustment	(2,279)	13,515	3,419
Ending balance	433,948	460,689	415,607

NOTE 4 — PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as of December 31, 2014 mainly represented other receivables of $7,197,778 and prepayments of $3,158,311. Prepayments and other current assets as of December 31, 2013 mainly represented other receivables of $3,236,990 and prepayments of $1,435,617.

The activity in the allowance for doubtful accounts — other receivables and prepayments for the years ended December 31, 2014, 2013 and 2012 are as follows:

	For the Years Ended		
	December 31, 2014	**December 31, 2013**	**December 31, 2012**
	USD	*USD*	*USD*
Beginning balance	142,951	75,704	27,325
Provisions	5,068,075	65,094	110,123
Recoveries	—	—	—
Write-offs	—	—	(65,710)
Foreign currency translation adjustment	(3,186)	2,153	3,966
Ending balance	5,207,840	142,951	75,704

NOTE 5 — INVENTORIES

Inventories at December 31, 2014 and 2013 consisted of the following:

	December 31, 2014	**December 31, 2013**
	USD	*USD*
Raw materials	52,010,104	47,400,578
Work-in-process	22,128,405	20,720,666
Finished goods	27,166,423	20,513,611
Total	101,304,932	88,634,855

Raw materials mainly comprised of 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 immunoglobulin products. Provisions to write-down the carrying amount of obsolete inventory to its estimated net realizable value amounted to $324,584, nil and nil for the years ended December 31, 2014, 2013 and 2012, respectively, and were recorded as cost of sales in the consolidated statements of comprehensive income.

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

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

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2014 and 2013 consisted of the following:

	December 31, 2014	**December 31, 2013**
	USD	*USD*
Buildings	32,375,433	31,714,173
Machinery and equipment	58,946,498	36,919,094
Furniture, fixtures, office equipment and vehicles	8,230,842	8,141,993
Total property, plant and equipment, gross	99,552,773	76,775,260
Accumulated depreciation	(30,779,714)	(25,658,760)
Total property, plant and equipment, net	68,773,059	51,116,500
Construction in progress	10,237,610	19,050,642
Prepayment for property, plant and equipment	1,220,219	2,981,930
Property, plant and equipment, net	80,230,888	73,149,072

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was $6,989,222, $6,096,650 and $5,792,418, respectively. No interest expenses were capitalized into construction in progress for the years ended December 31, 2014, 2013 and 2012.

NOTE 8 — DEPOSITS RELATED TO LAND USE RIGHTS

In 2012, Guizhou Taibang made a refundable payment of RMB83,400,000 (approximately $13,585,860) to the local government in connection with the public bidding for a land use right in Guizhou Province. Given the decrease of the land area to be provided by the local government, RMB23,000,000 (approximately $3,746,700) was refunded by the local government. The remaining deposits will be refunded within one year following the completion of the bidding process.

NOTE 9 — RESTRICTED CASH AND CASH DEPOSITS

In August, 2013, the Company made a time deposit of RMB186,000,000 (approximately $30,299,400) with China Merchants Bank Beijing Branch ("CMB BJ Branch") as a security for an 18-month US$30,000,000 loan lent by China Merchants Bank Co., Ltd., New York Branch ("CMB NY Branch"). In April 2014, due to the depreciation of RMB against USD, additional deposit of RMB1,000,000 (approximately $162,900) was made as security for this loan. In July 2014, the Company repaid the loan. The time deposit matured in August 2014 accordingly.

In February 2014, the Company made time deposits of RMB246,500,000 (approximately $40,154,850) and RMB194,600,000 (approximately $31,700,340) with CMB BJ Branch as a security for a 24-month $40,000,000 loan and an 18-month $30,000,000 loan respectively lent by CMB NY Branch (see Note 11).

In August 2014, the Company made a time deposit of RMB196,300,000 (approximately $31,977,270) with CMB BJ Branch as a security for a 6-month RMB194,000,000 (approximately $31,602,600) loan lent by CMB BJ Branch (see Note 11).

NOTE 10 — EQUITY METHOD INVESTMENT

The Company's equity method investment as of December 31, 2014 and 2013 represented 35% equity interest investment in Xi'an Huitian Blood Products Co., Ltd. ("Huitian").

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

The excess of carrying amount over the Company's share of net assets of equity method investees is $1,333,075 and $2,076,329 at December 31, 2014 and 2013, respectively, which comprises fair value adjustments for property, plant and equipment and land use right of nil and $736,707 at December 31, 2014 and 2013, respectively, and goodwill of $1,333,075 and $1,339,622 at December 31, 2014 and 2013, respectively. The fair value adjustments are amortized over the remaining useful lives of related assets. The equity method goodwill is not amortized; however, the investment is reviewed for impairment. Huitian contributed its land use right to its subsidiary as capital in 2013 and disposed the subsidiary in 2014, recognizing a gain of RMB116.7 million (approximately $19.0 million) for the year ended December 31, 2014, which caused the Company's equity income in Huitian increased by $6.7 million accordingly.

NOTE 11 — BANK LOANS

(a) Current

The Company's bank loans at December 31, 2014 and 2013 consisted of the following:

Loans	Maturity date	Annual interest rate	December 31, 2014	December 31, 2013
			USD	*USD*
Short-term bank loan, unsecured	May 12, 2014	6.00%	—	4,911,000
Short-term bank loan, unsecured	December 22, 2014	6.00%	—	4,911,000
Short-term bank loan, secured	February 12, 2015	5.04%	31,602,600	—
Current portion of long-term bank loans	August 11, 2015	See note (b)	26,300,000	—
Total			57,902,600	9,822,000

In August 2014, the Company entered into a credit facility agreement with CMB BJ Branch to finance the acquisition of additional equity interest in Guizhou Taibang (see Note 24). Pursuant to the facility agreement, the Company obtained a 6-month RMB194,000,000 (approximately $31,602,600) loan from CMB BJ Branch secured by a time deposit of RMB196,300,000 (approximately $31,977,270).

Interest expense amounted to $1,178,626, $347,602 and $446,381 for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company did not have any revolving line of credit as of December 31, 2014 and 2013.

(b) Non-current

	December 31, 2014 *USD*	December 31, 2013 *USD*
Long-term bank loans	66,300,000	30,000,000
Less: current portion of long-term bank loans	26,300,000	—
Total non-current bank loans	40,000,000	30,000,000

In August, 2013, the Company entered into a credit facility agreement with CMB NY Branch to finance the share repurchase (see Note 16). Pursuant to the facility agreement, CMB NY Branch lends to the Company an 18-month $30,000,000 loan bearing an interest rate of 3-month LIBOR plus 1.6% per annum and a facility fee of 0.7% per annum. The loan is secured by a time deposit of RMB187,000,000 (approximately $30,462,300) held at CMB BJ Branch. The Company repaid the loan in July 2014.

The Company entered into a credit facility agreement with CMB NY Branch in February, 2014 to finance the share repurchase (see Note 16). Pursuant to the facility agreement, CMB NY Branch lent to the Company a 24-month $40,000,000 loan and an 18-month $30,000,000 loan, secured by time deposits of RMB246,500,000 (approximately $40,154,850) and RMB194,600,000 (approximately $31,700,340), respectively, held at CMB BJ Branch. Both loans bear an interest rate of 3-month LIBOR plus 1.3% per annum and a facility fee of 1.2% per annum. In July 2014, the Company repaid $3,700,000 out of the 18-month $30,000,000 loan.

NOTE 12 — OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses at December 31, 2014 and 2013 consisted of the following:

	December 31, 2014 *USD*	December 31, 2013 *USD*
Payables to potential investors(1)	9,756,023	9,403,649
Payable to Guizhou Eakan Investing Corp.(2)	2,371,824	—
Payable to Guizhou Jie'an Company(2)	1,599,025	—
Salaries and bonuses payable	10,591,524	8,217,129
Accruals for selling commission and promotion fee	4,288,089	3,566,693
Dividends payable to noncontrolling interest	5,616,792	1,411,094
Payables for construction work	3,595,093	4,427,423
Other tax payables	3,878,983	2,119,024
Advance from customers	945,678	2,908,853
Others	7,049,726	5,707,728
Total	49,692,757	37,761,593

(1) The payables to potential investors comprise deposits received from potential investors of $6,476,904 and $6,508,712 as of December 31, 2014 and 2013, respectively, and related interest plus penalty on these deposits totaling $3,279,119 and $2,894,937 as of December 31, 2014 and 2013, respectively.

In 2007, Guizhou Taibang received an aggregate amount of RMB50,960,000 (approximately $8,301,384) from certain potential investors in connection with their subscription to purchase shares in Guizhou Taibang. In 2010, the Company refunded RMB11,200,000 (approximately $1,824,480) to one of the potential investors. According to the final judgment of the PRC Supreme Court, both the rights of these potential investors as shareholders of Guizhou Taibang and their claims for the related dividend distribution have been denied in 2013. (See Note 19)

(2) These balances were recorded as "Due to related parties" at December 31, 2013. (See Note 20)

NOTE 13 — INCOME TAX

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

The United States of America

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

British Virgin Islands

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

Hong Kong

Taibang Holdings (Hong Kong) Limited ("Taibang Holdings", formerly known as "Logic Holdings (Hong Kong) Limited") is incorporated in Hong Kong and is subject to Hong Kong's profits tax rate of 16.5% for the years ended December 31, 2014, 2013 and 2012. Taibang Holdings did not earn any income that was derived in Hong Kong for the years ended December 31, 2014, 2013 and 2012. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

PRC

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

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

Guizhou Taibang was entitled to the preferential income tax rate of 15% under the 10-year Western Development Tax Concession, which ended in 2010. According to CaiShui [2011] No. 58 dated July 27, 2011, Guizhou Taibang, being a qualified enterprise located in the western region of the PRC, enjoys a preferential income tax rate of 15% effective retroactively from January 1, 2011 to December 31, 2020.

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

	For the Years Ended		
	December 31, 2014	**December 31, 2013**	**December 31, 2012**
	USD	*USD*	*USD*
PRC, excluding Hong Kong	122,116,071	98,401,673	84,980,477
U.S.	(8,032,150)	(7,855,555)	(6,314,398)
BVI	8,625,859	2,116,243	2,538,030
Hong Kong	42,381	(260,996)	(68,970)
Total	122,752,161	92,401,365	81,135,139

Income tax expense for the years ended December 31, 2014, 2013 and 2012 represents current income tax expense and deferred tax expense:

	For the Years Ended		
	December 31, 2014	**December 31, 2013**	**December 31, 2012**
	USD	*USD*	*USD*
Current income tax expense	23,155,637	15,427,669	14,035,714
Deferred tax expense	3,483,890	112,632	1,127,433
	26,639,527	15,540,301	15,163,147

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

	For the Years Ended		
	December 31, 2014	**December 31, 2013**	**December 31, 2012**
	(in percentage to earnings before income tax expense)		
PRC statutory income tax rate	25.0%	25.0%	25.0%
Non-taxable income	—	—	(0.7)%
Non-deductible expenses:			
Share-based compensation	0.5%	0.9%	1.9%
Others	0.5%	0.7%	0.4%
Tax rate differential	(2.2)%	(1.0)%	(1.2)%
Effect of PRC preferential tax rate	(9.7)%	(12.7)%	(11.0)%
Bonus deduction on research and development expenses	(1.4)%	(1.4)%	(1.3)%
Change in valuation allowance	(0.7)%	1.7%	0.7%
PRC dividend withholding tax	7.3%	2.8%	4.0%
Tax effect of equity method investment	2.4%	0.8%	0.9%
Effective income tax rate	21.7%	16.8%	18.7%

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

As of December 31, 2014 and 2013, significant temporary differences between the tax basis and financial statement basis of assets and liabilities that gave rise to deferred taxes were principally related to the following:

	December 31, 2014	**December 31, 2013**
	USD	*USD*
Deferred tax assets arising from:		
— Accrued expenses	3,345,926	2,065,310
— Tax loss carryforwards	10,401,398	8,950,323
Gross deferred tax assets	13,747,324	11,015,633
Less: valuation allowance	(6,661,139)	(7,558,590)
Net deferred tax assets	7,086,185	3,457,043
Deferred tax liabilities arising from:		
— Intangible assets	(439,116)	(548,651)
— Equity method investment	(3,740,259)	(1,391,733)
— Dividend withholding tax	(7,351,023)	(2,467,760)
Deferred tax liabilities	(11,530,398)	(4,408,144)
Classification on consolidated balance sheets:		
Deferred tax assets — current, net (included in prepayments and other current assets)	3,345,926	2,065,310
Deferred tax liabilities — non-current, net (included in other liabilities)	(7,790,139)	(3,016,411)

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

The deferred tax assets of $10,401,398 for tax loss carry forwards as of December 31, 2014, of which $6,051,100 and $4,350,298 relate to tax loss carryforwards of certain PRC subsidiaries and CBP, respectively. For PRC income tax purposes, certain of the Company's PRC subsidiaries had tax loss carryforwards of $24,204,400, of which $1,147,907, $5,195,417, $7,144,957, $5,342,603 and $5,373,516 would expire by 2015, 2016, 2017, 2018 and 2019, respectively, if unused. For United States federal income tax purposes, CBP had tax loss carryforwards of approximately $12,794,994, of which $1,268,307, $614,982, $1,113,597, $1,405,718, $2,350,326, $3,382,154, $978,837, $1,296,319 and $384,754 would expire by 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033 and 2034, respectively, if unused. In view of their cumulative losses positions, management determined it is more likely than not that deferred tax assets of these PRC subsidiaries will not be realized, and therefore full valuation allowances of $6,051,100 and $4,730,841 were provided as of December 31, 2014 and 2013, respectively. For deferred tax assets of CBP, management determined it is more likely than not that some portion of the deferred tax assets of CBP will not be realized, and therefore valuation allowances of $610,039 and $2,827,749 were provided as of December 31, 2014 and 2013, respectively. Management believes it is more likely than not that the Company will realize the benefits of the deferred tax assets, net of the valuation allowances, as of December 31, 2014 and December 31, 2013.

The following table presents the movement of the valuation allowance for deferred tax assets for the years ended December 31, 2014, 2013 and 2012:

	For the Years Ended		
	December 31, 2014	**December 31, 2013**	**December 31, 2012**
	USD	*USD*	*USD*
Beginning balance	7,558,590	5,887,981	7,167,986
Addition (deduction) during the year	(885,253)	1,588,875	(1,276,205)
Foreign currency translation adjustment	(12,198)	81,734	(3,800)
Ending balance	6,661,139	7,558,590	5,887,981

According to the prevailing PRC income tax law and relevant regulations, dividends relating to earnings accumulated beginning on January 1, 2008 that are received by non-PRC-resident enterprises from PRC-resident enterprises are subject to withholding tax at 10%, unless reduced by tax treaties or similar arrangement. Dividends relating to undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax. Further, dividends received by the Company from its overseas subsidiaries are subject to the U.S. federal income tax at 34%, less any qualified foreign tax credits. Based on the dividend policy the Company has provided the deferred tax liabilities of $7,351,023 on undistributed earnings of $74 million, approximately 50% of Shandong Taibang's total undistributed earnings at December 31, 2014. Due to the Company's plan and intention of reinvesting its earnings in its PRC business, the Company has not provided for the related deferred tax liabilities on the remaining undistributed earnings of the PRC subsidiaries totaling $161 million as of December 31, 2014.

As of January 1, 2012 and for each of the years ended December 31, 2012, 2013 and 2014, the Company and its subsidiaries did not have any unrecognized tax benefits, and therefore no interest or penalties related to unrecognized tax benefits were accrued. The Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

The Company and each of its PRC subsidiaries file income tax returns in the United States and the PRC, respectively. The Company is subject to U.S. federal income tax examination by tax authorities for tax years beginning in 2007. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than RMB100,000 (approximately $16,290). In the case of transfer pricing issues, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The PRC tax returns for the Company's PRC subsidiaries are open to examination by the PRC tax authorities for the tax years beginning in 2009.

NOTE 14 — OPTIONS AND NONVESTED SHARES

Options

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

For the year ended December 31, 2012, stock options to purchase an aggregate of 900,000 common stock were granted to directors and employees at exercise prices ranging from $9.16 to $9.85 per share with vesting periods ranging from 1 year to 4 years.

For the year ended December 31, 2013, stock options to purchase an aggregate of 33,000 common stock were granted to directors and employees at exercise prices ranging from $4.00 to $12.26 which vested immediately.

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

A summary of stock options activity for the years ended December 31, 2012, 2013 and 2014 is as follows:

	Number of Options	**Weighted Average Exercise Price** *USD*	**Weighted Average Remaining Contractual Term in years**	**Aggregate Intrinsic Value** *USD*
Outstanding as of January 1, 2012	1,994,600	9.24	7.71	5,197,076
Granted	900,000	9.61		
Exercised	(90,990)	7.99		(468,322)
Forfeited and expired	(155,001)	9.69		
Outstanding as of December 31, 2012	2,648,609	9.39	7.65	18,374,422
Granted	33,000	10.48		
Exercised	(648,379)	8.32		(10,923,644)
Forfeited and expired	(150,854)	6.78		
Outstanding as of December 31, 2013	1,882,376	9.98	7.20	35,518,897
Granted	—	—		
Exercised	(417,002)	9.26		(17,529,500)
Forfeited and expired	(32,920)	11.44		
Outstanding as of December 31, 2014	1,432,454	10.16	6.53	81,753,119
Vested and expected to vest as of December 31, 2014	1,432,454	10.16	6.53	81,753,119
Exercisable as of December 31, 2014	1,139,954	10.26	6.30	64,938,469

The weighted average option fair value of $8.37 per share or an aggregate of $276,250 on the date of grant during the year ended December 31, 2013, and the weighted average option fair value of $7.58 per share or an aggregate of $6,817,649 on the date of grant during the year ended December 31, 2012, were determined based on the Black-Scholes option pricing model using the following weighted average assumptions:

	For the Years Ended	
	December 31, 2013	**December 31, 2012**
Expected volatility	104.00%	104.00%
Expected dividends yield	0%	0%
Expected term (in years)	5.38	6.01
Risk-free interest rate	0.72%	0.82%
Fair value of underlying common stock (per share)	$10.48	$9.61

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.

For the years ended December 31, 2014, 2013 and 2012, the Company recorded stock compensation expense of $1,669,573, $3,773,073 and $4,335,595, respectively, in general and administrative expenses.

As of December 31, 2014, approximately $1,894,057 of stock compensation expense with respect to stock options is to be recognized over weighted average period of approximately 1.39 years.

Nonvested shares

For the years ended December 31, 2012, 2013 and 2014, nonvested shares were granted to certain directors and employees (collectively, the "Participant"). Pursuant to the nonvested share grant agreements between the Company and the Participant, the Participant will have all the rights of a stockholder with respect to the nonvested shares. The nonvested shares granted to directors generally vest in one or two years. The nonvested shares granted to employees generally vest in four years.

A summary of nonvested shares activity for the year ended December 31, 2012, 2013 and 2014 is as follow:

	Number of nonvested shares	**Grant date weighted average fair value**
		USD
Outstanding as of January 1, 2012	—	—
Granted	120,000	9.85
Vested	—	—
Forfeited	—	—
Outstanding as of December 31, 2012	120,000	9.85
Granted	306,500	22.94
Vested	(63,750)	9.85
Forfeited	—	—
Outstanding as of December 31, 2013	362,750	20.91
Granted	299,000	51.88
Vested	(107,125)	20.66
Forfeited	(2,500)	9.85
Outstanding as of December 31, 2014	552,125	37.78

For the years ended December 31, 2014, 2013 and 2012, the Company recorded stock compensation expense of \$3,726,698, \$1,277,723 and \$209,332 in general and administrative expenses, respectively.

As of December 31, 2014, approximately \$18,486,402 of stock compensation expense with respect to nonvested shares is to be recognized over weighted average period of approximately 2.85 years.

NOTE 15 — STATUTORY RESERVES

The Company's PRC subsidiaries are required to allocate at least 10% of its after tax profits as determined under generally accepted accounting principal in the PRC to its statutory surplus reserve until the reserve balance reaches 50% of respective registered capital. The accumulated balance of the statutory reserve as of December 31, 2014 and 2013 was \$32,137,551 and \$30,796,531, respectively.

NOTE 16 — SHARE REPURCHASE

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

On August 2, 2013, the Company entered into a repurchase agreement with an individual shareholder, pursuant to which the Company repurchased 1,479,704 shares of common stock for a consideration of \$29,594,080. The transaction was completed on August 8, 2013.

NOTE 17 — FAIR VALUE MEASUREMENTS

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

- Short-term financial instruments (including cash and cash equivalents, time deposit, restricted cash deposits, accounts receivable, other receivables, short-term bank loans including current portion of long-term bank loans, accounts payable, other payables and accrued expenses, and amount 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.

- Restricted cash and cash deposits, excluding current portion — The carrying amounts of the restricted cash and cash deposit approximate their fair value. The fair value is estimated using discounted cash flow analysis based on the Company's incremental borrowing rates for similar borrowing.

- Long-term bank loan excluding current portion- fair value is based on the amount of future cash flows associated with the long-term bank loan discounted at the Company's current borrowing rate for similar debt instruments of comparable terms. The carrying value of the long-term bank loan approximate its fair value as the long-term bank loan carry variable interest rate which approximate rate currently offered by the Company's bankers for similar debt instruments of comparable maturities.

NOTE 18 — SALES

The Company's sales are primarily derived from the manufacture and sale of Human Albumin and Immunoglobulin products. The Company's sales by significant types of product for the years ended December 31, 2014, 2013 and 2012 are as follows:

	For the Years Ended		
	December 31, 2014	**December 31, 2013**	**December 31, 2012**
	USD	*USD*	*USD*
Human Albumin	95,547,952	89,671,619	82,450,825
Immunoglobulin products:			
Human Immunoglobulin for Intravenous Injection	98,389,729	77,341,616	72,005,196
Other Immunoglobulin products	19,736,027	19,682,927	19,377,603
Placenta Polypeptide	24,029,706	12,150,539	10,088,754
Others	5,548,244	4,510,155	891,117
Total	243,251,658	203,356,856	184,813,495

NOTE 19 — COMMITMENTS AND CONTINGENCIES

Capital commitments

As of December 31, 2014, commitments outstanding for the purchase of property, plant and equipment approximated $6,355,000.

Legal proceedings

Dispute with Jie'an over Raising Additional Capital in Guizhou Taibang

In May 2007, a 91% majority of Guizhou Taibang's shareholders approved a plan to raise additional capital from qualified strategic investors through the issuance of an additional 20,000,000 shares of Guizhou Taibang. The plan required all existing Guizhou Taibang shareholders to waive their rights of first refusal to subscribe for the additional shares. The remaining 9% minority shareholder of Guizhou Taibang's shares, Guizhou Jie'an Company, or Jie'an, did not support the plan and did not waive its right of first refusal. In May 2007, Guizhou Taibang signed an Equity Purchase Agreement with certain alleged strategic investors (who concealed their background), pursuant to which such investors agreed to invest an aggregate of RMB50,960,000 (approximately $8,301,384) in exchange for 21.4% of Guizhou Taibang's equity interests. Such Equity Purchase Agreement was not approved or ratified by over two-thirds supermajority of Guizhou Taibang's shareholders, which approval or ratification is required under the PRC Company Law. At the same time, as an existing shareholder, Jie'an also subscribed for 1,800,000 shares, representing its pro rata share of the 20,000,000 shares being offered. In total, Guizhou Taibang received RMB50,960,000 (approximately $8,301,384) from the investors and RMB6,480,000 (approximately $1,055,592) from Jie'an.

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

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

In December 2013, Jie'an brought a third lawsuit against Guizhou Taibang, requesting Guizhou Taibang to register 1.8 million shares under its name with the local AIC. In July 2014, the trial court denied Jie'an's request to register such shares. Despite the denial of Jie'an's share registration request, the trial court, however, in its ruling, ordered Guizhou Taibang to pay accumulated dividends of RMB13,809,197 (approximately $2,249,518) associated with these shares and the related interest expenses to Jie'an. Guizhou Taibang and Jie'an subsequently filed a cross-appeal. In December 2014, the appellate court ruled in favor of Jie'an supporting its request to register 1.8 million shares and ordered Guizhou Taibang to pay Jie'an its share of accumulated dividends of RMB18,339,227 (approximately $2,987,460) associated with these shares plus the related interest expenses to Jie'an. In February 2015, Guizhou Taibang paid RMB18,000,000 (approximately $2,932,200) to the trial court to be held in escrow pending further appeal of this case. Guizhou Taibang was in the process of preparing its appeal as of the date of this report.

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

In March 2014, Guizhou Taibang held another shareholders meeting and the shareholders passed resolutions, or the March 2014 Resolutions, that, *inter alia*, re-calculated the ownership percentage in Guizhou Taibang based on the November 2013 Resolutions and the additional capital injections from existing shareholders. Guizhou Taibang subsequently updated the registration with the local AIC regarding the additional capital injections in August 2014. In September 2014, Jie'an and another minority shareholder of Guizhou Taibang filed a lawsuit against Guizhou Taibang, requesting that the court declare both the November 2013 Resolutions and the March 2014 Resolutions void and instruct Guizhou Taibang to withdraw the AIC registration. In November 2014, the trial court suspended this case pending the final outcome of the third lawsuit filed by Jie'an.

If the pending cases with Jie'an are ultimately ruled in Jie'an's favor, the ownership interest in Guizhou Taibang may be diluted to 71% and Jie'an may be entitled to receive accumulated dividends of RMB18,339,227 (approximately $2,987,460) and the related interest expenses (being its claimed share of Guizhou Taibang's accumulated dividend distributions associated with the 1.8 million shares and the accrued interest from the date when Jie'an's capital contribution was deemed effective till December 31, 2014) from Guizhou Taibang. As of December 31, 2014, the Company had maintained, on its balance sheet, payables to Jie'an in the amounts of RMB5,040,000 (approximately $821,016) as received funds in respect of the 1.8 million shares in dispute, RMB1,440,000 (approximately $234,576) for the over-paid subscription price paid by Jie'an and RMB3,335,993 (approximately $543,433) for the accrued interest. As these cases are closely interlinked to the outcome of the disputes with certain individual investor described below, based on its PRC litigation counsel's assessment, the Company does not expect Jie'an to prevail.

Dispute with Certain Investors over Raising Additional Capital in Guizhou Taibang

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

In October 2010, the trial court denied such individual investor's right as shareholders of Guizhou Taibang and his entitlement to share the dividends, which ruling was reaffirmed after a re-trial by the same trial court in December 2012. After such ruling, Guizhou Taibang attempted to return the originally received fund of RMB34,160,000 to such investor by wiring the fund back to his bank account but was unable to do so due to the closure of his bank account. Another investor, however, accepted the returned fund of RMB11,200,000 (approximately $1,824,480) from Guizhou Taibang in November 2010. In 2013, the same individual investor appealed the case to the PRC Supreme Court, which also denied his claims for shareholder status in Guizhou Taibang and the related dividend distribution and accrued interest in September 2013. Such investor subsequently attempted to seek for a re-trial by the PRC Supreme Court, which request was denied by the PRC Supreme Court in January 2014. He then applied to the PRC Supreme Procuratorate to request for a review of the PRC Supreme Court's decision and seek an appeal by the PRC Supreme Procuratorate to the PRC Supreme Court for an ultimate re-trial on his behalf. The PRC Supreme Procuratorate accepted his application in December 2014 and, with the assistance of its PRC litigation counsel, the Company is in the process of preparing its response to such application. The PRC Supreme Procuratorate will consider the Company's response in deciding whether to appeal to the PRC Supreme Court on behalf of such investor, which decision process may take several months. The PRC Supreme Procuratorate had not scheduled a hearing as of the date of this report.

Based on its PRC litigation counsel's assessment, the Company does not expect such individual investor to prevail in this pending re-trial application process, but the Company cannot assure that the PRC Supreme Procuratorate will decide not to appeal for re-trial or the final outcome of such ultimate re-trial by the PRC Supreme Court (if the PRC Supreme Procuratorate decides to appeal for re-trial) will be in favor of the Company. In case the PRC Supreme Procuratorate decides to appeal for re-trial on behalf of such investor and such ultimate re-trial by the PRC Supreme Court is ruled in such investor's favor, the ownership interest in Guizhou Taibang may be diluted to 66.29% and such investor may be entitled to receive his claimed share of accumulated dividends and the accrued interests from Guizhou Taibang although he has not specified the amount of the claimed damages in his appeal to the PRC Supreme Court or the re-trial application to the PRC Supreme Procuratorate. As of December 31, 2014, Guizhou Taibang had maintained, on its balance sheet, payables to the investors of RMB34,160,000 (approximately $5,564,664) as originally received funds from such individual investor in respect of the shares in dispute, RMB15,850,231 (approximately $2,582,003) for the interest expenses, and RMB341,600 (approximately $55,647) for the 1% penalty imposed by the Equity Purchase Agreement for any breach in the event that Guizhou Taibang is required to return the original investment amount to such investor.

NOTE 20 — RELATED PARTY TRANSACTIONS

The material related party transactions undertaken by the Company with related parties for the years ended December 31, 2014, 2013 and 2012 are presented as follows:

	For the Years Ended		
	December 31, 2014	**December 31, 2013**	**December 31, 2012**
	USD	*USD*	*USD*
Commission expenses with related parties(1)	2,249,716	3,620,335	3,591,836

The material related party balances at December 31, 2014 and 2013 are presented as follows:

Liabilities	**Purpose**	**December 31, 2014**	**December 31, 2013**
		USD	*USD*
Other payable — a related party(1)	Commission	—	351,955
Other payable — a related party(2)	Loan	—	2,383,472
Other payable — a related party(3)	Contribution	—	2,929,903
Other payable — related parties(4)	Contribution	—	1,541,640
Total other payable — related parties		—	7,206,970

(1) During the year ended December 31, 2011, Guizhou Taibang signed an agency contract with Guizhou Eakan Pharmaceutical Co., Ltd. ("Guizhou Eakan"), one of the former Guizhou Taibang's noncontrolling interest shareholders (see note 24), pursuant to which Guizhou Taibang would pay commission to Guizhou Eakan for the promotion of the product of Placenta Polypeptide. The agency contract expired on May 31, 2014 and Guizhou Eakan no longer provided the promotion services thereafter. As of December 31, 2014 and 2013, Guizhou Taibang accrued commission payable of $8,145 and $351,955 for service rendered by Guizhou Eakan. The commission expense for service rendered by Guizhou Eakan amounted to $2,249,716, $3,620,335, and $3,591,836 for the years ended December 31, 2014, 2013 and 2012, respectively. In August 2014, the Company acquired the equity interest owned by Guizhou Eakan in Guizhou Taibang and Guizhou Eakan was no longer a related party of the Company at December 31, 2014.

(2) Guizhou Taibang has payables to Guizhou Eakan Investing Corp., amounting to approximately $2,371,824 and $2,383,472 as of December 31, 2014 and 2013, respectively. Guizhou Eakan Investing Corp. is an affiliate of Guizhou Eakan. The Company borrowed this interest free advance for working capital purpose for Guizhou Taibang. The balance is due on demand. In August 2014, the Company acquired the equity interest owned by Guizhou Eakan in Guizhou Taibang and Guizhou Eakan Investing Corp. was no longer a related party of the Company at December 31, 2014.

(3) In December 2013, Guizhou Taibang received a contribution of RMB17,898,000 (approximately $2,929,903) from Guizhou Eakan, pending for the registration with the local AIC. In August 2014, the Company acquired the equity interest owned by Guizhou Eakan in Guizhou Taibang and made the registration accordingly.

(4) Guizhou Taibang has payables to Jie'an, a noncontrolling interest shareholder of Guizhou Taibang, amounting to approximately $1,599,025 and $1,541,640 as of December 31, 2014 and 2013, respectively. In 2007, Guizhou Taibang received additional contributions from Jie'an of RMB6,480,000 (approximately $1,055,592) to subscribe for 1,800,000 shares in Guizhou Taibang. However, due to a legal dispute among shareholders over raising additional capital as discussed in the legal proceeding section (see Note 19), the contribution is subject to be returned to Jie'an. Following the Company's acquisition of the equity interest owned by Guizhou Eakan in Guizhou Taibang, Jie'an was not able to influence significantly the operation of Guizhou Taibang. As a result, Jie'an was no longer regarded as a related party at December 31, 2014.

NOTE 21 — NET INCOME PER SHARE

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

	For the Years Ended		
	December 31, 2014	**December 31, 2013**	**December 31, 2012**
	USD	*USD*	*USD*
Net income attributable to China Biologic Products, Inc.	70,916,840	54,601,551	45,222,189
Earnings allocated to participating nonvested shares	(1,210,895)	(456,261)	(69,624)
Net income allocated to common stockholders used in computing basic net income per common stock	69,705,945	54,145,290	45,152,565
Change in fair value of warrants issued to investors and placement agent	—	—	(1,769,140)
Net income allocated to common stockholders used in diluted net income per common stock	69,705,945	54,145,290	43,383,425
Weighted average shares used in computing basic net income per common stock	24,427,196	26,410,819	26,153,540
Diluted effect of warrants issued to investors	—	—	212,792
Diluted effect of stock option	1,257,868	1,161,292	473,391
Weighted average shares used in computing diluted net income per common stock	25,685,064	27,572,111	26,839,723
Net income per common stock — basic	2.85	2.05	1.73
Net income per common stock — diluted	2.71	1.96	1.62

During the year ended December 31, 2014 and 2013, no option was antidilutive and excluded from the calculation of diluted net income per common stock. Further, rights issued pursuant to the stockholder rights plan (see Note 25) were excluded from the calculation of diluted net income per common stock since they were antidilutive.

During the year ended December 31, 2012, 1,938,009 options with an average exercise price of $11.34, and rights issued pursuant to the stockholder rights plan, were excluded from the calculation of diluted net income per common stock since they were antidilutive.

NOTE 22 — CHINA BIOLOGIC PRODUCTS, INC. (PARENT COMPANY)

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

Condensed Balance Sheets:

	December 31, 2014 *USD*	December 31, 2013 *USD*
Cash	2,651,088	679,022
Prepayments and prepaid expenses	89,580	87,548
Property, plant and equipment, net	368	544
Investment in and amounts due from subsidiaries	279,497,751	270,595,266
Total Assets	282,238,787	271,362,380
Other payables and accrued expenses	3,851,760	3,670,817
Long-term loan, including current portion	66,300,000	30,000,000
Total Liabilities	70,151,760	33,670,817
Total Equity	212,087,027	237,691,563
Total Liabilities and Equity	282,238,787	271,362,380

Condensed Statements of Comprehensive Income:

	For the Years Ended		
	December 31, 2014 *USD*	December 31, 2013 *USD*	December 31, 2012 *USD*
Equity in income of subsidiaries	78,948,990	62,457,106	51,063,576
General and administrative expenses	(6,008,852)	(7,460,763)	(8,048,993)
Other expenses, net	(2,023,298)	(394,792)	(34,543)
Change in fair value of derivative liabilities	—	—	1,769,140
Earnings before income tax expense	70,916,840	54,601,551	44,749,180
Income tax benefit	—	—	473,009
Net Income	70,916,840	54,601,551	45,222,189

Condensed Statements of Cash Flows:

	For the Years Ended		
	December 31, 2014	December 31, 2013	December 31, 2012
	USD	*USD*	*USD*
Net cash (used in) provided by operating activities	(444,755)	197,001	(160,272)
Net cash used in investing activities	—	—	—
Net cash provided by financing activities	2,416,821	405,920	—
Net increase (decrease) in cash	1,972,066	602,921	(160,272)
Cash at beginning of year	679,022	76,101	236,373
Cash at end of year	2,651,088	679,022	76,101

NOTE 23 — FOLLOW-ON OFFERING OF COMMON STOCK

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

NOTE 24 — ACQUISITION OF ADDITIONAL EQUITY INTEREST IN GUIZHOU TAIBANG

On August 25, 2014, Guiyang Dalin Biotechnology (''Guiyang Dalin''), a wholly-owned subsidiary of the Company, entered into an agreement to acquire an additional 19.84% equity interest in Guizhou Taibang from Guizhou Eakan, a non-controlling interest shareholder of Guizhou Taibang. The total consideration of the transaction was RMB535 million (approximately $86.8 million). The Company completed the acquisition on September 4, 2014 and increased its equity interest in Guizhou Taibang to 76.23%.

NOTE 25 — SUBSEQUENT EVENT

Stockholder Rights Plan

On January 8, 2015, the Board of Directors (the ''Board'') adopted a stockholder rights plan (the ''Rights Agreement''). Pursuant to the Rights Agreement, the Board of Directors authorized and declared a dividend distribution of one right (a ''Right'') for each outstanding share of the common stock, par value $0.0001 per share (the ''Common Shares''), of the Company to stockholders of record at the close of business on January 20, 2015 (the ''Record Date''). Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Series A Participating Preferred Stock, par value $0.0001 per share (the ''Preferred Shares''), of the Company at an exercise price of $325.00 per one one-thousandth of a Preferred Share, subject to adjustment (the ''Exercise Price''). However, the Rights are not immediately exercisable and will become exercisable only upon the occurrence of certain events. In particular, after January 8, 2015:

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

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

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

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

Repayment of Bank Loan

In February 2015, the Company repaid the 6-month RMB194,000,000 (approximately $31,602,600) loan with CMB BJ Branch. In the meanwhile, the time deposit of RMB196,300,000 (approximately $31,977,270) as a security for the loan matured accordingly.

(2) The following is an extract of the audited financial statements of the CBPO Group for the year ended December 31, 2015, which were prepared in accordance with U.S. GAAP, from the 2015 annual report of CBPO.

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2015 USD	December 31, 2014 USD
ASSETS			
Current Assets			
Cash and cash equivalents		144,937,893	80,820,224
Restricted cash deposits	9	—	63,677,610
Time deposits		38,032,593	—
Accounts receivable, net of allowance for doubtful accounts	3	25,144,969	19,402,820
Inventories	5	126,395,312	101,304,932
Prepayments and other current assets, net of allowance for doubtful accounts	4	24,545,597	14,781,658
Deposits related to land use rights, current portion	8	10,056,200	—
Total Current Assets		369,112,564	279,987,244
Property, plant and equipment, net	7	105,364,251	80,230,888
Land use rights, net		23,576,300	11,909,136
Deposits related to land use rights	8	—	12,792,355
Restricted cash and cash deposits, excluding current portion	9	—	40,230,250
Equity method investment	10	8,718,133	18,221,777
Loan receivable	11	39,834,173	—
Other non-current assets		4,861,075	3,475,442
Total Assets		551,466,496	446,847,092
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term bank loans, including current portion of long-term bank loans	12	—	57,902,600
Accounts payable		9,681,835	4,829,350
Other payables and accrued expenses	13	57,462,563	49,692,757
Income tax payable		4,510,986	8,257,133
Total Current Liabilities		71,655,384	120,681,840
Long-term bank loans, excluding current portion	12	—	40,000,000
Deferred income		4,525,867	2,765,024
Other liabilities		8,323,446	8,138,498
Total Liabilities		84,504,697	171,585,362

	Note	December 31, 2015 USD	December 31, 2014 USD
Stockholders' Equity			
Common stock:			
par value $0.0001;			
100,000,000 shares authorized;			
28,835,053 and 27,865,871 shares issued at December 31, 2015 and 2014, respectively;			
26,580,349 and 24,806,167 shares outstanding at December 31, 2015 and 2014, respectively		2,884	2,787
Additional paid-in capital		105,079,845	24,008,281
Treasury stock: 2,254,704 and 3,059,704 shares at December 31, 2015 and 2014, respectively, at cost	*16, 23*	(56,425,094)	(76,570,621)
Retained earnings		333,704,094	244,661,391
Accumulated other comprehensive income		(18,605)	19,985,189
Total equity attributable to China Biologic Products, Inc.		382,343,124	212,087,027
Noncontrolling interest		84,618,675	63,174,703
Total Stockholders' Equity		466,961,799	275,261,730
Commitments and contingencies	*11, 20*	—	—
Total Liabilities and Stockholders' Equity		551,466,496	446,847,092

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		For the Years Ended		
		December 31, 2015	December 31, 2014	December 31, 2013
	Note	*USD*	*USD*	*USD*
Sales	*19*	296,457,902	243,251,658	203,356,856
Cost of sales		106,482,626	80,025,375	65,484,153
Gross profit		189,975,276	163,226,283	137,872,703
Operating expenses				
Selling expenses		9,973,449	10,707,409	10,643,149
General and administrative expenses		41,391,520	32,129,985	36,073,871
Research and development expenses		6,024,368	4,161,901	4,223,165
Provision for other receivables in respect of an employee housing development project	*6*	—	5,068,075	—
Income from operations		132,585,939	111,158,913	86,932,518
Other income (expenses)				
Equity in (loss) income of an equity method investee	*10*	(1,311,278)	8,646,181	2,170,473
Interest income		5,551,105	6,644,886	4,433,326
Interest expense		(1,727,335)	(3,697,819)	(1,134,952)
Total other income, net		2,512,492	11,593,248	5,468,847
Earnings before income tax expense		135,098,431	122,752,161	92,401,365
Income tax expense	*14*	20,992,913	26,639,527	15,540,301
Net income		114,105,518	96,112,634	76,861,064
Less: Net income attributable to noncontrolling interest		25,062,815	25,195,794	22,259,513
Net income attributable to China Biologic Products, Inc.		89,042,703	70,916,840	54,601,551

		For the Years Ended		
		December 31, 2015	**December 31, 2014**	**December 31, 2013**
	Note	*USD*	*USD*	*USD*
Net income per share of common stock:	*21*			
Basic		3.40	2.85	2.05
Diluted		3.27	2.71	1.96
Weighted average shares used in computation:	*21*			
Basic		25,599,153	24,427,196	26,410,819
Diluted		26,567,366	25,685,064	27,572,111
Net income		114,105,518	96,112,634	76,861,064
Other comprehensive income:				
Foreign currency translation adjustment, net of nil income taxes		(24,368,360)	(1,918,715)	9,126,218
Comprehensive income		89,737,158	94,193,919	85,987,282
Less: Comprehensive income attributable to noncontrolling interest		20,698,249	24,798,384	23,951,559
Comprehensive income attributable to China Biologic Products, Inc.		69,038,909	69,395,535	62,035,723

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common stock		Additional			Accumulated	Equity		
						other	attributable to		
	Number of		paid-in	Treasury	Retained	comprehensive	China Biologic	Noncontrolling	Total
	Shares	Par value	capital	Stock	earnings	income	Products, Inc.	interest	equity
		USD	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*
Balance as of January 1, 2013	**26,629,615**	**2,663**	**62,251,731**	**—**	**119,143,000**	**14,072,322**	**195,469,716**	**61,949,448**	**257,419,164**
Net income	—	—	—	—	54,601,551	—	54,601,551	22,259,513	76,861,064
Other comprehensive income	—	—	—	—	—	7,434,172	7,434,172	1,692,046	9,126,218
Dividend declared to noncontrolling interest shareholders	—	—	—	—	—	—	—	(18,323,710)	(18,323,710)
Acquisition of noncontrolling interests	—	—	(664,662)	—	—	—	(664,662)	(1,299,251)	(1,963,913)
Share repurchase	—	—	—	(29,594,080)	—	—	(29,594,080)	—	(29,594,080)
Share-based compensation	—	—	5,050,796	—	—	—	5,050,796	—	5,050,796
Common stock issued in connection with:									
— Exercise of stock options	648,379	65	5,394,005	—	—	—	5,394,070	—	5,394,070
— Vesting of restricted shares	63,750	6	(6)	—	—	—	—	—	—
Balance as of December 31, 2013	**27,341,744**	**2,734**	**72,031,864**	**(29,594,080)**	**173,744,551**	**21,506,494**	**237,691,563**	**66,278,046**	**303,969,609**
Net income	—	—	—	—	70,916,840	—	70,916,840	25,195,794	96,112,634
Other comprehensive income	—	—	—	—	—	(1,521,305)	(1,521,305)	(397,410)	(1,918,715)
Dividend declared to noncontrolling interest shareholders	—	—	—	—	—	—	—	(13,056,733)	(13,056,733)
Acquisition of noncontrolling interests	—	—	(68,802,855)	—	—	—	(68,802,855)	(15,122,799)	(83,925,654)
Share repurchase	—	—	—	(70,000,000)	—	—	(70,000,000)	—	(70,000,000)
Share-based compensation	—	—	5,396,271	—	—	—	5,396,271	—	5,396,271
Excess tax benefits from stock option exercises	—	—	1,333,594	—	—	—	1,333,594	277,805	1,611,399
Reissuance of treasury stock	—	—	10,189,059	23,023,459	—	—	33,212,518	—	33,212,518
Common stock issued in connection with:									
— Exercise of stock options	417,002	42	3,860,359	—	—	—	3,860,401	—	3,860,401
— Vesting of restricted shares	107,125	11	(11)	—	—	—	—	—	—
Balance as of December 31, 2014	**27,865,871**	**2,787**	**24,008,281**	**(76,570,621)**	**244,661,391**	**19,985,189**	**212,087,027**	**63,174,703**	**275,261,730**
Net income	—	—	—	—	89,042,703	—	89,042,703	25,062,815	114,105,518
Other comprehensive income	—	—	—	—	—	(20,003,794)	(20,003,794)	(4,364,566)	(24,368,360)
Share-based compensation	—	—	12,114,272	—	—	—	12,114,272	—	12,114,272
Excess tax benefits from stock option exercises	—	—	1,225,941	—	—	—	1,225,941	292,761	1,518,702
Reissuance of treasury stock	—	—	60,438,432	20,145,527	—	—	80,583,959	—	80,583,959
Adjustments in noncontrolling interest resulting from capital injections	—	—	(452,962)	—	—	—	(452,962)	452,962	—
Common stock issued in connection with:									
— Exercise of stock options	780,557	78	7,745,900	—	—	—	7,745,978	—	7,745,978
— Vesting of restricted shares	188,625	19	(19)	—	—	—	—	—	—
Balance as of December 31, 2015	**28,835,053**	**2,884**	**105,079,845**	**(56,425,094)**	**333,704,094**	**(18,605)**	**382,343,124**	**84,618,675**	**466,961,799**

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	USD	*USD*	*USD*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	114,105,518	96,112,634	76,861,064
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	8,179,376	6,989,222	6,096,650
Amortization	854,364	758,232	1,365,734
Loss (gain) on sale of property, plant and equipment	3,024,830	172,032	(123,777)
Allowance (reversal) for doubtful accounts — accounts receivable, net	34,902	(24,462)	31,567
Allowance for doubtful accounts — other receivables and prepayments	788	5,068,075	65,094
Write-down of obsolete inventories	76,587	324,584	—
Deferred tax (benefit) expense	(170,345)	3,483,890	112,632
Share-based compensation	12,114,272	5,396,271	5,050,796
Equity in loss (income) of an equity method investee	1,311,278	(8,646,181)	(2,170,473)
Excess tax benefits from share-based compensation arrangements	(1,518,702)	(1,611,399)	—
Change in operating assets and liabilities:			
Accounts receivable	(7,146,311)	(2,191,118)	(5,667,386)
Prepayment and other current assets	879,165	(9,236,125)	(624,159)
Inventories	(32,095,328)	(13,418,971)	(10,432,492)
Accounts payable	5,348,896	405,071	1,621,917
Other payables and accrued expenses	6,734,988	4,472,691	2,562,739
Deferred income	(416,185)	(224,040)	—
Income tax payable	(1,926,093)	5,683,912	(446,911)
Net cash provided by operating activities	109,392,000	93,514,318	74,302,995
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for property, plant and equipment	(38,790,998)	(17,194,201)	(20,492,159)
Payment for intangible assets and land use rights	(13,500,526)	(4,677,358)	(1,327,148)
Refund of deposits related to land use right	—	1,635,200	2,100,150
Dividends received	—	—	565,425
Purchase of time deposit	—	—	(6,608,612)
Proceeds upon maturity of time deposit	—	6,608,612	—
Proceeds from sale of property, plant and equipment and land use rights	827,020	220,135	194,749
Long-term loan lent to a third party	(40,744,167)	—	—
Receipt of government grants related to property and equipment	2,452,864	—	—
Net cash used in investing activities	(89,755,807)	(13,407,612)	(25,567,595)

	For the Years Ended December 31, 2015 USD	December 31, 2014 USD	December 31, 2013 USD
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stock option exercised	7,745,978	3,860,401	5,394,070
Payment for share repurchase	—	(70,000,000)	(29,594,080)
Proceeds from short-term bank loans	15,770,881	44,500,340	9,693,000
Repayment of short-term bank loans	(47,201,255)	(22,833,400)	(8,014,000)
Proceeds from long-term bank loans	—	70,000,000	30,000,000
Repayment of long-term bank loans	(66,300,000)	(33,700,000)	—
Payment for cash deposit as security for bank loans	—	(104,172,005)	(30,000,000)
Maturity of deposit as security for bank loans	63,152,258	30,370,670	—
Net proceeds from reissuance of treasury stock	80,583,959	33,212,518	—
Acquisition of noncontrolling interest	—	(86,830,499)	(1,963,913)
Excess tax benefits from share-based compensation arrangements	1,518,702	1,611,399	—
Dividend paid by subsidiaries to noncontrolling interest shareholders	—	(8,846,984)	(16,931,149)
Contribution from noncontrolling interest shareholders	—	—	2,891,422
Dividend to the trial court to be held in escrow as to dispute with Jie'an	(3,690,814)	—	—
Net cash provided by (used in) financing activities	51,579,709	(142,827,560)	(38,524,650)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(7,098,233)	(597,409)	4,318,420
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,117,669	(63,318,263)	14,529,170
Cash and cash equivalents at beginning of year	80,820,224	144,138,487	129,609,317
Cash and cash equivalents at end of year	144,937,893	80,820,224	144,138,487
Supplemental cash flow information			
Cash paid for income taxes	23,348,371	17,652,514	15,947,939
Cash paid for interest expense	1,526,807	3,150,381	347,602
Noncash investing and financing activities:			
Acquisition of property, plant and equipment included in payables	6,363,392	3,300,284	4,252,428
Restricted cash spent for property, plant and equipment	—	—	2,928,421

See accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015, 2014 and 2013

NOTE 1 — DESCRIPTION OF BUSINESS AND SIGNIFICANT CONCENTRATIONS AND RISKS

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

Cash Concentration

The Company maintains cash balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for its bank accounts located in the United States or may exceed Hong Kong Deposit Protection Board insured limits for its bank accounts located in Hong Kong or may exceed the insured limits for its bank accounts in China established by China Deposit Insurance Fund Management Institution. Total cash at banks and deposits as of December 31, 2015 and December 31, 2014 amounted to $182,291,723 and $184,186,306, respectively, of which $3,020,569 and $86,744 are insured, respectively. The Company has not experienced any losses in uninsured bank deposits and does not believe that it is exposed to any significant risks on cash held in bank accounts.

Sales Concentration

The Company's two major products are human albumin and human immunoglobulin for intravenous injection ("IVIG"). Human albumin accounted for 37.6%, 39.3% and 44.1% of the total sales for the years ended December 31, 2015, 2014 and 2013, respectively. IVIG accounted for 42.2%, 40.4% and 38.0% of the total sales for the years ended December 31, 2015, 2014 and 2013, respectively. If the market demands for human albumin and IVIG cannot be sustained in the future or the price of human albumin and IVIG decreases, the Company's operating results could be adversely affected.

Substantially all of the Company's customers are located in the PRC. There were no customers that individually comprised 10% or more of sales during the years ended December 31, 2015, 2014 and 2013. No individual customer represented 10% or more of accounts receivables as at December 31, 2015 and 2014. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

Purchase Concentration

There was one supplier, namely, Xinjiang Deyuan Bioengineering Co., Ltd. ("Xinjiang Deyuan"), that comprised 10% or more of the total purchases during the year ended December 31, 2015. No supplier that comprised 10% or more of the total purchases during the years ended December 31, 2014 and 2013, respectively. There was one supplier that represented more than 10% of accounts payables as at December 31, 2015 and December 31, 2014, respectively.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

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

Use of Estimates

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

Foreign Currency Translation

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

Revenue Recognition

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

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

Fair Value Measurements

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

- Level 1 Inputs: Unadjusted quoted prices for identical assets or liabilities in active markets accessible to the entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1, inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

See Note 18 to the Consolidated Financial Statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits. The Company considers all highly liquid investments with original maturities of three-month or less at the time of purchase to be cash equivalents. Cash and cash equivalents at December 31, 2015 and 2014 include $85,422,000 and $38,489,045 of certificates of deposit with an initial term of three months or less.

As of December 31, 2015 and 2014, the Company maintained cash and cash equivalents at banks in the following locations:

	December 31, 2015 *USD*	**December 31, 2014** *USD*
PRC, excluding Hong Kong	130,319,811	77,627,358
U.S.	13,939,319	2,651,088
Total	144,259,130	80,278,446

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost.

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

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

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

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

Equity Method Investment

Investment in an investee in which the Company has the ability to exercise significant influence, but does not have a controlling interest is accounted for using the equity method. Significant influence is generally presumed to exist when the Company has an ownership interest in the voting stock between 20% and 50%, and other factors, such as representation on the board of directors and participation in policy-making processes, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the Company's share of the investee's results of operations is included in other income (expenses) in the Company's consolidated statements of comprehensive income. Deferred taxes are provided for the difference between the book and tax basis of the investment. The Company recognizes a loss if it is determined that other than temporary decline in the value of the investment exists. The process of assessing and determining whether an impairment on a particular equity investment is other than temporary requires a significant amount of judgment. To determine whether an impairment is other-than-temporary, management considers whether the Company has the ability and intent to hold the investment until recovery and whether evidence indicating the carrying value of the investment is recoverable outweighs evidence to the contrary. No impairment loss was recognized by the Company for the years ended December 31, 2015, 2014 and 2013.

Government Grants

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

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

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

For the year ended December 31, 2012, the Company received government grants of RMB18,350,000 (approximately $2,989,215) related to the technical upgrade of the manufacturing facilities in Guizhou Taibang. The grants amortized amounted to $297,434, $224,191 and nil for the years ended December 31, 2015, 2014 and 2013, respectively.

Land Use Rights

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

Research and Development Expenses

Research and development costs are expensed as incurred. Research and development expenses for the years ended December 31, 2015, 2014 and 2013 were $6,024,368, $4,161,901 and $4,223,165, respectively. These expenses include the costs of the Company's internal research and development activities.

Product Liability

The Company's products are covered by two separate product liability insurances each with coverages of approximately $3,220,000 (or RMB20,000,000) for the products sold by Shandong Taibang Biological Products Co., Ltd. ("Shandong Taibang") and Guizhou Taibang Biological Products Co., Ltd. ("Guizhou Taibang"), respectively. There were no product liability claims as of December 31, 2015.

Income Taxes

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

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

Share-based Payment

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

Long-lived Assets

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

Net Income per Share

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

Segment Reporting

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

Contingencies

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

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. The original effective date for ASU 2014-09 would have required the Company to adopt beginning in its first quarter of 2017. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) — Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for one year and permits early adoption as early as the original effective date of ASU 2014-09. Accordingly, the Company may adopt the standard in either its first quarter of 2017 or 2018. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the timing of its adoption and the impact of adopting the new revenue standard on its consolidated financial statements.

In July, 2015, the FASB issued ASU No. 2015-11 ("ASU 2015-11"), Simplifying the Measurement of Inventory, which required that inventory be measured at the lower of cost and net realizable value. For public business entities, ASU 2015-11 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of beginning of an interim or annual reporting period. The Company expects that the adoption of ASU 2015-11 will not have a material impact on its consolidated financial statements or related disclosures.

In November, 2015, the FASB issued ASU No. 2015-17 ("ASU 2015-17"), Balance Sheet Classification of Deferred Taxes, which required that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For public business entities, ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of beginning of an interim or annual reporting period. The Company expects that the adoption of ASU 2015-17 will not have a material impact on its consolidated financial statements or related disclosures.

NOTE 3 — ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2015 and 2014 consisted of the following:

	December 31, 2015 *USD*	December 31, 2014 *USD*
Accounts receivable	25,588,593	19,836,768
Less: Allowance for doubtful accounts	(443,624)	(433,948)
Total	25,144,969	19,402,820

The activity in the allowance for doubtful accounts — accounts receivable for the years ended December 31, 2015, 2014 and 2013 are as follows:

	For the Years Ended		
	December 31, 2015 *USD*	December 31, 2014 *USD*	December 31, 2013 *USD*
Beginning balance	433,948	460,689	415,607
Provisions	34,902	6,211	31,567
Recoveries	—	(30,673)	—
Write-offs	—	—	—
Foreign currency translation adjustment	(25,226)	(2,279)	13,515
Ending balance	443,624	433,948	460,689

NOTE 4 — PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as of December 31, 2015 mainly represented other receivables of $17,846,006 and prepayments of $2,206,131. Prepayments and other current assets as of December 31, 2014 mainly represented other receivables of $7,197,778 and prepayments of $3,158,311.

The activity in the allowance for doubtful accounts — other receivables and prepayments for the years ended December 31, 2015, 2014 and 2013 are as follows:

	For the Years Ended		
	December 31, 2015 *USD*	December 31, 2014 *USD*	December 31, 2013 *USD*
Beginning balance	5,207,840	142,951	75,704
Provisions	788	5,068,075	65,094
Recoveries	—	—	—
Write-offs	—	—	—
Foreign currency translation adjustment	(284,565)	(3,186)	2,153
Ending balance	4,924,063	5,207,840	142,951

NOTE 5 — INVENTORIES

Inventories at December 31, 2015 and 2014 consisted of the following:

	December 31, 2015 *USD*	December 31, 2014 *USD*
Raw materials	57,418,230	52,010,104
Work-in-process	27,401,062	22,128,405
Finished goods	41,576,020	27,166,423
Total	126,395,312	101,304,932

Raw materials mainly comprised of 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 plasma products. Provisions to write-down the carrying amount of obsolete inventory to its estimated net realizable value amounted to $76,587, $324,584 and nil for the years ended December 31, 2015, 2014 and 2013, respectively, and were recorded as cost of sales in the consolidated statements of comprehensive income.

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

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

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2015 and 2014 consisted of the following:

	December 31, 2015 *USD*	December 31, 2014 *USD*
Buildings	31,505,133	32,375,433
Machinery and equipment	54,640,502	58,946,498
Furniture, fixtures, office equipment and vehicles	7,859,951	8,230,842
Total property, plant and equipment, gross	94,005,586	99,552,773
Accumulated depreciation	(31,521,859)	(30,779,714)
Total property, plant and equipment, net	62,483,727	68,773,059
Construction in progress	26,115,927	10,237,610
Prepayment for property, plant and equipment	16,764,597	1,220,219
Property, plant and equipment, net	105,364,251	80,230,888

Depreciation expense for the years ended December 31, 2015, 2014 and 2013 was $8,179,376, $6,989,222 and $6,096,650, respectively. No interest expenses were capitalized into construction in progress for the years ended December 31, 2015, 2014 and 2013.

NOTE 8 — DEPOSITS RELATED TO LAND USE RIGHTS

In 2012, Guizhou Taibang made a refundable payment of RMB83,400,000 (approximately $12,843,600) to the local government in connection with the public bidding for a land use right in Guizhou Province. Given the decrease of the land area to be provided by the local government, RMB13,000,000 (approximately $2,002,000) and RMB10,000,000 (approximately $1,540,000) was refunded by the local government in December 2013 and January 2014, respectively. Guizhou Taibang completed the bidding and purchased the land use right in December 2015. The remaining deposit is expected to be refunded by the end of 2016.

NOTE 9 — RESTRICTED CASH DEPOSITS

In February 2014, the Company made time deposits of RMB246,500,000 (approximately $37,961,000) and RMB194,600,000 (approximately $29,968,400) with CMB BJ Branch as a security for a 24-month $40,000,000 loan and an 18-month $30,000,000 loan respectively lent by CMB NY Branch (see Note 12). The two bank loans were repaid in June 2015 and time deposit of RMB194,600,000 (approximately $29,968,400) matured in August 2015.

In August 2014, the Company made a time deposit of RMB196,300,000 (approximately $30,230,200) with CMB BJ Branch as a security for a 6-month RMB194,000,000 (approximately $29,876,000) loan lent by CMB BJ Branch (see Note 12). In February 2015, the Company repaid the loan and the time deposit matured accordingly.

NOTE 10 — EQUITY METHOD INVESTMENT

The Company's equity method investment as of December 31, 2015 and 2014 represented 35% equity interest investment in Xi'an Huitian Blood Products Co., Ltd. ("Huitian").

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

The excess of carrying amount over the Company's share of net assets of equity method investees, which represented goodwill, is $1,260,243 and $1,333,075 at December 31, 2015 and 2014, respectively. The equity method goodwill is not amortized; however, the investment is reviewed for impairment. Huitian contributed its land use right to its subsidiary as capital in 2013 and disposed the subsidiary in 2014, recognizing a gain of RMB116.7 million (approximately $19.0 million) for the year ended December 31, 2014, which caused the Company's equity income in Huitian increased by $6.7 million accordingly.

NOTE 11 — LOAN RECEIVABLE

In August 2015, the Company entered into a cooperation agreement with Xinjiang Deyuan and the controlling shareholder of Xinjiang Deyuan. Pursuant to the agreement, Guizhou Taibang agreed to provide Xinjiang Deyuan with interest-bearing loans at an interest rate of 6% per annum with an aggregate principal amount of RMB300,000,000 (approximately $46,200,000). The loans are due July 31, 2018 and secured by a pledge of Deyuan Shareholder's 58.02% equity interest in Xinjiang Deyuan. Interest will be paid on the 20th day of the last month of each quarter. For the year ended December 31, 2015, RMB258,663,461 (approximately $39,834,173) was lent to Xinjiang Deyuan and the remaining RMB41,336,539 (approximately $6,365,827) will be lent upon Xinjiang Deyuan's request.

Interest income of $496,170 was accrued by Guizhou Taibang for the year ended December 31, 2015.

NOTE 12 — BANK LOANS

(a) Current

The Company's bank loans at December 31, 2015 and 2014 consisted of the following:

Loans	Maturity date	Annual interest rate	December 31, 2015	December 31, 2014
			USD	*USD*
Short-term bank loan, secured	February 12, 2015	5.04%	—	31,602,600
Current portion of long-term bank loans	August 11, 2015	See note (b)	—	26,300,000
Total			—	57,902,600

In August 2014, the Company entered into a credit facility agreement with CMB BJ Branch to finance the acquisition of additional equity interest in Guizhou Taibang (see Note 24). Pursuant to the facility agreement, the Company obtained a 6-month RMB194,000,000 (approximately $29,876,000) loan from CMB BJ Branch secured by a time deposit of RMB196,300,000 (approximately $30,230,200). The Company repaid the loan in February 2015.

Interest expense amounted to $1,727,335, $1,178,626 and $347,602 for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company did not have any revolving line of credit as of December 31, 2015 and 2014.

(b) Non-current

	December 31, 2015 *USD*	December 31, 2014 *USD*
Long-term bank loans	—	66,300,000
Less: current portion of long-term bank loans	—	26,300,000
Total non-current bank loans	—	40,000,000

The Company entered into a credit facility agreement with CMB NY Branch in February, 2014 to finance the share repurchase (see Note 17). Pursuant to the facility agreement, CMB NY Branch lent to the Company a 24-month $40,000,000 loan and an 18-month $30,000,000 loan, secured by time deposits of RMB246,500,000 (approximately $37,961,000) and RMB194,600,000 (approximately $29,968,400), respectively, held at CMB BJ Branch. Both loans bear an interest rate of 3-month LIBOR plus 1.3% per annum and a facility fee of 1.2% per annum. In July 2014, the Company repaid $3,700,000 out of the 18-month $30,000,000 loan. In June 2015, the Company fully repaid these two bank loans.

NOTE 13 — OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses at December 31, 2015 and 2014 consisted of the following:

	December 31, 2015 *USD*	December 31, 2014 *USD*
Payables to potential investors(1)	9,550,588	9,756,023
Payable to Guizhou Eakan Investing Corp.(2)	2,242,240	2,371,824
Payable to Guizhou Jie'an Company(3)	1,565,052	1,599,025
Salaries and bonuses payable	13,520,721	10,591,524
Accruals for selling commission and promotion fee	2,360,933	4,288,089
Dividends payable to noncontrolling interest	5,309,920	5,616,792
Payables for construction work	7,257,489	3,595,093
Other tax payables	3,855,405	3,878,983
Advance from customers	1,934,321	945,678
Deposits received	3,615,143	1,019,172
Others	6,250,751	6,030,554
Total	57,462,563	49,692,757

(1) The payables to potential investors comprise deposits received from potential investors of $6,123,040 and $6,476,904 as of December 31, 2015 and 2014, respectively, and related interest plus penalty on these deposits totaling $3,427,548 and $3,279,119 as of December 31, 2015 and 2014, respectively.

In 2007, Guizhou Taibang received an aggregate amount of RMB50,960,000 (approximately $7,847,840) from certain potential investors in connection with their subscription to purchase shares in Guizhou Taibang. In 2010, the Company refunded RMB11,200,000 (approximately $1,724,800) to one of the potential investors. According to the final judgment of the PRC Supreme Court, both the rights of these potential investors as shareholders of Guizhou Taibang and their claims for the related dividend distribution have been denied in 2013. (See Note 20)

(2) Guizhou Taibang has payables to Guizhou Eakan Investing Corp., amounting to approximately $2,242,240 and $2,371,824 as of December 31, 2015 and 2014, respectively. The Company borrowed this interest free advance for working capital purpose for Guizhou Taibang. The balance is due on demand.

(3) Guizhou Taibang has payables to Jie'an, a noncontrolling interest shareholder of Guizhou Taibang, amounting to approximately $1,565,052 and $1,599,025 as of December 31, 2015 and 2014, respectively. In 2007, Guizhou Taibang received additional contributions from Jie'an of RMB6,480,000 (approximately $997,920) to subscribe for 1,800,000 shares in Guizhou Taibang. However, due to a legal dispute among shareholders over raising additional capital as discussed in the legal proceeding section (see Note 20), the contribution is subject to be returned to Jie'an.

NOTE 14 — INCOME TAX

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

The United States of America

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

British Virgin Islands

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

Hong Kong

Taibang Holdings (Hong Kong) Limited ("Taibang Holdings", formerly known as "Logic Holdings (Hong Kong) Limited") is incorporated in Hong Kong and is subject to Hong Kong's profits tax rate of 16.5% for the years ended December 31, 2015, 2014 and 2013. Taibang Holdings did not earn any income that was derived in Hong Kong for the years ended December 31, 2015, 2014 and 2013. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

PRC

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

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

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

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

	For the Years Ended		
	December 31, 2015	**December 31, 2014**	**December 31, 2013**
	USD	*USD*	*USD*
PRC, excluding Hong Kong	147,580,488	122,116,071	98,401,673
U.S.	(11,711,102)	(8,032,150)	(7,855,555)
BVI	(1,336,183)	8,625,859	2,116,243
Hong Kong	565,228	42,381	(260,996)
Total	135,098,431	122,752,161	92,401,365

Income tax expense for the years ended December 31, 2015, 2014 and 2013 represents current income tax expense and deferred tax (benefit) expense:

	For the Years Ended		
	December 31, 2015	**December 31, 2014**	**December 31, 2013**
	USD	*USD*	*USD*
Current income tax expense	21,163,258	23,155,637	15,427,669
Deferred tax (benefit) expense	(170,345)	3,483,890	112,632
	20,992,913	26,639,527	15,540,301

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

	For the Years Ended		
	December 31, 2015	**December 31, 2014**	**December 31, 2013**
	(in percentage to earnings before income tax expense)		
PRC statutory income tax rate	25.0%	25.0%	25.0%
Non-deductible expenses:			
Share-based compensation	1.3%	0.5%	0.9%
Others	0.1%	0.5%	0.7%
Tax rate differential	—	(2.2)%	(1.0)%
Effect of PRC preferential tax rate	(10.5)%	(9.7)%	(12.7)%
Bonus deduction on research and development expenses	(1.5)%	(1.4)%	(1.4)%
Change in valuation allowance	1.3%	(0.7)%	1.7%
PRC dividend withholding tax	—	7.3%	2.8%
Tax effect of equity method investment	(0.2)%	2.4%	0.8%
Effective income tax rate	15.5%	21.7%	16.8%

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

As of December 31, 2015 and 2014, significant temporary differences between the tax basis and financial statement basis of assets and liabilities that gave rise to deferred taxes were principally related to the following:

	December 31, 2015 *USD*	December 31, 2014 *USD*
Deferred tax assets arising from:		
— Accrued expenses	3,225,045	3,345,926
— Tax loss carryforwards	8,669,632	10,401,398
Gross deferred tax assets	11,894,677	13,747,324
Less: valuation allowance	(8,160,611)	(6,661,139)
Net deferred tax assets	3,734,066	7,086,185
Deferred tax liabilities arising from:		
— Intangible assets	(314,109)	(439,116)
— Equity method investment	(509,021)	(3,740,259)
— Dividend withholding tax	(7,351,023)	(7,351,023)
Deferred tax liabilities	(8,174,153)	(11,530,398)
Classification on consolidated balance sheets:		
Deferred tax assets — current, net (included in prepayments and other current assets)	3,225,045	3,345,926
Deferred tax liabilities — non-current, net (included in other liabilities)	(7,665,132)	(7,790,139)

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

The deferred tax assets of $8,669,632 for tax loss carry forwards as of December 31, 2015, of which $6,560,170 and $2,109,462 relate to tax loss carryforwards of certain PRC subsidiaries and CBP, respectively. For PRC income tax purposes, certain of the Company's PRC subsidiaries had tax loss carryforwards of $26,240,681, of which $4,911,567, $6,754,594, $5,050,711, $5,079,935 and $4,443,874 would expire by 2016, 2017, 2018, 2019 and 2020, respectively, if unused. For United States federal income tax purposes, CBP had tax loss carryforwards of approximately $6,204,299, of which $162,235, $3,382,154, $978,837, $1,296,319 and $384,754 would expire by 2030, 2031, 2032, 2033 and 2034, respectively, if unused. In view of their cumulative losses positions, management determined it is more likely than not that deferred tax assets of these PRC subsidiaries will not be realized, and therefore full valuation allowances of $6,560,170 and $6,051,100 were provided as of December 31, 2015 and 2014, respectively. For deferred tax assets of CBP, management determined it is more likely than not that some portion of the deferred tax assets of CBP will not be realized, and therefore valuation allowances of $1,600,441 and $610,039 were provided as of December 31, 2015 and 2014, respectively. Management believes it is more likely than not that the Company will realize the benefits of the deferred tax assets, net of the valuation allowances, as of December 31, 2015 and December 31, 2014.

The following table presents the movement of the valuation allowance for deferred tax assets for the years ended December 31, 2015, 2014 and 2013:

	For the Years Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
	USD	*USD*	*USD*
Beginning balance	6,661,139	7,558,590	5,887,981
Addition (deduction) during the year	1,703,771	(885,253)	1,588,875
Foreign currency translation adjustment	(204,299)	(12,198)	81,734
Ending balance	8,160,611	6,661,139	7,558,590

According to the prevailing PRC income tax law and relevant regulations, dividends relating to earnings accumulated beginning on January 1, 2008 that are received by non-PRC-resident enterprises from PRC-resident enterprises are subject to withholding tax at 10%, unless reduced by tax treaties or similar arrangement. Dividends relating to undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax. Further, dividends received by the Company from its overseas subsidiaries are subject to the U.S. federal income tax at 34%, less any qualified foreign tax credits. Based on the dividend policy the Company has provided the deferred tax liabilities of $7,351,023 on undistributed earnings of $74 million, approximately 50% of Shandong Taibang's total undistributed earnings at December 31, 2014. Due to the Company's plan and intention of reinvesting its earnings in its PRC business, the Company has not provided for the related deferred tax liabilities on the remaining undistributed earnings of the PRC subsidiaries totaling $283 million as of December 31, 2015.

As of January 1, 2013 and for each of the years ended December 31, 2013, 2014 and 2015, the Company and its subsidiaries did not have any unrecognized tax benefits, and therefore no interest or penalties related to unrecognized tax benefits were accrued. The Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

The Company and each of its PRC subsidiaries file income tax returns in the United States and the PRC, respectively. The Company is subject to U.S. federal income tax examination by tax authorities for tax years beginning in 2007. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than RMB100,000 (approximately $15,400). In the case of transfer pricing issues, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The PRC tax returns for the Company's PRC subsidiaries are open to examination by the PRC tax authorities for the tax years beginning in 2010.

NOTE 15 — OPTIONS AND NONVESTED SHARES

Options

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

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

For the year ended December 31, 2013, stock options to purchase an aggregate of 33,000 common stocks were granted to directors and employees at exercise prices ranging from $4.00 to $12.26 which vested immediately.

A summary of stock options activity for the years ended December 31, 2015, 2014 and 2013 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in years	Aggregate Intrinsic Value
		USD		*USD*
Outstanding as of January1, 2013	2,648,609	9.39	7.65	18,374,422
Granted	33,000	10.48		
Exercised	(648,379)	8.32		(10,923,644)
Forfeited and expired	(150,854)	6.78		
Outstanding as of December 31, 2013	1,882,376	9.98	7.20	35,518,897
Granted	—	—		
Exercised	(417,002)	9.26		(17,529,500)
Forfeited and expired	(32,920)	11.44		
Outstanding as of December 31, 2014	1,432,454	10.16	6.53	81,753,119
Granted	—	—		
Exercised	(780,557)	9.92		(68,089,712)
Forfeited and expired	—	—		
Outstanding as of December 31, 2015	651,897	10.44	5.24	86,064,461
Vested and expected to vest as of December 31, 2015	651,897	10.44	5.24	86,064,461
Exercisable as of December 31, 2015	530,647	10.57	4.92	69,985,499

The weighted average option fair value of $8.37 per share or an aggregate of $276,250 on the date of grant during the year ended December 31, 2013, was determined based on the Black-Scholes option pricing model using the following weighted average assumptions:

	For the Years Ended December 31, 2013
Expected volatility	104.00%
Expected dividends yield	0%
Expected term (in years)	5.38
Risk-free interest rate	0.72%
Fair value of underlying common stock (per share)	$10.48

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.

For the years ended December 31, 2015, 2014 and 2013, the Company recorded stock compensation expense of $1,117,994, $1,669,573 and $3,773,073, respectively, in general and administrative expenses.

As of December 31, 2015, approximately $649,203 of stock compensation expense with respect to stock options is to be recognized over weighted average period of approximately 0.67 years.

Nonvested shares

For the years ended December 31, 2015, 2014 and 2013, nonvested shares were granted to certain directors and employees (collectively, the "Participant"). Pursuant to the nonvested share grant agreements between the Company and the Participant, the Participant will have all the rights of a stockholder with respect to the nonvested shares. The nonvested shares granted to directors generally vest in one or two years. The nonvested shares granted to employees generally vest in four years.

A summary of nonvested shares activity for the year ended December 31, 2015, 2014 and 2013 is as follow:

	Number of nonvested shares	**Grant date weighted average fair value**
		USD
Outstanding as of January 1, 2013	120,000	9.85
Granted	306,500	22.94
Vested	(63,750)	9.85
Forfeited	—	—
Outstanding as of December 31, 2013	362,750	20.91
Granted	299,000	51.88
Vested	(107,125)	20.66
Forfeited	(2,500)	9.85
Outstanding as of December 31, 2014	552,125	37.78
Granted	313,100	120.62
Vested	(188,625)	34.78
Forfeited	(7,500)	28.8
Outstanding as of December 31, 2015	669,100	77.49

For the years ended December 31, 2015, 2014 and 2013, the Company recorded stock compensation expense of $10,996,278, $3,726,698 and $1,277,723 in general and administrative expenses, respectively.

As of December 31, 2015, approximately $45,040,836 of stock compensation expense with respect to nonvested shares is to be recognized over weighted average period of approximately 2.64 years.

NOTE 16 — STATUTORY RESERVES

The Company's PRC subsidiaries are required to allocate at least 10% of its after tax profits as determined under generally accepted accounting principal in the PRC to its statutory surplus reserve until the reserve balance reaches 50% of respective registered capital. The accumulated balance of the statutory reserve as of December 31, 2015 and 2014 was $34,160,154 and $32,137,551, respectively.

NOTE 17 — SHARE REPURCHASE

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

On August 2, 2013, the Company entered into a repurchase agreement with an individual shareholder, pursuant to which the Company repurchased 1,479,704 shares of common stock for a consideration of $29,594,080. The transaction was completed on August 8, 2013.

NOTE 18 — FAIR VALUE MEASUREMENTS

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

- Short-term financial instruments (including cash and cash equivalents, time deposit, restricted cash deposits, accounts receivable, other receivables, short-term bank loans including current portion of long-term bank loans, accounts payable, other payables and accrued expenses) — The carrying amounts of the short-term financial instruments approximate their fair values because of the short maturity of these instruments.

- Loan receivable, restricted cash and cash deposits, excluding current portion — The carrying amounts of loan receivable, restricted cash and cash deposit approximate their fair value. The fair value is estimated using discounted cash flow analysis based on the Company's incremental borrowing rates for similar borrowing.

- Long-term bank loan excluding current portion- fair value is based on the amount of future cash flows associated with the long-term bank loan discounted at the Company's current borrowing rate for similar debt instruments of comparable terms. The carrying value of the long-term bank loan approximate its fair value as the long-term bank loan carry variable interest rate which approximate rate currently offered by the Company's bankers for similar debt instruments of comparable maturities.

NOTE 19 — SALES

The Company's sales are primarily derived from the manufacture and sale of Human Albumin and Immunoglobulin products. The Company's sales by significant types of product for the years ended December 31, 2015, 2014 and 2013 are as follows:

	For the Years Ended		
	December 31, 2015 *USD*	**December 31, 2014** *USD*	**December 31, 2013** *USD*
Human Albumin	111,422,258	95,547,952	89,671,619
Immunoglobulin products:			
Human Immunoglobulin for Intravenous Injection	125,136,104	98,389,729	77,341,616
Other Immunoglobulin products	22,518,554	19,736,027	19,682,927
Placenta Polypeptide	27,194,800	24,029,706	12,150,539
Others	10,186,186	5,548,244	4,510,155
Total	296,457,902	243,251,658	203,356,856

NOTE 20 — COMMITMENTS AND CONTINGENCIES

Commitments

As of December 31, 2015, commitments outstanding for the purchase of property, plant and equipment approximated $30.3 million.

As of December 31, 2015, commitments outstanding for the purchase of plasma from 2016 to 2018 approximated $85.2 million.

Legal proceedings

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

In May 2007, a 91% majority of Guizhou Taibang's shareholders approved a plan to raise additional capital from qualified strategic investors through the issuance of an additional 20,000,000 shares of Guizhou Taibang. The plan required all existing Guizhou Taibang shareholders to waive their rights of first refusal to subscribe for the additional shares. The remaining 9% minority shareholder of Guizhou Taibang's shares, Guizhou Jie'an Company, or Jie'an, did not support the plan and did not waive its right of first refusal. In May 2007, Guizhou Taibang signed an Equity Purchase Agreement with certain alleged strategic investors (who concealed their background), pursuant to which such investors agreed to invest an aggregate of RMB50,960,000 (approximately $7,847,840) in exchange for 21.4% of Guizhou Taibang's equity interests. Such Equity Purchase Agreement was not approved or ratified by over two-thirds supermajority of Guizhou Taibang's shareholders, which approval or ratification is required under the PRC Company Law. At the same time, as an existing shareholder, Jie'an also subscribed for 1,800,000 shares, representing its pro rata share of the 20,000,000 shares being offered. In total, Guizhou Taibang received RMB50,960,000 (approximately $7,847,840) from the investors and RMB6,480,000 (approximately $997,920) from Jie'an.

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

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

In December 2013, Jie'an brought a third lawsuit against Guizhou Taibang, requesting Guizhou Taibang to register 1.8 million shares under its name with the local AIC. In July 2014, the trial court denied Jie'an's request to register such shares. Despite the denial of Jie'an's share registration request, the trial court, however, in its ruling, ordered Guizhou Taibang to pay accumulated dividends of RMB13,809,197 (approximately $2,126,616) associated with these shares and the related interest expenses to Jie'an. Guizhou Taibang and Jie'an subsequently filed a cross-appeal. In December 2014, the appellate court ruled in favor of Jie'an supporting its request to register 1.8 million shares and ordered Guizhou Taibang to pay Jie'an its share of accumulated dividends of RMB18,339,227 (approximately $2,824,241) associated with these shares plus the related interest expenses to Jie'an. In the first half of 2015, Guizhou Taibang paid an aggregate of RMB22,639,227 (approximately $3,486,441) to the trial court held in escrow pending further appeal of this case. Guizhou Taibang appealed to the High Court of Guizhou in June 2015 which overruled the decision of the appellate court and remanded the case to the trial court for retrial in September 2015.

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

In March 2014, Guizhou Taibang held another shareholders meeting and the shareholders passed resolutions, or the March 2014 Resolutions, that, *inter alia*, re-calculated the ownership percentage in Guizhou Taibang based on the November 2013 Resolutions and the additional capital injections from existing shareholders. Guizhou Taibang subsequently updated the registration with the local AIC regarding the additional capital injections in August 2014. In September 2014, Jie'an and another minority shareholder of Guizhou Taibang filed a lawsuit against Guizhou Taibang, requesting that the court declare both the November 2013 Resolutions and the March 2014 Resolutions void and instruct Guizhou Taibang to withdraw the AIC registration. In November 2014, the trial court suspended this case pending the final outcome of the third lawsuit filed by Jie'an. In October 2015, the trial court denied their request.

If the pending cases with Jie'an are ultimately ruled in Jie'an's favor, the ownership interest in Guizhou Taibang may be diluted to 80% and Jie'an may be entitled to receive accumulated dividends of RMB18,339,227 (approximately $2,824,241), being its claimed share of Guizhou Taibang's accumulated dividend distributions associated with the 1.8 million shares, and the related interest expenses from Guizhou Taibang. As of December 31, 2015, Guizhou Taibang had maintained, on its balance sheet, payables to Jie'an in the amounts of RMB5,040,000 (approximately $776,160) as received funds in respect of the 1.8 million shares in dispute, RMB1,440,000 (approximately $221,760) for the over-paid subscription price paid by Jie'an and RMB3,682,673 (approximately $567,132) for the accrued interest. As these cases are closely interlinked to the outcome of the disputes with certain individual investor described below, based on its PRC litigation counsel's assessment, the Company does not expect Jie'an to prevail.

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

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

In October 2010, the trial court denied such individual investor's right as shareholders of Guizhou Taibang and his entitlement to share the dividends, which ruling was reaffirmed after a re-trial by the same trial court in December 2012. After such ruling, Guizhou Taibang attempted to return the originally received fund of RMB34,160,000 (approximately $5,260,640) to such investor by wiring the fund back to his bank account but was unable to do so due to the closure of his bank account. Another investor, however, accepted the returned fund of RMB11,200,000 (approximately $1,724,800) from Guizhou Taibang in November 2010. In 2013, the same individual investor appealed the case to the PRC Supreme Court, which also denied his claims for shareholder status in Guizhou Taibang and the related dividend distribution and accrued interest in September 2013. Such investor subsequently attempted to seek a re-trial by the PRC Supreme Court, which request was denied by the PRC Supreme Court in January 2014. He then applied to the PRC Supreme Procuratorate to request for a review of the PRC Supreme Court's decision and seek an appeal by the PRC Supreme Procuratorate to the PRC Supreme Court for an ultimate re-trial on his behalf. In July 2015, the PRC Supreme Procuratorate rejected his request for review.

As of December 31, 2015, Guizhou Taibang had maintained, on its balance sheet, payables to the investors of RMB34,160,000 (approximately $5,260,640) as originally received funds from such individual investor in respect of the shares in dispute, RMB17,677,791 (approximately $2,722,380) for the interest expenses, and RMB341,600 (approximately $52,606) for the 1% penalty imposed by the Equity Purchase Agreement for any breach in the event that Guizhou Taibang is required to return the original investment amount to such investor.

NOTE 21 — NET INCOME PER SHARE

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

	For the Years Ended		
	December 31, 2015	**December 31, 2014**	**December 31, 2013**
	USD	*USD*	*USD*
Net income attributable to China Biologic Products, Inc.	89,042,703	70,916,840	54,601,551
Earnings allocated to participating nonvested shares	(2,070,762)	(1,210,895)	(456,261)
Net income allocated to common stockholders used in computing basic and diluted net income per common stock	86,971,941	69,705,945	54,145,290
Weighted average shares used in computing basic net income per common stock	25,599,153	24,427,196	26,410,819
Diluted effect of stock option	968,213	1,257,868	1,161,292
Weighted average shares used in computing diluted net income per common stock	26,567,366	25,685,064	27,572,111
Net income per common stock — basic	3.40	2.85	2.05
Net income per common stock — diluted	3.27	2.71	1.96

During the year ended December 31, 2015, 2014 and 2013, no option was antidilutive or excluded from the calculation of diluted net income per common stock. Further, rights issued pursuant to the stockholder rights plan (see Note 25) were excluded from the calculation of diluted net income per common stock since they were antidilutive.

NOTE 22 — CHINA BIOLOGIC PRODUCTS, INC. (PARENT COMPANY)

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

Condensed Balance Sheets:

	December 31, 2015 *USD*	December 31, 2014 *USD*
Cash	13,939,319	2,651,088
Prepayments and prepaid expenses	86,404	89,580
Property, plant and equipment, net	211	368
Investment in and amounts due from subsidiaries	372,035,937	279,497,751
Total Assets	386,061,871	282,238,787
Other payables and accrued expenses	3,718,747	3,851,760
Long-term loan, including current portion	—	66,300,000
Total Liabilities	3,718,747	70,151,760
Total Equity	382,343,124	212,087,027
Total Liabilities and Equity	386,061,871	282,238,787

Condensed Statements of Comprehensive Income:

	For the Years Ended		
	December 31, 2015 *USD*	December 31, 2014 *USD*	December 31, 2013 *USD*
Equity in income of subsidiaries	100,753,805	78,948,990	62,457,106
General and administrative expenses	(10,693,991)	(6,008,852)	(7,460,763)
Other expenses, net	(1,017,111)	(2,023,298)	(394,792)
Earnings before income tax expense	89,042,703	70,916,840	54,601,551
Income tax expense	—	—	—
Net Income	89,042,703	70,916,840	54,601,551

Condensed Statements of Cash Flows:

	For the Years Ended		
	December 31, 2015	**December 31, 2014**	**December 31, 2013**
	USD	*USD*	*USD*
Net cash (used in) provided by operating activities	(3,904,038)	(444,755)	197,001
Net cash used in investing activities	—	—	—
Net cash provided by financing activities	15,192,269	2,416,821	405,920
Net increase in cash	11,288,231	1,972,066	602,921
Cash at beginning of year	2,651,088	679,022	76,101
Cash at end of year	13,939,319	2,651,088	679,022

NOTE 23 — FOLLOW-ON OFFERING OF COMMON STOCK

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

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

NOTE 24 — ACQUISITION OF ADDITIONAL EQUITY INTEREST IN GUIZHOU TAIBANG

On August 25, 2014, Guiyang Dalin Biotechnology (''Guiyang Dalin''), a wholly-owned subsidiary of the Company, entered into an agreement to acquire an additional 19.84% equity interest in Guizhou Taibang from Guizhou Eakan, a non-controlling interest shareholder of Guizhou Taibang. The total consideration of the transaction was RMB535 million (approximately $82.4 million). The Company completed the acquisition on September 4, 2014 and increased its equity interest in Guizhou Taibang to 76.23%.

NOTE 25 — STOCKHOLDER RIGHTS PLAN

On January 8, 2015, the Board of Directors (the ''Board'') adopted a stockholder rights plan (the ''Rights Agreement''). Pursuant to the Rights Agreement, the Board of Directors authorized and declared a dividend distribution of one right (a ''Right'') for each outstanding share of the common stock, par value $0.0001 per share (the ''Common Shares''), of the Company to stockholders of record at the close of business on January 20, 2015 (the ''Record Date''). Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Series A Participating Preferred Stock, par value $0.0001 per share (the ''Preferred Shares''), of the Company at an exercise price of

$325.00 per one one-thousandth of a Preferred Share, subject to adjustment (the ''Exercise Price''). However, the Rights are not immediately exercisable and will become exercisable only upon the occurrence of certain events. In particular, after January 8, 2015:

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

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

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

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

(3) The following is an extract of the audited financial statements of the CBPO Group for the year ended December 31, 2016, which were prepared in accordance with U.S. GAAP, from the 2016 annual report of CBPO.

CONSOLIDATED BALANCE SHEETS

	Note	**December 31, 2016** *USD*	**December 31, 2015** *USD*
ASSETS			
Current Assets			
Cash and cash equivalents		183,765,533	144,937,893
Time deposits		—	38,032,593
Accounts receivable, net of allowance for doubtful accounts	*3*	33,918,796	25,144,969
Inventories	*5*	156,412,674	126,395,312
Prepayments and other current assets, net of allowance for doubtful accounts	*4, 12*	18,275,717	24,545,597
Deposits related to land use rights, current portion	*8*	999,571	10,056,200
Total Current Assets		393,372,291	369,112,564
Property, plant and equipment, net	*7*	132,091,923	105,364,251
Land use rights, net		23,389,384	23,576,300
Equity method investment	*9*	10,614,755	8,718,133
Loan receivable	*10*	43,245,000	39,834,173
Other non-current assets	*12*	2,244,156	4,861,075
Total Assets		604,957,509	551,466,496
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable		6,158,601	9,681,835
Other payables and accrued expenses	*11*	59,798,145	57,462,563
Income tax payable		7,484,366	4,510,986
Total Current Liabilities		73,441,112	71,655,384
Deferred income		3,755,648	4,525,867
Other liabilities	*12*	6,623,926	8,323,446
Total Liabilities		83,820,686	84,504,697

	Note	December 31, 2016 USD	December 31, 2015 USD
Stockholders' Equity			
Common stock:			
par value $0.0001;			
100,000,000 shares authorized;			
29,427,609 and 28,835,053 shares issued at December 31, 2016 and 2015, respectively;			
27,172,905 and 26,580,349 shares outstanding at December 31, 2016 and 2015, respectively		2,943	2,884
Additional paid-in capital	*22*	105,459,610	105,079,845
Treasury stock: 2,254,704 shares at December 31, 2016 and 2015, respectively, at cost	*15, 21*	(56,425,094)	(56,425,094)
Retained earnings		438,483,401	333,704,094
Accumulated other comprehensive loss		(25,320,271)	(18,605)
Total equity attributable to China Biologic Products, Inc.		462,200,589	382,343,124
Noncontrolling interest	*22*	58,936,234	84,618,675
Total Stockholders' Equity		521,136,823	466,961,799
Commitments and contingencies	*10, 18*	—	—
Total Liabilities and Stockholders' Equity		604,957,509	551,466,496

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

		For the Years Ended		
		December 31, 2016	**December 31, 2015**	**December 31, 2014**
	Note	*USD*	*USD*	*USD*
Net income per share of common stock:	*19*			
Basic		3.79	3.40	2.85
Diluted		3.74	3.27	2.71
Weighted average shares used in computation:	*19*			
Basic		26,848,445	25,599,153	24,427,196
Diluted		27,249,144	26,567,366	25,685,064
Net income		128,793,421	114,105,518	96,112,634
Other comprehensive loss:				
Foreign currency translation adjustment, net of nil income taxes		(31,303,262)	(24,368,360)	(1,918,715)
Comprehensive income		97,490,159	89,737,158	94,193,919
Less: Comprehensive income attributable to noncontrolling interest		19,026,592	20,698,249	24,798,384
Comprehensive income attributable to China Biologic Products, Inc.		78,463,567	69,038,909	69,395,535

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common stock								
	Number of Shares	Par value *USD*	Additional paid-in capital *USD*	Treasury stock *USD*	Retained earnings *USD*	Accumulated other comprehensive income (loss) *USD*	Equity attributable to China Biologic Products, Inc. *USD*	Noncontrolling interest *USD*	Total equity *USD*
Balance as of January 1, 2014	**27,341,744**	**2,734**	**72,031,864**	**(29,594,080)**	**173,744,551**	**21,506,494**	**237,691,563**	**66,278,046**	**303,969,609**
Net income	—	—	—	—	70,916,840	—	70,916,840	25,195,794	96,112,634
Other comprehensive loss	—	—	—	—	—	(1,521,305)	(1,521,305)	(397,410)	(1,918,715)
Dividend declared to noncontrolling interest shareholders	—	—	—	—	—	—	—	(13,056,733)	(13,056,733)
Acquisition of noncontrolling interests	—	—	(68,802,855)	—	—	—	(68,802,855)	(15,122,799)	(83,925,654)
Share repurchase	—	—	—	(70,000,000)	—	—	(70,000,000)	—	(70,000,000)
Share-based compensation	—	—	5,396,271	—	—	—	5,396,271	—	5,396,271
Excess tax benefits from stock option exercises	—	—	1,333,594	—	—	—	1,333,594	277,805	1,611,399
Reissuance of treasury stock	—	—	10,189,059	23,023,459	—	—	33,212,518	—	33,212,518
Common stock issued in connection with:									
— Exercise of stock options	417,002	42	3,860,359	—	—	—	3,860,401	—	3,860,401
— Vesting of restricted shares	107,125	11	(11)	—	—	—	—	—	—
Balance as of December 31, 2014	**27,865,871**	**2,787**	**24,008,281**	**(76,570,621)**	**244,661,391**	**19,985,189**	**212,087,027**	**63,174,703**	**275,261,730**
Net income	—	—	—	—	89,042,703	—	89,042,703	25,062,815	114,105,518
Other comprehensive loss	—	—	—	—	—	(20,003,794)	(20,003,794)	(4,364,566)	(24,368,360)
Share-based compensation	—	—	12,114,272	—	—	—	12,114,272	—	12,114,272
Excess tax benefits from stock option exercises	—	—	1,225,941	—	—	—	1,225,941	292,761	1,518,702
Reissuance of treasury stock	—	—	60,438,432	20,145,527	—	—	80,583,959	—	80,583,959
Adjustments in noncontrolling interest resulting from capital injections	—	—	(452,962)	—	—	—	(452,962)	452,962	—
Common stock issued in connection with:									
— Exercise of stock options	780,557	78	7,745,900	—	—	—	7,745,978	—	7,745,978
— Vesting of restricted shares	188,625	19	(19)	—	—	—	—	—	—
Balance as of December 31, 2015	**28,835,053**	**2,884**	**105,079,845**	**(56,425,094)**	**333,704,094**	**(18,605)**	**382,343,124**	**84,618,675**	**466,961,799**
Net income	—	—	—	—	104,779,307	—	104,779,307	24,014,114	128,793,421
Other comprehensive loss	—	—	—	—	—	(26,315,740)	(26,315,740)	(4,987,522)	(31,303,262)
Dividend declared to noncontrolling interest shareholder	—	—	—	—	—	—	—	(10,901,312)	(10,901,312)
Share-based compensation	—	—	24,405,511	—	—	—	24,405,511	—	24,405,511
Excess tax benefits from stock option exercises	—	—	2,299,316	—	—	—	2,299,316	314,515	2,613,831
Adjustments in noncontrolling interest resulting from capital injections	—	—	513,397	—	—	—	513,397	(513,397)	—
Capital withdrawal by noncontrolling interest shareholders	—	—	(30,397,196)	—	—	1,014,074	(29,383,122)	(33,608,839)	(62,991,961)
Common stock issued in connection with:									
— Exercise of stock options	337,406	34	3,558,762	—	—	—	3,558,796	—	3,558,796
— Vesting of restricted shares	255,150	25	(25)	—	—	—	—	—	—
Balance as of December 31, 2016	**29,427,609**	**2,943**	**105,459,610**	**(56,425,094)**	**438,483,401**	**(25,320,271)**	**462,200,589**	**58,936,234**	**521,136,823**

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016, 2015 and 2014

NOTE 1 — DESCRIPTION OF BUSINESS AND SIGNIFICANT CONCENTRATIONS AND RISKS

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

Cash Concentration

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

Sales Concentration

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

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

Purchase Concentration

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

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

Use of Estimates

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

Foreign Currency Translation

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

Revenue Recognition

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

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

Fair Value Measurements

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

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

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

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

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

See Note 16 to the Consolidated Financial Statements.

Cash and Cash Equivalents

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

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

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost.

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

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

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

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

Equity Method Investment

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

Government Grants

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

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

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

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

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

Land Use Rights

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

Research and Development Expenses

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

Product Liability

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

Income Taxes

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

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

Share-based Payment

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

Long-lived Assets

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

Net Income per Share

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

Segment Reporting

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

Contingencies

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

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. The original effective date for ASU 2014-09 would have required the Company to adopt beginning in its first quarter of 2017. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) — Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for one year and permits early adoption as early as the original effective date of ASU 2014-09. Accordingly, the Company may adopt the standard in either its first quarter of 2017 or 2018. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company plans to complete its evaluation by the third quarter of 2017, including an assessment of the new expanded disclosure requirements and a final determination of the transition method we will use to adopt the new standard.

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

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

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

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

NOTE 3 — ACCOUNTS RECEIVABLE

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

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

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

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

NOTE 4 — PREPAYMENTS AND OTHER CURRENT ASSETS

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

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

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

NOTE 5 — INVENTORIES

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

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

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

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

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

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2016 *USD*	December 31, 2015 *USD*
Buildings	34,131,032	31,505,133
Machinery and equipment	52,467,764	54,640,502
Furniture, fixtures, office equipment and vehicles	7,843,567	7,859,951
Total property, plant and equipment, gross	94,442,363	94,005,586
Accumulated depreciation	(39,315,011)	(31,521,859)
Total property, plant and equipment, net	55,127,352	62,483,727
Construction in progress	61,825,470	26,115,927
Prepayment for property, plant and equipment	15,139,101	16,764,597
Property, plant and equipment, net	132,091,923	105,364,251

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

NOTE 8 — DEPOSITS RELATED TO LAND USE RIGHTS

In 2012, Guizhou Taibang made a refundable payment of RMB83,400,000 (approximately $12,022,110) to the local government in connection with the public bidding for a land use right in Guizhou Province. Given the decrease of the land area to be provided by the local government, RMB13,000,000 (approximately $1,873,950) and RMB10,000,000 (approximately $1,441,500) was refunded by the local government in December 2013 and January 2014, respectively. Guizhou Taibang completed the bidding and purchased the land use right in December 2015. For the year ended December 31, 2016, RMB59,665,759 (approximately $8,600,819) was refunded by the local government. The remaining deposit is expected to be refunded in 2017.

NOTE 9 — EQUITY METHOD INVESTMENT

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

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

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

NOTE 10 — LOAN RECEIVABLE

(a) Current

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

On October 18, 2016, the Company entered into a supplemental agreement to the loan agreement with Xinjiang Deyuan, pursuant to which the principal of the loan was agreed to offset accounts payable for the purchase of plasma from Xinjiang Deyuan in two installments, with the remaining principal of the loan, if any, being repaid by Xinjiang Deyuan no later than December 20, 2016. The Company has the right to charge an interest rate of 9% per annum for any overdue loan since September 21, 2016 according to loan agreement.

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

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

(b) Non-current

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

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

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

NOTE 11 — OTHER PAYABLES AND ACCRUED EXPENSES

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

	December 31, 2016	**December 31, 2015**
	USD	*USD*
Payables to potential investors[(1)]	7,941,013	9,550,588
Payable to Guizhou Eakan Investing Corp.[(2)]	2,098,824	2,242,240
Payable to Guizhou Jie'an Company[(3)]	—	1,565,052
Salaries and bonuses payable	16,740,846	13,520,721
Accruals for selling commission and promotion fee	4,391,160	2,360,933
Dividends payable to noncontrolling interest	7,952,467	5,309,920
Payables for construction work	5,364,441	7,257,489
Other tax payables	1,918,248	3,855,405
Advance from customers	3,976,832	1,934,321
Deposits received	2,541,420	3,615,143
Others	6,872,894	6,250,751
Total	59,798,145	57,462,563

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

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

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

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

NOTE 12 — INCOME TAX

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

The United States of America

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

British Virgin Islands

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

Hong Kong

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

PRC

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

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

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

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

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

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

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

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

	For the Years Ended		
	December 31, 2016	**December 31, 2015**	**December 31, 2014**
	(in percentage to earnings before income tax expense)		
PRC statutory income tax rate	25.0%	25.0%	25.0%
Non-deductible expenses:			
Share-based compensation	—	1.3%	0.5%
Others	1.6%	0.1%	0.5%
Tax rate differential	(3.6)%	—	(2.2)%
Effect of PRC preferential tax rate	(10.9)%	(10.5)%	(9.7)%
Bonus deduction on research and development expenses	(1.5)%	(1.5)%	(1.4)%
Change in valuation allowance	5.3%	1.3%	(0.7)%
PRC dividend withholding tax	—	—	7.3%
Tax effect of equity method investment	0.4%	(0.2)%	2.4%
Effective income tax rate	16.3%	15.5%	21.7%

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

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

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

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

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

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

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

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

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

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

The Company and each of its PRC subsidiaries file income tax returns in the United States and the PRC, respectively. The Company is subject to U.S. federal income tax examination by tax authorities for tax years beginning in 2007. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than RMB100,000 (approximately $14,415). In the case of transfer pricing issues, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The PRC tax returns for the Company's PRC subsidiaries are open to examination by the PRC tax authorities for the tax years beginning in 2010.

NOTE 13 — OPTIONS AND NONVESTED SHARES

Options

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

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

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

	Number of Options	Weighted Average Exercise Price *USD*	Weighted Average Remaining Contractual Term in years	Aggregate Intrinsic Value *USD*
Outstanding as of January 1, 2014	1,882,376	9.98	7.20	35,518,897
Granted	—	—		
Exercised	(417,002)	9.26		(17,529,500)
Forfeited and expired	(32,920)	11.44		
Outstanding as of December 31, 2014	1,432,454	10.16	6.53	81,753,119
Granted	—	—		
Exercised	(780,557)	9.92		(68,089,712)
Forfeited and expired	—	—		
Outstanding as of December 31, 2015	651,897	10.44	5.24	86,064,461
Granted	—			
Exercised	(337,406)	10.55		(35,180,367)
Forfeited and expired	—	—		
Outstanding as of December 31, 2016	314,491	10.32	3.84	30,568,083
Vested as of December 31, 2016	314,491	10.32	3.84	30,568,083
Exercisable as of December 31, 2016	314,491	10.32	3.84	30,568,083

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

Nonvested shares

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

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

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

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

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

NOTE 14 — STATUTORY RESERVES

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

NOTE 15 — SHARE REPURCHASE

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

NOTE 16 — FAIR VALUE MEASUREMENTS

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

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

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

NOTE 17 — SALES

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

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

NOTE 18 — COMMITMENTS AND CONTINGENCIES

Commitments

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

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

Legal proceedings

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 19 — NET INCOME PER SHARE

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

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

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

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

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

Condensed Balance Sheets:

	December 31, 2016 *USD*	December 31, 2015 *USD*
Cash	11,539,131	13,939,319
Prepayments and prepaid expenses	85,879	86,404
Property, plant and equipment, net	211	211
Investment in and amounts due from subsidiaries	454,309,702	372,035,937
Total Assets	465,934,923	386,061,871
Other payables and accrued expenses	3,734,334	3,718,747
Total Liabilities	3,734,334	3,718,747
Total Equity	462,200,589	382,343,124
Total Liabilities and Equity	465,934,923	386,061,871

Condensed Statements of Comprehensive Income:

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

Condensed Statements of Cash Flows:

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

NOTE 21 — FOLLOW-ON OFFERING OF COMMON STOCK

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

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

NOTE 22 — CAPITAL WITHDRAWAL BY TWO FORMER NONCONTROLLING INTEREST SHAREHOLDERS OF GUIZHOU TAIBANG

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

NOTE 23 — STOCKHOLDER RIGHTS PLAN

On February 22, 2017, the Board of Directors (the "Board") adopted a stockholder rights plan (the "Rights Agreement"). Pursuant to the Rights Agreement, the Board of Directors authorized and declared a dividend distribution of one right (a "Right") for each outstanding share of the common stock, par value $0.0001 per share (the "Common Shares"), of the Company to stockholders of record at the close of business on March 6, 2017 (the "Record Date"). Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Series A

Participating Preferred Stock, par value $0.0001 per share (the ''Preferred Shares''), of the Company at an exercise price of $550.00 per one one-thousandth of a Preferred Share, subject to adjustment (the ''Exercise Price''). However, the Rights are not immediately exercisable and will become exercisable only upon the occurrence of certain events. In particular, after February 22, 2017:

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

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

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

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

(4) The following is an extract of the unaudited financial statements of the CBPO Group for the three and six months ended June 30, 2017, which were prepared in accordance with U.S. GAAP, from the quarterly report of CBPO for its fiscal quarter ended June 30, 2017.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	Note	June 30, 2017 USD	December 31, 2016 USD
ASSETS			
Current Assets			
Cash and cash equivalents		223,243,489	183,765,533
Accounts receivable, net of allowance for doubtful accounts	2	61,146,341	33,918,796
Inventories	3	183,258,799	156,412,674
Prepayments and other current assets, net of allowance for doubtful accounts		17,644,030	15,320,913
Total Current Assets		485,292,659	389,417,916
Property, plant and equipment, net	4	145,410,658	132,091,923
Land use rights, net		24,180,767	23,389,384
Equity method investment		12,780,120	10,614,755
Loan receivable	5	44,283,000	43,245,000
Other non-current assets		6,256,555	6,198,531
Total Assets		718,203,759	604,957,509
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term bank loans	6	14,465,780	—
Accounts payable		6,340,255	6,158,601
Income tax payable		8,191,264	7,484,366
Other payables and accrued expenses	7	64,096,628	59,798,145
Total Current Liabilities		93,093,927	73,441,112
Deferred income		3,599,654	3,755,648
Other liabilities		6,586,692	6,623,926
Total Liabilities		103,280,273	83,820,686

	Note	June 30, 2017 USD	December 31, 2016 USD
Stockholders' Equity			
Common stock:			
par value $0.0001;			
100,000,000 shares authorized;			
29,493,061 and 29,427,609 shares issued at June 30, 2017 and December 31, 2016, respectively;			
27,238,357 and 27,172,905 shares outstanding at June 30, 2017 and December 31, 2016, respectively		2,949	2,943
Additional paid-in capital		122,167,032	105,459,610
Treasury stock: 2,254,704 shares at June 30, 2017 and December 31, 2016, at cost		(56,425,094)	(56,425,094)
Retained earnings		499,505,734	438,483,401
Accumulated other comprehensive loss		(13,264,788)	(25,320,271)
Total equity attributable to China Biologic Products, Inc.		551,985,833	462,200,589
Noncontrolling interest		62,937,653	58,936,234
Total Stockholders' Equity		614,923,486	521,136,823
Commitments and contingencies	*12*	—	—
Total Liabilities and Stockholders' Equity		718,203,759	604,957,509

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	For the Three Months Ended June 30, 2017 USD	For the Three Months Ended June 30, 2016 USD	For the Six Months Ended June 30, 2017 USD	For the Six Months Ended June 30, 2016 USD
Sales	11	89,277,897	91,421,155	180,731,009	177,008,866
Cost of sales		30,110,272	31,482,146	62,325,745	65,525,581
Gross profit		59,167,625	59,939,009	118,405,264	111,483,285
Operating expenses					
Selling expenses		3,577,599	3,026,457	7,385,151	4,254,127
General and administrative expenses		14,264,476	12,573,683	29,521,242	23,901,696
Research and development expenses		1,924,671	1,303,815	3,282,034	2,398,538
Income from operations		39,400,879	43,035,054	78,216,837	80,928,924
Other income (expenses)					
Equity in income of an equity method investee		972,359	259,850	1,884,102	43,535
Interest expense		(286,358)	(88,528)	(348,868)	(177,078)
Interest income		1,617,054	1,292,069	3,240,893	3,043,209
Total other income, net		2,303,055	1,463,391	4,776,127	2,909,666
Income before income tax expense		41,703,934	44,498,445	82,992,964	83,838,590
Income tax expense	8	6,867,434	7,006,764	13,817,973	13,613,867
Net income		34,836,500	37,491,681	69,174,991	70,224,723
Less: Net income attributable to noncontrolling interest		3,806,016	6,738,646	8,152,658	13,274,433
Net income attributable to China Biologic Products, Inc.		31,030,484	30,753,035	61,022,333	56,950,290
Earnings per share of common stock:	13				
Basic		1.10	1.12	2.17	2.08
Diluted		1.09	1.10	2.15	2.05
Weighted average shares used in computation:	13				
Basic		27,213,984	26,698,996	27,199,011	26,642,461
Diluted		27,478,935	27,152,560	27,472,301	27,145,470
Net income		34,836,500	37,491,681	69,174,991	70,224,723
Other comprehensive income:					
Foreign currency translation adjustment, net of nil income taxes		10,692,318	(13,267,360)	13,413,286	(10,697,608)
Comprehensive income		45,528,818	24,224,321	82,588,277	59,527,115
Less: Comprehensive income attributable to noncontrolling interest		4,859,899	4,468,767	9,510,461	11,447,450
Comprehensive income attributable to China Biologic Products, Inc.		40,668,919	19,755,554	73,077,816	48,079,665

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended	
	June 30, 2017	June 30, 2016
	USD	*USD*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	69,174,991	70,224,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,043,854	4,590,028
Amortization	683,276	438,916
Loss on sale of property, plant and equipment	119,557	115,075
Allowance for doubtful accounts — accounts receivable, net	23,783	6,604
Allowance for doubtful accounts — other non-current assets	—	1,225,200
Write-down of obsolete inventories	—	61,497
Deferred tax benefit	(166,369)	(1,584,958)
Share-based compensation	16,201,189	9,307,099
Equity in income of an equity method investee	(1,884,102)	(43,535)
Change in operating assets and liabilities:		
Accounts receivable	(26,068,071)	(13,856,209)
Inventories	(22,769,252)	(12,522,807)
Prepayments and other current assets	(1,862,700)	2,433,998
Accounts payable	33,359	(3,001,361)
Income tax payable	519,895	4,339,536
Other payables and accrued expenses	(2,910,237)	(4,465,594)
Deferred income	(242,713)	(255,394)
Net cash provided by operating activities	36,896,460	57,012,818
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for property, plant and equipment	(15,975,643)	(25,222,545)
Payment for intangible assets and land use rights	(667,068)	(1,351,789)
Refund of deposits related to land use right	—	6,461,924
Proceeds from sale of property, plant and equipment	24,674	100,424
Long-term loan lent to a third party	—	(6,331,518)
Net cash used in investing activities	(16,618,037)	(26,343,504)

	For the Six Months Ended	
	June 30, 2017	**June 30, 2016**
	USD	*USD*
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock option exercised	506,239	2,364,952
Proceeds from short-term bank loans	23,009,280	—
Repayment of short-term bank loan	(8,715,000)	—
Maturity of deposit as security for bank loans	—	37,756,405
Dividend paid by subsidiaries to noncontrolling interest shareholders	—	(7,921,952)
Net cash provided by financing activities	14,800,519	32,199,405
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	4,399,014	(3,772,623)
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,477,956	59,096,096
Cash and cash equivalents at beginning of period	183,765,533	144,937,893
Cash and cash equivalents at end of period	223,243,489	204,033,989
Supplemental cash flow information		
Cash paid for income taxes	13,621,188	10,841,209
Noncash investing and financing activities:		
Acquisition of property, plant and equipment included in payables	4,202,934	9,312,476

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 — BASIS OF PRESENTATION, SIGNIFICANT CONCENTRATION AND RISKS

(a) Basis of Presentation

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

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the financial position as of June 30, 2017, the results of operations for the three and six months ended June 30, 2017 and 2016 and cash flows for the six months ended June 30, 2017 and 2016, have been made.

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

Recently Adopted Accounting Pronouncements

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

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

(b) Significant Concentration and Risks

The Company maintains cash and deposit balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for its bank accounts located in the United States or may exceed Hong Kong Deposit Protection Board insured limits for its bank accounts located in Hong Kong or may exceed the insured limits for its bank accounts in China established by China Deposit Insurance Fund Management Institution.

Total cash at banks and deposits as of June 30, 2017 and December 31, 2016 amounted to $222,475,614 and $183,078,440, respectively, of which $2,434,242 and $2,744,704 are insured, respectively. The Company has not experienced any losses in uninsured bank deposits and does not believe that it is exposed to any significant risks on cash held in bank accounts.

As of June 30, 2017 and December 31, 2016, the Company maintained cash and cash equivalents at banks in the following locations:

	June 30, 2017 *USD*	**December 31, 2016** *USD*
PRC, excluding Hong Kong	212,009,195	171,539,309
U.S.	10,466,419	11,539,131
Total	222,475,614	183,078,440

The Company's two major products are human albumin and human immunoglobulin for intravenous injection ("IVIG"). Human albumin accounted for 36.3% and 41.2% of the total sales for the three months ended June 30, 2017 and 2016, respectively, and 38.3% and 39.7% of the total sales for the six months ended June 30, 2017 and 2016, respectively. IVIG accounted for 33.3% and 33.6% of the total sales for the three months ended June 30, 2017 and 2016, respectively, and 34.0% and 36.6% of the total sales for the six months ended June 30, 2017 and 2016, respectively. If the market demands for human albumin and IVIG cannot be sustained in the future or the price of human albumin and IVIG decreases, the Company's operating results could be adversely affected.

Substantially all of the Company's customers are located in the PRC. There were no customers that individually comprised 10% or more of the total sales during the three and six months ended June 30, 2017 and 2016. No individual customer represented 10% or more of accounts receivables as at June 30, 2017 and December 31, 2016, respectively. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

There was one supplier, namely, Xinjiang Deyuan Bioengineering Co., Ltd. ("Xinjiang Deyuan"), that comprised 10% or more of the total purchases for the three and six months ended June 30, 2017 and 2016. Chongqing Sanda Great Exploit Pharmaceutical Co, Ltd. represented more than 10% of accounts payables as at June 30, 2017 and December 31, 2016.

NOTE 2 — ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017 *USD*	**December 31, 2016** *USD*
Accounts receivable	61,716,363	34,452,392
Less: Allowance for doubtful accounts	(570,022)	(533,596)
Total	61,146,341	33,918,796

The activity in the allowance for doubtful accounts-accounts receivable for the six months ended June 30, 2017 and 2016 are as follows:

	For the Six Months Ended June 30, 2017 *USD*	June 30, 2016 *USD*
Beginning balance	533,596	443,624
Provisions	23,783	6,604
Foreign currency translation adjustment	12,643	(9,320)
Ending balance	570,022	440,908

NOTE 3 — INVENTORIES

Inventories at June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017 *USD*	December 31, 2016 *USD*
Raw materials	97,602,529	80,781,903
Work-in-process	33,790,504	24,994,839
Finished goods	51,865,766	50,635,932
Total	183,258,799	156,412,674

Provisions to write-down the carrying amount of obsolete inventory to its estimated net realizable value amounted to nil and $1,937 during the three months ended June 30, 2017 and 2016, respectively, and provisions of nil and $61,497 was recorded during the six months ended June 30, 2017 and 2016, respectively, which were recorded as cost of sales in the unaudited condensed consolidated statements of comprehensive income.

NOTE 4 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017 *USD*	December 31, 2016 *USD*
Buildings	36,815,470	34,131,032
Machinery and equipment	56,603,923	52,467,764
Furniture, fixtures, office equipment and vehicles	8,400,694	7,843,567
Total property, plant and equipment, gross	101,820,087	94,442,363
Accumulated depreciation	(46,159,164)	(39,315,011)
Total property, plant and equipment, net	55,660,923	55,127,352
Construction in progress	80,953,387	61,825,470
Prepayment for property, plant and equipment	8,796,348	15,139,101
Property, plant and equipment, net	145,410,658	132,091,923

Depreciation expense for the three months ended June 30, 2017 and 2016 was $2,991,721 and $2,322,405, respectively. Depreciation expense for the six months ended June 30, 2017 and 2016 was $6,043,854 and $4,590,028, respectively. No interest expenses were capitalized into construction in progress for the three and six months ended June 30, 2017 and 2016.

NOTE 5 — LOAN RECEIVABLE

In August 2015, the Company entered into a cooperation agreement with Xinjiang Deyuan and the controlling shareholder of Xinjiang Deyuan. Pursuant to the agreement, Guizhou Taibang agreed to provide Xinjiang Deyuan with an interest-bearing loan at an interest rate of 6% per annum with an aggregate principal amount of RMB300,000,000 (approximately $47,160,000). The loan is due July 31, 2018 and secured by a pledge of Deyuan Shareholder's 58.02% equity interest in Xinjiang Deyuan. Interest will be paid on the 20th day of the last month of each quarter.

Interest income of $624,306 and $694,839 was recognized and received by Guizhou Taibang for the three months ended June 30, 2017 and 2016, respectively, and interest income of $1,232,486 and $1,347,145 was recognized and received by Guizhou Taibang for the six months ended June 30, 2017 and 2016, respectively.

NOTE 6 — SHORT-TERM BANK LOANS

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

In April 2017, the Company obtained a one-year unsecured loan of RMB98,000,000 (approximately $14,465,780) from China Everbright Bank at an interest rate of 4.35% per annum. The loan is due on March 31, 2018 and interest will be paid on the 20th day of each month.

NOTE 7 — OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses at June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017 *USD*	**December 31, 2016** *USD*
Payables to a potential investor[(1)]	8,250,391	7,941,013
Salaries and bonuses payable	14,261,633	16,740,846
Accruals for sales commission and promotion fee	7,089,649	4,391,160
Dividends payable to noncontrolling interest[(2)]	13,741,901	7,952,467
Payables for construction in progress	5,771,753	5,364,441
Other tax payables	3,081,560	1,918,248
Advance from customers	1,675,967	3,976,832
Deposits received	5,149,605	4,640,244
Others	5,074,169	6,872,894
Total	64,096,628	59,798,145

(1) The payables to a potential investor comprises deposits received from a potential investor of $5,042,358 and $4,924,164 as of June 30, 2017 and December 31, 2016, respectively, and related interest plus penalty on these deposits totaling $3,208,033 and $3,016,849 as of June 30, 2017 and December 31, 2016, respectively.

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

NOTE 8 — INCOME TAX

The Company's effective income tax rates were 17% and 16% for the three months ended June 30, 2017 and 2016, respectively. The Company's effective income tax rates were 17% and 16% for the six months ended June 30, 2017 and 2016, respectively.

The difference between the effective income tax rates and statutory income tax rate of 25% for the three and six months ended June 30, 2017 and 2016 was primarily due to preferential tax rate of 15% applicable to both Guizhou Taibang and Shandong Taibang in 2017 and 2016, which was partially offset by valuation allowances against the deferred tax assets of China Biologic in the U.S. relating to operating losses.

As of and for the three and six months ended June 30, 2017, the Company did not have any unrecognized tax benefits and thus no interest and penalties related to unrecognized tax benefits were recorded. In addition, the Company does not expect that the amount of unrecognized tax benefits to change significantly within the next 12 months.

NOTE 9 — OPTIONS AND NONVESTED SHARES

Options

A summary of stock options activity for the six months ended June 30, 2017 is as follow:

	Number of Options	Weighted Average Exercise Price *USD*	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value *USD*
Outstanding as of December 31, 2016	314,491	10.32	3.84	30,568,083
Granted	—			
Exercised	(46,880)	10.80		(4,672,851)
Forfeited and expired	—			
Outstanding as of June 30, 2017	267,611	10.24	3.21	27,527,053
Vested as of June 30, 2017	267,611	10.24	3.21	27,527,053
Exercisable as of June 30, 2017	267,611	10.24	3.21	27,527,053

For the three months ended June 30, 2017 and 2016, the Company recorded stock compensation expense with respect to stock options of nil and $243,578, respectively, in general and administrative expenses. For the six months ended June 30, 2017 and 2016, the Company recorded stock compensation expense with respect to stock options of nil and $487,156, respectively, in general and administrative expenses.

Nonvested shares

A summary of nonvested shares activity for the six months ended June 30, 2017 is as follows:

	Number of nonvested shares	Grant date weighted average fair value *USD*
Outstanding at December 31, 2016	912,650	104.51
Granted	25,800	98.20
Vested	(18,572)	79.48
Forfeited	—	—
Outstanding at June 30, 2017	919,878	104.84

For the three months ended June 30, 2017 and 2016, the Company recorded stock compensation expense with respect to nonvested shares of $8,129,124 and $4,494,126, respectively, in general and administrative expenses. For the six months ended June 30, 2017 and 2016, the Company recorded stock compensation expense with respect to nonvested shares of $16,201,189 and $8,819,943, respectively, in general and administrative expenses.

At June 30, 2017, approximately $67,999,368 of stock compensation expense with respect to nonvested shares is expected to be recognized over weighted average period of approximately 2.52 years.

NOTE 10 — FAIR VALUE MEASUREMENTS

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

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

- Loan receivable — The carrying amounts of loan receivable approximate their fair value. The fair value is estimated using discounted cash flow analysis based on the borrowing rates for similar borrowing.

NOTE 11 — SALES

The Company's sales by products for the three months ended June 30, 2017 and 2016 are as follows:

	For the Three Months Ended	
	June 30, 2017	**June 30, 2016**
	USD	*USD*
Human Albumin	32,375,022	37,707,805
Immunoglobulin products:		
Human Immunoglobulin for Intravenous Injection	29,663,496	30,673,660
Other Immunoglobulin products	12,709,939	8,205,752
Placenta Polypeptide	9,225,786	10,890,493
Others	5,303,654	3,943,445
Total	89,277,897	91,421,155

The Company's sales by products for the six months ended June 30, 2017 and 2016 are as follows:

	For the Six Months Ended	
	June 30, 2017	**June 30, 2016**
	USD	*USD*
Human Albumin	69,233,313	70,336,659
Immunoglobulin products:		
Human Immunoglobulin for Intravenous Injection	61,416,482	64,831,422
Other Immunoglobulin products	21,003,606	17,106,067
Placenta Polypeptide	19,472,755	16,598,897
Others	9,604,853	8,135,821
Total	180,731,009	177,008,866

NOTE 12 — COMMITMENTS AND CONTINGENCIES

Commitments

As of June 30, 2017, commitments outstanding for operating lease approximated $0.8 million.

As of June 30, 2017, commitments outstanding for the purchase of property, plant and equipment approximated $23.0 million.

As of June 30, 2017, commitments outstanding for the purchase of plasma from July 1, 2017 to 2018 approximated $25.1 million.

NOTE 13 — EARNINGS PER SHARE

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

	For the Three Months Ended June 30, 2017	For the Three Months Ended June 30, 2016
	USD	*USD*
Net income attributable to China Biologic Products, Inc.	31,030,484	30,753,035
Earnings allocated to participating nonvested shares	(1,026,685)	(775,050)
Net income used in basic/diluted earnings per common stock	30,003,799	29,977,985
Weighted average shares used in computing basic earnings per common stock	27,213,984	26,698,996
Dilutive effect of outstanding stock options	264,951	453,564
Weighted average shares used in computing diluted earnings per common stock	27,478,935	27,152,560
Basic earnings per common stock	1.10	1.12
Diluted earnings per common stock	1.09	1.10

During the three months ended June 30, 2017 and 2016, no potential ordinary shares outstanding were excluded from the calculation of diluted earnings per common stock.

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

	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016
	USD	*USD*
Net income attributable to China Biologic Products, Inc.	61,022,333	56,950,290
Earnings allocated to participating nonvested shares	(2,009,186)	(1,422,528)
Net income used in basic/diluted earnings per common stock	59,013,147	55,527,762
Weighted average shares used in computing basic earnings per common stock	27,199,011	26,642,461
Dilutive effect of outstanding stock options	273,290	503,009
Weighted average shares used in computing diluted earnings per common stock	27,472,301	27,145,470
Basic earnings per common stock	2.17	2.08
Diluted earnings per common stock	2.15	2.05

During the six months ended June 30, 2017 and 2016, no potential ordinary shares outstanding were excluded from the calculation of diluted earnings per common stock.

NOTE 14 — SUBSEQUENT EVENT

On July 21, 2017, China Biologic Products Holdings, Inc. (the "Successor") succeeded to the interests of China Biologic Products, Inc. (the "Predecessor") following a redomicile merger pursuant to an agreement and plan of merger dated as of April 28, 2017 (the "Merger Agreement") between the Successor and the Predecessor. Pursuant to the Merger Agreement, the Predecessor merged with and into the Successor, with the Successor surviving the merger and each issued and outstanding shares of Predecessor's common stock being converted into the right to receive one ordinary share of the Successor.

2. DIFFERENCES BETWEEN THE ACCOUNTING POLICIES ADOPTED BY THE COMPANY (HKFRS) AND CBPO (U.S. GAAP)

As described in "Letter from the Board — Waiver from Strict Compliance with the Listing Rules", the Company has applied to the Stock Exchange for, and been granted, a waiver from the requirement to produce an accountants' report on CBPO in accordance with Rule 14.69 (4) (a) (i) of the Listing Rules.

Instead, this circular contains a copy of:

(a) the audited consolidated financial statements of CBPO for the financial years ended December 31, 2014, 2015 and 2016 prepared in accordance with U.S. GAAP, including the management discussion and analysis, extracted from the annual reports of CBPO for each of those years (together the "CBPO Historical 3 Years' Accounts"); and

(b) the unaudited condensed consolidated financial statements of CBPO for the six months ended June 30, 2017 prepared in accordance with U.S. GAAP, including the management discussion and analysis, extracted from the quarterly report of CBPO for the aforementioned period (the "CBPO Q2 2017 Accounts").

The CBPO Historical 3 years' Accounts and CBPO Q2 2017 Accounts cover the balance sheets of CBPO as of December 31, 2014, 2015, 2016 and June 30, 2017 and the results of CBPO for each of the three years ended December 31, 2014, 2015 and 2016 and six months ended June 30, 2016 and 2017 (the "Relevant Periods").

The accounting policies adopted in the preparation of the CBPO Historical 3 Years' Accounts and CBPO Q2 2017 Accounts differ in certain material respects from the accounting policies presently adopted by the Company which comply with HKFRS (the "Company's Policies"). Differences which would have a significant effect on the CBPO Historical 3 Years' Accounts and CBPO Q2 2017 Accounts, had they been prepared in accordance with the accounting policies presently adopted by the Company rather than in accordance with U.S. GAAP, are set out below in "CBPO's Unaudited Adjusted Financial Information under the Company's Policies", with the following disclosures:

(a) a comparison between CBPO's consolidated statements of operations and consolidated statements of comprehensive income as extracted from the CBPO Historical 3 years' Accounts and CBPO Q2 2017 Accounts, respectively, prepared in accordance with U.S. GAAP, and adjusted consolidated income statement and consolidated statement of comprehensive income had they instead been prepared in accordance with the accounting policies adopted by the Company which are in compliance with HKFRS. The process applied in the preparation of such a comparison is set out in the "Basis of Preparation" and "Reconciliation Process" sections below;

(b) a comparison between CBPO's consolidated balance sheets as extracted from the CBPO Historical 3 years' Accounts and CBPO Q2 2017 Accounts, prepared in accordance with U.S. GAAP, and adjusted consolidated balance sheet had they instead been prepared in accordance with the accounting policies adopted by the Company which are in compliance with HKFRS. The process applied in the preparation of such a comparison is also set out in the "Basis of Preparation" and "Reconciliation Process" sections below; and

(c) a discussion of the material financial statement line item differences arising out of the exercise outlined in (a) and (b) above.

The above referenced items are collectively referred to as the "Reconciliation Information".

Basis of Preparation

The Reconciliation Information for the Relevant Periods, which presents the "Unadjusted Financial Information under U.S. GAAP" of CBPO as if it had been prepared in accordance with the accounting policies presently adopted by the Company which are in compliance with HKFRS, has been prepared on the assumption that the transition provisions of HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards ("HKFRS 1") are applicable to CBPO. CBPO's HKFRS transition date is deemed to be January 1, 2014 and as such, CBPO has applied the mandatory exceptions and certain optional exemptions afforded by HKFRS 1 for the preparation of the Reconciliation Information for the Relevant Periods.

Reconciliation Process

The Reconciliation Information has been prepared by comparing and analyzing the differences between the accounting policies adopted by CBPO for the preparation of the CBPO Historical 3 Years' Accounts and CBPO Q2 2017 Accounts in accordance with U.S. GAAP and the accounting policies adopted by the Company which are in compliance with HKFRS, and quantifying the relevant material financial effects of such differences.

PricewaterhouseCoopers Hong Kong ("PwC Hong Kong") was engaged by the Company to conduct work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" ("HKSAE 3000") issued by the HKICPA on the Reconciliation Information. The work consisted primarily of:

(i) comparing the Unadjusted Financial Information under U.S. GAAP with the audited or reviewed financial statements of the CBPO Group as set out in Appendix IV of the Circular;

(ii) comparing the accounting policies of the CBPO Group as set out in Appendix IV of the Circular with the accounting policies of the Group as set out in the published audited consolidated financial statements of the Company for the year ended

December 31, 2014, 2015 and 2016 and the published unaudited consolidated interim financial information of the Company for the six months ended June 30 2017;

(iii) reviewing the adjustments, if any, made by the Directors of the Company in arriving at the CBPO's Unaudited Adjusted Financial Information under the Company's Policies and evidence supporting the adjustments; and

(iv) checking the arithmetic accuracy of the computation of the CBPO's Unaudited Adjusted Financial Information under the Company's Policies.

PwC Hong Kong's engagement did not involve independent examination of any of the underlying financial information. The work carried out in accordance with HKSAE 3000 is different in scope from an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA and consequently, PwC Hong Kong did not express an audit opinion nor a review conclusion on the Reconciliation Information. PwC Hong Kong's engagement was intended solely for the use of the Directors in connection with this circular and may not be suitable for another purpose. Based on the work performed, PwC Hong Kong has concluded that:

(i) the Unadjusted Financial Information under U.S. GAAP has been properly extracted from the CBPO Historical 3 Years' Accounts and CBPO Q2 2017 Accounts;

(ii) in all material respects there were no differences between the accounting policies of the CBPO as set out in CBPO Historical 3 Years' Accounts and CBPO Q2 2017 Accounts and the accounting policies of the Group as set out in the published audited consolidated financial statements of the Company for the year ended December 31, 2014, 2015 and 2016 and the published unaudited consolidated interim financial information of the Companyfor the six months ended June 30, 2017 requiring adjustments to the Unadjusted Financial Information under U.S. GAAP to arrive at the CBPO's Unaudited Adjusted Financial Information under the Company's Policies; and

(iii) the computation of the Adjusted Financial Information under the Company's Policies is arithmetically accurate.

CBPO's Unaudited Adjusted Financial Information under the Company's Policies

The CBPO Historical 3 Years' Accounts and CBPO Q2 2017 Accounts for the Relevant Periods have been prepared and presented in accordance with U.S. GAAP. There are no material measurement differences between the CBPO Historical 3 Years' Accounts and CBPO Q2 2017 Accounts, as prepared in accordance with U.S. GAAP, compared to that applying the accounting policies presently adopted by the Company which are in compliance with HKFRS, other than as set out below:

1 — Share-based Payments (note i)

2 — Income Taxes (note k)

The Reconciliation Information also includes reclassification adjustments to align the presentation of the CBPO Historical 3 Years' Accounts and CBPO Q2 2017 Accounts with the Company's presentation.

Unaudited Adjusted Consolidated Income Statement under the Company's Policies for the year ended December 31, 2014

	Notes	Unadjusted Financial Information under U.S. GAAP US$'000	Measurement Adjustments US$'000	Classification Adjustments US$'000	Adjusted Financial Information under the Company's Policies US$'000
Revenue		243,252	—	—	243,252
Cost of sales		(80,025)	—	—	(80,025)
Gross profit		163,227	—	—	163,227
Selling expenses		(10,707)	—	—	(10,707)
Administrative expenses	*a, c, i*	(37,198)	(1,978)	(682)	(39,858)
Research and development expenses	*a*	(4,162)	—	(2,110)	(6,272)
Other gains — net	*a*	—	—	2,701	2,701
Operating profit		111,160	(1,978)	(91)	109,091
Finance income		6,645	—	—	6,645
Finance costs	*c*	(3,698)	—	91	(3,607)
Finance income — net		2,947	—	91	3,038
Earning from associate investment		8,646	—	—	8,646
Profit before income tax		122,753	(1,978)	—	120,775
Income tax expenses	*j, k*	(26,640)	85	—	(26,555)
Profit for the year		96,113	(1,893)	—	94,220
Profit/(loss) attributable to:					
Owners of the Company	*i, j*	70,917	(1,398)	—	69,519
Non-controlling interests	*i, j*	25,196	(495)	—	24,701
		96,113	(1,893)	—	94,220

Unaudited Adjusted Consolidated Statement of Comprehensive Income under the Company's Policies for the year ended December 31, 2014

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Profit for the year		96,113	(1,893)	—	94,220
Other comprehensive income:					
Items that may be reclassified to profit or loss					
Currency translation differences		(1,919)	—	—	(1,919)
Other comprehensive income for the year, net of tax		(1,919)	—	—	(1,919)
Total comprehensive income for the year		94,194	(1,893)	—	92,301
Attributable to:					
— Owners of the Company	*i, j*	69,396	(1,398)	—	67,998
— Non-controlling interests	*i, j*	24,798	(495)	—	24,303
Total comprehensive income for the year		94,194	(1,893)	—	92,301

Unaudited Adjusted Consolidated Balance sheet under the Company's Policies as of December 31, 2014

	Notes	Unadjusted Financial Information under U.S. GAAP US$'000	Measurement Adjustments US$'000	Classification Adjustments US$'000	Adjusted Financial Information under the Company's Policies US$'000
Assets					
Non-current assets					
Land use rights		11,909	—	—	11,909
Property, plant and equipment	*e*	80,231	—	(1,220)	79,011
Intangible assets	*f*	—	—	2,137	2,137
Deferred income tax assets	*j, g*	—	648	3,346	3,994
Long-term prepayments	*e*	—	—	2,558	2,558
Other non-current assets	*e, f, g*	3,475	—	(3,475)	—
Deposits related to land use rights		12,792	—	—	12,792
Restricted cash and deposit, excluding current-portion		40,230	—	—	40,230
Interest in an associate		18,222	—	—	18,222
		166,859	648	3,346	170,853
Current assets					
Inventories		101,305	—	—	101,305
Trade and other receivables	*d*	19,403	—	10,356	29,759
Cash and cash equivalents		80,820	—	—	80,820
Prepayments and other current assets	*d, g, j*	14,782	(1,080)	(13,702)	—
Restricted deposit		63,678	—	—	63,678
		279,988	(1,080)	(3,346)	275,562
Total assets		446,847	(432)	—	446,415
Equity					
Equity attributable to owners of the Company					
Share capital		3	—	—	3
Share premium	*i*	24,008	4,506	—	28,514
Treasury shares		(76,571)	—	—	(76,571)
Other reserves		19,985	—	—	19,985
Retained earnings	*i, j*	244,661	(3,640)	—	241,021
		212,086	866	—	212,952
Non-controlling interests	*i, j*	63,175	(1,298)	—	61,877
Total equity		275,261	(432)	—	274,829

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	*g*	—	—	7,790	7,790
Deferred income		2,765	—	—	2,765
Long-term bank loans, excluding current portion		40,000	—	—	40,000
Long-term other liabilities	*g*	8,139	—	(7,790)	349
		50,904	—	—	50,904
Current liabilities					
Trade and other payables	*h*	4,829	—	49,693	54,522
Other payables and accrued expenses	*h*	49,693	—	(49,693)	—
Current income tax liabilities		8,257	—	—	8,257
Short-term bank loans, including current portion of long-term bank loans		57,903	—	—	57,903
		120,682	—	—	120,682
Total liabilities		171,586	—	—	171,586
Total equity and liabilities		446,847	(432)	—	446,415

Unaudited Adjusted Consolidated Income Statement under the Company's Policies for the year ended December 31, 2015

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue		296,458	—	—	296,458
Cost of sales		(106,483)	—	—	(106,483)
Gross profit		189,975	—	—	189,975
Selling expenses		(9,973)	—	—	(9,973)
Administrative expenses	*a, c, i*	(41,392)	(6,123)	2,390	(45,125)
Research and development expenses	*a*	(6,024)	—	(1,172)	(7,196)
Other gains — net	*a*	—	—	(1,269)	(1,269)
Operating profit		132,586	(6,123)	(51)	126,412
Finance income		5,551	—	—	5,551
Finance costs	*c*	(1,727)	—	51	(1,676)
Finance income — net		3,824	—	51	3,875
Earning from associate investment		(1,311)	—	—	(1,311)
Profit before income tax		135,099	(6,123)	—	128,976
Income tax expenses	*j, k*	(20,993)	390	—	(20,603)
Profit for the year		114,106	(5,733)	—	108,373
Profit/(loss) attributable to:					
Owners of the Company	*i, j*	89,043	(4,476)	—	84,567
Non-controlling interests	*i, j*	25,063	(1,257)	—	23,806
		114,106	(5,733)	—	108,373

Unaudited Adjusted Consolidated Statement of Comprehensive Income under the Company's Policies for the year ended December 31, 2015

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Profit for the year		114,106	(5,733)	—	108,373
Other comprehensive income:					
Items that may be reclassified to profit or loss					
Currency translation differences		(24,369)	—	—	(24,369)
Other comprehensive income for the year, net of tax		(24,369)	—	—	(24,369)
Total comprehensive income for the year		89,737	(5,733)	—	84,004
Attributable to:					
— Owners of the Company	*i,j*	69,039	(4,476)	—	64,563
— Non-controlling interests	*i, j*	20,698	(1,257)	—	19,441
Total comprehensive income for the year		89,737	(5,733)	—	84,004

Unaudited Adjusted Consolidated Balance sheet under the Company's Policies as of December 31, 2015

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Assets					
Non-current assets					
Land use rights		23,576	—	—	23,576
Property, plant and equipment	*e*	105,364	—	(16,765)	88,599
Intangible assets	*f*	—	—	1,564	1,564
Deferred income tax assets	*j, g*	—	761	3,225	3,986
Long-term prepayments	*e*	—	—	20,062	20,062
Other non-current assets	*e, f, g*	4,861	—	(4,861)	—
Interest in an associate		8,718	—	—	8,718
Loan receivable		39,834	—	—	39,834
		182,353	761	3,225	186,339
Current assets					
Inventories		126,397	—	—	126,397
Trade and other receivables	*d*	25,145	—	20,052	45,197
Deposits related to land use rights-current portion		10,056	—	—	10,056
Cash and cash equivalents		182,970	—	—	182,970
Prepayments and other current assets	*d, g, j*	24,546	(1,269)	(23,277)	—
		369,114	(1,269)	(3,225)	364,620
Total assets		551,467	(508)	—	550,959
Equity					
Equity attributable to owners of the Company					
Share capital		3	—	—	3
Share premium	*i*	105,080	10,163	—	115,243
Treasury shares		(56,425)	—	—	(56,425)
Other reserves		(19)	—	—	(19)
Retained earnings	*i, j*	333,704	(8,116)	—	325,588
		382,343	2,047	—	384,390
Non-controlling interests	*i, j*	84,619	(2,555)	—	82,064
Total equity		466,962	(508)	—	466,454

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	*g*	—	—	7,665	7,665
Deferred income		4,526	—	—	4,526
Long-term other liabilities	*g*	8,323	—	(7,665)	658
		12,849	—	—	12,849
Current liabilities					
Trade and other payables	*h*	9,682	—	57,463	67,145
Other payables and accrued expenses	*h*	57,463	—	(57,463)	—
Current income tax liabilities		4,511	—	—	4,511
		71,656	—	—	71,656
Total liabilities		84,505	—	—	84,505
Total equity and liabilities		551,467	(508)	—	550,959

Unaudited Adjusted Consolidated Income Statement under the Company's Policies for the year ended December 31, 2016

	Notes	Unadjusted Financial Information under U.S. GAAP *US$'000*	Measurement Adjustments *US$'000*	Classification Adjustments *US$'000*	Adjusted Financial Information under the Company's Policies *US$'000*
Revenue		341,169	—	—	341,169
Cost of sales		(124,034)	—	—	(124,034)
Gross profit		217,135	—	—	217,135
Selling expenses		(11,679)	—	—	(11,679)
Administrative expenses	*a, c, i*	(54,519)	(10,904)	(349)	(65,772)
Research and development expenses	*a*	(7,022)	—	(762)	(7,784)
Other gains — net	*a, b*	—	—	1,014	1,014
Operating profit		143,915	(10,904)	(97)	132,914
Finance income		7,816	—	—	7,816
Finance costs	*c*	(254)	—	21	(233)
Finance income — net		7,562	—	21	7,583
Earning from associate investment		2,519	—	—	2,519
Loss from disposal of a subsidiary	*b*	(76)	—	76	—
Profit before income tax		153,920	(10,904)	—	143,016
Income tax expenses	*j*	(25,126)	753	—	(24,373)
Profit for the year		128,794	(10,151)	—	118,643
Profit/(loss) attributable to:					
Owners of the Company	*i, j*	104,779	(8,258)	—	96,521
Non-controlling interests	*i, j*	24,015	(1,893)	—	22,122
		128,794	(10,151)	—	118,643

Unaudited Adjusted Consolidated Statement of Comprehensive Income under the Company's Policies for the year ended December 31, 2016

	Notes	Unadjusted Financial Information under U.S. GAAP US$'000	Measurement Adjustments US$'000	Classification Adjustments US$'000	Adjusted Financial Information under the Company's Policies US$'000
Profit for the year		128,794	(10,151)	—	118,643
Other comprehensive income:					
Items that may be reclassified to profit or loss					
Currency translation differences		(31,303)	—	—	(31,303)
Other comprehensive income for the year, net of tax		(31,303)	—	—	(31,303)
Total comprehensive income for the year		97,491	(10,151)	—	87,340
Attributable to:					
— Owners of the Company	*i, j*	78,464	(8,258)	—	70,206
— Non-controlling interests	*i, j*	19,027	(1,893)	—	17,134
Total comprehensive income for the year		97,491	(10,151)	—	87,340

Unaudited Adjusted Consolidated Balance sheet under the Company's Policies as of December 31, 2016

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Assets					
Non-current assets					
Land use rights		23,389	—	—	23,389
Property, plant and equipment	*e*	132,092	—	(15,139)	116,953
Intangible assets	*f*	—	—	939	939
Deferred income tax assets	*j, g*	—	770	4,626	5,396
Long-term prepayments	*e*	—	—	15,773	15,773
Other non-current assets	*e, f, g*	2,244	—	(2,244)	—
Interest in an associate		10,615	—	—	10,615
Loan receivable		43,245	—	—	43,245
		211,585	770	3,955	216,310
Current assets					
Inventories		156,413	—	—	156,413
Trade and other receivables	*d*	33,919	—	13,037	46,956
Deposits related to land use rights-current portion		999	—	—	999
Cash and cash equivalents		183,766	—	—	183,766
Prepayments and other current assets	*d, g, j*	18,276	(1,284)	(16,992)	—
		393,373	(1,284)	(3,955)	388,134
Total assets		604,958	(514)	—	604,444
Equity					
Equity attributable to owners of the Company					
Share capital		3	—	—	3
Share premium	*i*	105,460	20,308	—	125,768
Treasury shares		(56,425)	—	—	(56,425)
Other reserves		(25,320)	—	—	(25,320)
Retained earnings	*i, j*	438,483	(16,374)	—	422,109
		462,201	3,934	—	466,135
Non-controlling interests	*i, j*	58,936	(4,448)	—	54,488
Total equity		521,137	(514)	—	520,623

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	*g*	—	—	6,321	6,321
Deferred income		3,756	—	—	3,756
Long-term other liabilities	*g*	6,624	—	(6,321)	303
		10,380	—	—	10,380
Current liabilities					
Trade and other payables	*h*	6,159	—	59,798	65,957
Other payables and accrued expenses	*h*	59,798	—	(59,798)	—
Current income tax liabilities		7,484	—	—	7,484
		73,441	—	—	73,441
Total liabilities		83,821	—	—	83,821
Total equity and liabilities		604,958	(514)	—	604,444

Unaudited Adjusted Consolidated Income Statement under the Company's Policies for the six months ended June 30, 2017

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue		180,731	—	—	180,731
Cost of sales		(62,326)	—	—	(62,326)
Gross profit		118,405	—	—	118,405
Selling expenses		(7,385)	—	—	(7,385)
Administrative expenses	*a, i*	(29,521)	(6,621)	(69)	(36,211)
Research and development expenses		(3,282)	—	—	(3,282)
Other gains — net	*a*	—	—	69	69
Operating profit		78,217	(6,621)	—	71,596
Finance income		3,241	—	—	3,241
Finance costs		(349)	—	—	(349)
Finance income — net		2,892	—	—	2,892
Earning from associate investment		1,884	—	—	1,884
Profit before income tax		82,993	(6,621)	—	76,372
Income tax expenses	*j*	(13,818)	339	—	(13,479)
Profit for the period		69,175	(6,282)	—	62,893
Profit/(loss) attributable to:					
Owners of the Company	*i, j*	61,022	(5,585)	—	55,437
Non-controlling interests	*i, j*	8,153	(697)	—	7,456
		69,175	(6,282)	—	62,893

Unaudited Adjusted Consolidated Statement of Comprehensive Income under the Company's Policies for the six months ended June 30, 2017

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Profit for the period		69,175	(6,282)	—	62,893
Other comprehensive income:					
Items that may be reclassified to profit or loss					
Currency translation differences		13,413	—	—	13,413
Other comprehensive income for the period, net of tax		13,413	—	—	13,413
Total comprehensive income for the period		82,588	(6,282)	—	76,306
Attributable to:					
— Owners of the Company	*i, j*	73,078	(5,585)	—	67,493
— Non-controlling interests	*i, j*	9,510	(697)	—	8,813
Total comprehensive income for the period		82,588	(6,282)	—	76,306

Unaudited Adjusted Consolidated Income Statement under the Company's Policies for the six months ended June 30, 2016

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue		177,009	—	—	177,009
Cost of sales		(65,526)	—	—	(65,526)
Gross profit		111,483	—	—	111,483
Selling expenses		(4,254)	—	—	(4,254)
Administrative expenses	*a, c, i*	(23,902)	(4,656)	(285)	(28,843)
Research and development expenses	*a*	(2,398)	—	(898)	(3,296)
Other gains — net	*a*	—	—	1,162	1,162
Operating profit		80,929	(4,656)	(21)	76,252
Finance income		3,043	—	—	3,043
Finance costs	*c*	(177)	—	21	(156)
Finance income — net		2,866	—	21	2,887
Earning from associate investment		44	—	—	44
Profit before income tax		83,839	(4,656)	—	79,183
Income tax expenses	*j*	(13,614)	312	—	(13,302)
Profit for the period		70,225	(4,344)	—	65,881
Profit/(loss) attributable to:					
Owners of the Company	*i, j*	56,950	(3,534)	—	53,416
Non-controlling interests	*i, j*	13,275	(810)	—	12,465
		70,225	(4,344)	—	65,881

Unaudited Adjusted Consolidated Statement of Comprehensive Income under the Company's Policies for the six months ended June 30, 2016

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Profit for the period		70,225	(4,344)	—	65,881
Other comprehensive income:					
Items that may be reclassified to profit or loss					
Currency translation differences		(10,698)	—	—	(10,698)
Other comprehensive income for the period, net of tax		(10,698)	—	—	(10,698)
Total comprehensive income for the period		59,527	(4,344)	—	55,183
Attributable to:					
— Owners of the Company	*i, j*	48,080	(3,534)	—	44,546
— Non-controlling interests	*i, j*	11,447	(810)	—	10,637
Total comprehensive income for the period		59,527	(4,344)	—	55,183

Unaudited Adjusted Consolidated Balance sheet under the Company's Policies as of June 30, 2017

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Assets					
Non-current assets					
Land use rights		24,181	—	—	24,181
Property, plant and equipment	*e*	145,411	—	(8,796)	136,615
Intangible assets	*f*	—	—	714	714
Deferred income tax assets	*j, g*	—	884	4,857	5,741
Long-term prepayments	*e*	—	—	9,482	9,482
Other non-current assets	*e, f, g*	6,257	—	(6,257)	—
Interest in an associate		12,780	—	—	12,780
Loan receivable		44,283	—	—	44,283
		232,912	884	—	233,796
Current assets					
Inventories		183,259	—	—	183,259
Trade and other receivables	*d*	61,146	—	16,170	77,316
Cash and cash equivalents		223,243	—	—	223,243
Prepayments and other current assets	*d, j*	17,643	(1,473)	(16,170)	—
		485,291	(1,473)	—	483,818
Total assets		718,203	(589)	—	717,614
Equity					
Equity attributable to owners of the Company					
Share capital		3	—	—	3
Share premium	*i*	122,167	26,515	—	148,682
Treasury shares		(56,425)	—	—	(56,425)
Other reserves		(13,265)	—	—	(13,265)
Retained earnings	*i, j*	499,505	(21,959)	—	477,546
		551,985	4,556	—	556,541
Non-controlling interests	*i, j*	62,938	(5,145)	—	57,793
Total equity		614,923	(589)	—	614,334

	Notes	Unadjusted Financial Information under U.S. GAAP	Measurement Adjustments	Classification Adjustments	Adjusted Financial Information under the Company's Policies
		US$'000	*US$'000*	*US$'000*	*US$'000*
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	*g*	—	—	6,277	6,277
Deferred income		3,600	—	—	3,600
Long-term other liabilities	*g*	6,586	—	(6,277)	309
		10,186	—	—	10,186
Current liabilities					
Short-term bank loans		14,466	—	—	14,466
Trade and other payables	*h*	6,340	—	64,097	70,437
Other payables and accrued expenses	*h*	64,097	—	(64,097)	—
Current income tax liabilities		8,191	—	—	8,191
		93,094	—	—	93,094
Total liabilities		103,280	—	—	103,280
Total equity and liabilities		718,203	(589)	—	717,614

Reclassifications-Alignment of CBPO's Presentation to the Company's Presentation

a. ***Other gains(losses) — net***

CBPO classified non-operating income (expenses) and gain (loss) on disposal of property, plant and equipment as "General and administrative expenses". The Company presents all such expenses as "Other gains (losses) — net".

In addition, CBPO net off government grant for reimbursing expenses incurred for specific research and development programs against R&D expense directly. The Company presents such government grant as "Other gains".

Therefore, such expenses and government grant received have been reclassified to "Other gains (losses) — net".

b. ***Gain or Loss from Disposal of a Subsidiary***

CBPO presents "Loss from disposal of a subsidiary" as a separate line as a non-operating component of its consolidated statements of operations for the fiscal years ended December 31, 2016. The Company presents gain or loss from disposal of a subsidiary as a component of "Other gains (losses) — net" as a component of "Operating profit". As such, gain or loss from disposal of a subsidiary has been reclassified to "Other gains (losses) — net".

c. ***Foreign Exchange Gains or Losses***

CBPO presents foreign exchange gains or losses as a component of "General and administrative expenses". The Company presents all foreign exchange gains or losses within "Finance costs". Therefore, foreign exchange gains and losses have been reclassified to "Finance costs".

d. ***Prepayment and Other Receivables***

CBPO presents prepayment and other receivables as a separate line item on its consolidated balance sheets. The Company presents prepayment and other receivables as a component of "Trade and other receivables". Accordingly, prepayment and other receivables have been reclassified to "Trade and other receivables".

e. ***Long-term prepayment***

CBPO presents prepayment for property, plant and equipment as a component of "property, plant and equipment". In addition, CBPO presents prepayment for investment and other long-term prepayment as "Other non-current assets". The Company presents these prepayment as "Long-term prepayment". Hence, prepayment with long-term nature have been reclassified to "Long-term prepayment".

f. ***Intangible assets***

CBPO presents intangible assets as a component of "Non-current assets". The Company presents intangible assets separately on its consolidated balance sheets. As such, intangible assets have been reclassified from "Non-current assets" to "Intangible assets."

g. ***Deferred Income Taxes***

CBPO presents deferred income tax assets as "prepayment and other current assets" or "other non-current assets" and presents deferred income tax liabilities as "other liabilities" as of December 31, 2013, 2014 and 2015 and classified all deferred income taxes as non-current assets or liabilities as of December 31, 2016 and June 30, 2017, respectively. The Company presents deferred income taxes separately on its consolidated balance sheets and classifies all deferred income taxes balances as non-current assets or liabilities regardless of the period in which the underlying timing differences are expected to reverse. Therefore, deferred income taxes balances as of December 31, 2014, 2015, 2016 and June 30, 2017 were reclassified accordingly.

h. ***Other payable and accrued expenses***

CBPO record other payable and accrued expenses as a separate line on its consolidated balance sheet, while the Company presents all payables as "Trade and other payables." As such, other payable and accrued expenses have been reclassified to "Trade and other payables."

Measurement Adjustments

i. ***Share-based Payments***

Share-based payment expenses arising in connection with CBPO's equity classified share-based payment arrangements (i.e. its stock options and time-based Restricted Stock Units ("RSUs")) are recognized on a straight-line basis over the vesting period. The Company accounts for each award separately and accordingly, recognizes expenses over the period that the employees unconditionally become entitled to the awards. The difference between expense attribution under CBPO's policy versus the Company's policy resulted in additional pre-tax share-based payment expense of US$2.0 million, US$6.1 million and US$10.9 million for the years ended December 31, 2014, 2015 and 2016, respectively, and US$4.7 million and US$6.6 million for the six months period ended June 30, 2016 and 2017, respectively.

j. ***Unrealized gain on intra-group sales***

Income taxes paid by the seller on intra-group profits related to inventory that remain within the consolidated group, including the tax effect of any reversing temporary differences in the seller's tax jurisdiction, are deferred. CBPO recognizes the amount of tax effect in prepayment and other current assets in the statement of balance sheet until such time as the asset leaves the consolidated group, at which point the amount is reclassified to income tax expense. The Company accounts for the related deferred tax effect based on the tax rate of the purchaser, recognizes the amount in deferred tax assets. The current tax effects for the seller are recognized in the current tax position. The difference between expense attribution under CBPO's policy versus the Company's policy resulted in income tax expense of US$70,599, US$75,509 and US$5,930 for the years ended December 31, 2014, 2015 and 2016, respectively, and US$17,663 and US$75,904 for the six months ended June 30, 2016 and 2017, respectively.

k. ***Income Taxes***

Income tax adjustments reflect the tax effect of the measurement adjustments noted in i above.

3. SUPPLEMENTAL FINANCIAL INFORMATION OF THE CBPO GROUP

The Company sets out the following supplemental financial information of the CBPO, which was not included in CBPO's audited consolidated financial statements showing the financial information for the three financial years ended December 31, 2014, 2015 and 2016 and unaudited condensed consolidated financial statements for the six months ended June 30, 2017.

(1) Aging Analysis of Accounts Receivable

Accounts receivable are presented net of related allowance for doubtful accounts of US$0.4 million, US$0.4 million, US$0.5 million, US$0.6 million as of December 31, 2014, 2015 and 2016, and June 30, 2017, respectively, with the following aging analysis by due date of the respective invoice:

	June 30, 2017	**December 31, 2016**	**December 31, 2015**	**December 31, 2014**
	US$	*US$*	*US$*	*US$*
Current	57,695,743	30,428,568	21,318,505	18,050,177
Past due	3,450,598	3,490,228	3,826,464	1,352,643
Total accounts receivable	61,146,341	33,918,796	25,144,969	19,402,820

Credit terms are granted based on the credit worthiness of individual customers. As of December 31, 2014, 2015 and 2016 and June 30, 2017, accounts receivable are on average due within 180 days from the invoice date.

(2) Aging Analysis of Accounts Payable

Accounts payable are presented with the following aging analysis by due date of the respective invoice:

	June 30, 2017	December 31, 2016	December 31, 2015	December 31, 2014
	US$	*US$*	*US$*	*US$*
Current	5,354,914	5,361,249	9,145,986	4,281,072
Past due	985,341	797,352	535,849	548,278
Total accounts payable	6,340,255	6,158,601	9,681,835	4,829,350

Accounts payable as of June 30, 2017, December 31, 2016, 2015 and 2014 are on average due within 30–60 days from the invoice date.

(3) Gearing Ratio

The following table sets forth the CBPO's loans and borrowings, total equity and gearing ratio:

	As of			
	June 30, 2017	December 31, 2016	December 31, 2015	December 31, 2014
	US$	*US$*	*US$*	*US$*
Loans and borrowings	14,465,780	—	—	97,902,600
Total Equity	614,923,486	521,136,823	466,961,799	275,261,730
Gearing Ratio[1]	2.4%	0.0%	0.0%	35.6%

[1]*Note:* calculated as total loans and borrowings divided by total equity.

(4) Employees and Remuneration

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

The key elements of CBPO's remuneration policies are competitive base salaries, annual incentive opportunities and equity participation. More specifically, compensation is composed of a base salary, performance-based discretionary cash bonus and equity awards, and in certain cases, severance and change of control benefits. Base salaries are a fixed component of compensation and their determination involves an evaluation of the competitive market-based data derived from comparable companies. Base salaries are generally reviewed annually and adjustments are considered based on the individual performance, level of experience or tenure, and the current market salary. Performance-based discretionary bonuses are based upon achievement of corporate objectives and individual performance, ultimately subject to the discretion of the board of directors and/or the compensation committee of CBPO, as applicable. Equity awards are designed to provide long-term compensation based on CBPO's performance, as reflected in the value of the shares of the CBPO's common stock underlying the equity compensation compared to the purchase price of those shares, if any.

(5) Others

As confirmed by CBPO, CBPO did not have any contingent liability or charge on asset or carry out any hedging activity for the three years ended 31 December 2016 and the six months ended 30 June 2017.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE CBPO GROUP

For the purpose of this section only, unless the context requires otherwise, references to the "Company", "we", "us" and "our" refer to CBPO and references to "$" refer to US$.

(1) The following is an extract from the management discussion and analysis of the results of the CBPO Group for the year ended December 31, 2015 from the 2015 annual report of CBPO.

Comparison of years ended December 31, 2015 and 2014

Sales

Our total sales increased by 21.9%, or $53.2 million, to $296.5 million for 2015, compared to $243.3 million for 2014, primarily due to increases in the sales volumes of human albumin and human immunoglobulin for intravenous injection (the "IVIG"). Excluding the foreign exchange impact resulting from the depreciation of the RMB against the U.S. dollar, our sales would have increased by 23.4% for 2015 as compared to 2014. Such increase of sales was mainly due to the increase in sales volume in major plasma products.

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

	For the Year Ended December 31, 2015		2014		Change	
	$	%	$	%	Amount	%
	(U.S. dollars in millions, except percentage)					
Human albumin	111.4	37.6	95.6	39.3	15.8	16.5
Immunoglobulin products:						
IVIG	125.1	42.2	98.4	40.4	26.7	27.1
Other immunoglobulin products	22.5	7.6	19.7	8.1	2.8	14.2
Placenta polypeptide	27.2	9.2	24.0	9.9	3.2	13.3
Others	10.3	3.4	5.6	2.3	4.7	83.9
Totals	296.5	100.0	243.3	100.0	53.2	21.9

For 2015 as compared to 2014:

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

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

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

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

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

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

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

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

Cost of sales & gross profit

	For the Year Ended December 31, 2015	2014	Change Amount	%
	(U.S. dollars in millions, except percentage)			
Cost of sales	$106.5	$80.0	$26.5	33.1
as a percentage of total sales	35.9%	32.9%		3.0
Gross Profit	$190.0	$163.2	$26.8	16.4
Gross Margin	64.1%	67.1%		(3.0)

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

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

Operating expenses

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

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

Selling expenses

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

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

General and administrative expenses

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

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

Research and development expenses

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

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

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

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

Equity in (loss) income of equity method investee

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

Income tax expense

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

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

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

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash flows from operations, augmented by bank borrowings and equity contributions by our stockholders. As of December 31, 2015, we had $144.9 million in cash and cash equivalents, primarily consisting of cash on hand and demand deposits, and $38.0 million in time deposits.

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

Cash Flow

	For the Year Ended December 31,		
	2015	**2014**	**2013**
	(U.S. dollars in millions)		
Net cash provided by operating activities	$109.4	$93.5	$74.3
Net cash used in investing activities	(89.8)	(13.4)	(25.6)
Net cash provided by (used in) financing activities	51.6	(142.8)	(38.5)
Effects of exchange rate change in cash	(7.1)	(0.6)	4.3
Net increase (decrease) in cash and cash equivalents	64.1	(63.3)	14.5
Cash and cash equivalents at beginning of the year	80.8	144.1	129.6
Cash and cash equivalents at end of the year	$144.9	$80.8	$144.1

Operating activities

Cash inflows from operating activities totaled $109.4 million in 2015, $93.5 million in 2014, and $74.3 million in 2013. Cash inflows increased by $15.9 million in 2015 as compared to 2014 and increased by $19.2 million in 2014 as compared to 2013. Such increases in cash inflows from operations were mainly in line with the improvements in our results of operations in 2015 and 2014, partially offset by an increase in accounts receivable and inventories during the relevant years.

Accounts receivable

Our average collection speed of accounts receivable slowed down slightly in 2015 as compared to 2014. The accounts receivable turnover days for plasma products were 34 days, 31 days, and 30 days for 2015, 2014, and 2013, respectively. The increase in turnover days for 2015 was primarily due to the extended credit terms granted to certain distributors for human rabies immunoglobulin products. In 2015, we adjusted our sales strategy by granting extended credit terms to certain qualified distributors of human rabies immunoglobulin products to assist in their bidding efforts with provincial centers for disease control and prevention. In prior years, these distributors were required to make the payments in advance of our product deliveries. Excluding this impact, the turnover days would have been 32 days for both 2015 and 2014.

Inventories

Cash outflows for inventories increased in both 2015 and 2014. The increases in inventory for 2015, 2014 and 2013 were $32.1, $13.4 million and $10.4 million, respectively. As compared to 2014, the increase of inventories in 2015 was mainly attributable to the source plasma and plasma pastes purchased from Xinjiang Deyuan. As compared to 2013, the increase of inventories in 2014 was mainly attributable to an increase in work-in-process and finished goods at Guizhou Taibang following its resumption of production in March 2014 and, to a lesser extent, an increase in raw materials consistent with our expanded plasma collection volume.

Investing activities

Cash outflows from investing activities for 2015 was $89.8 million, as compared to $13.4 million and $25.6 million for 2014 and 2013, respectively. In 2015, we paid $52.3 million for the acquisition of property, plant and equipment, intangible assets and land use rights and provided a long-term loan of $40.7 million to Xinjiang Deyuan, partially offset by government grants of $2.5 million in connection with our purchase of property, plant and equipment.

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

In 2013, we paid $21.8 million for the acquisition of property, plant and equipment, intangible assets and land use right, partially offset by a $2.1 million refund of deposits from the local government due to a decrease in the size of a land parcel purchased by Guizhou Taibang.

Financing activities

Cash inflows from financing activities for 2015 totaled $51.6 million, as compared to cash outflows from financing activities totaled $142.8 million and $38.5 million for 2014 and 2013, respectively. Cash inflows from financing activities in 2015 mainly consisted of net proceeds of $80.6 million from a follow-on offering of our company's common stock in June 2015, proceeds of $63.2 million from the maturity of deposits used as security for bank loans, proceeds of $15.8 million from a short-term bank loan and proceeds of $7.7 million from stock options exercised, partially offset by repayments of bank loans totaling $113.5 million and a dividend of $3.7 million held in escrow by a trial court in connection with disputes with a minority shareholder of Guizhou Taibang.

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

Cash outflows from financing activities in 2013 mainly consisted of a payment of $29.6 million for share repurchase and a dividend payment of $16.9 million by our subsidiaries to the noncontrolling interest shareholders.

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

Obligations under Material Contracts

The following table sets forth our material contractual obligations as of December 31, 2015:

	Payments due by period				
Contractual Obligations	**Total**	**Less than one year**	**One to three years**	**Three to five years**	**More than five years**
	(U.S. dollars in millions)				
Operating lease commitment	0.3	0.1	—	—	0.2
Purchase commitment	85.2	31.2	54.0	—	—
Capital commitment	30.3	27.3	3.0	—	—
Total	115.8	58.6	57.0	—	0.2

Seasonality of our Sales

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

Inflation

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

Use of estimates

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

Allowance for doubtful accounts

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

We generally ask our distributors to pay in advance before we deliver products, with few exceptions for a credit period of no longer than 60 days. For hospitals and clinics, depending on the relationship and the creditability, we generally grant a credit period of no longer than 90 days with exceptions to customers, which we believe are credit worthy, of up to six months. We have provided a bad debt allowance of $34,902, $6,211 and $31,567 respectively for 2015, 2014 and 2013. Due to recovery of bad debt that we previously provided an allowance, the recoveries of bad debt provision was nil, $30,673 and nil for 2015, 2014 and 2013, respectively.

Inventories

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

We review the inventory periodically for possible obsolete goods and cost in excess of net realizable value to determine if any reserves are necessary. Provisions to write-down the carrying amount of obsolete inventory to its estimated net realizable value amounted to $76,587, $324,584 and nil for 2015, 2014 and 2013, respectively, and were recorded as cost of sales in the consolidated statements of comprehensive income.

Long-lived assets

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

(2) The following is an extract from the management discussion and analysis of the results of the CBPO Group for the year ended December 31, 2016 from the 2016 annual report of CBPO.

Comparison of years ended December 31, 2016 and 2015

Sales

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

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

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

For 2016 as compared to 2015:

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

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

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

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

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

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

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

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

Cost of sales & gross profit

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

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

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

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

Operating expenses

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

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

Selling expenses

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

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

General and administrative expenses

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

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

Research and development expenses

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

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

Equity in (loss) income of equity method investee

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

Income tax expense

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

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

Foreign Currency Exchange Impact

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

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

Liquidity and Capital Resources

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

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

Cash Flow

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

Operating activities

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

Accounts receivable

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

Inventories

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

Investing activities

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

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

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

Financing activities

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

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

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

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

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

Obligations under Material Contracts

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

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

Seasonality of our Sales

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

Inflation

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

Use of estimates

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

Allowance for doubtful accounts

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

We generally ask our distributors to pay in advance before we deliver products, with few exceptions for a credit period of no longer than 60 days. For hospitals and clinics, depending on the relationship and the creditability, we generally grant a credit period of no longer than 90 days with exceptions to customers, which we believe are credit worthy, of up to six months. We have provided a bad debt allowance of $123,239, $34,902 and $6,211 respectively for 2016, 2015 and 2014. Due to recovery of bad debt that we previously provided an allowance, the recoveries of bad debt provision was nil, nil and $30,673 for 2016, 2015 and 2014, respectively.

Inventories

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

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

Long-lived assets

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

(3) The following is an extract from the management discussion and analysis of the results of the CBPO Group for the six months ended June 30, 2017 from the quarterly report of CBPO for the fiscal quarter ended June 30, 2017.

Comparison of Six Months Ended June 30, 2017 and June 30, 2016

Sales

Our sales increased by $3.7 million, or 2.1%, to $180.7 million for the six months ended June 30, 2017, compared to $177.0 million for the same period in 2016. In RMB terms, our total sales increased by 7.4% for the six months ended June 30, 2017 as compared to the same period in 2016. The increase in sales in RMB terms for the six months ended June 30, 2017 was primarily attributable to the sales increase in placenta polypeptide products, certain hyper-immune products and human albumin.

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

	For the Six Months Ended June 30,				Change	
	2017		2016			
	Amount	%	Amount	%	Amount	%
	(U.S. dollars in millions, except percentage)					
Human albumin	69.2	38.3	70.3	39.7	(1.1)	(1.6)
Immunoglobulin products:						
IVIG	61.4	34.0	64.8	36.6	(3.4)	(5.2)
Other immunoglobulin products	21.0	11.6	17.1	9.7	3.9	22.8
Placenta polypeptide	19.5	10.8	16.6	9.4	2.9	17.5
Others	9.6	5.3	8.2	4.6	1.4	17.1
Totals	180.7	100.0	177.0	100.0	3.7	2.1

During the six months ended June 30, 2017 as compared to the six months ended June 30, 2016:

- the average price for our approved human albumin products, which accounted for 38.3% of our total sales for the six months ended June 30, 2017, decreased by 1.9% and 6.8% in RMB term and in USD term, respectively, mainly due to the combined effect of both a decrease in price we charged certain distributors reflective of intensified market competition and a lower sales proportion from the higher-unit-price dosages; and

- the average price for our approved IVIG products, which accounted for 34.0% of our total sales for the six months ended June 30, 2017, increased by 2.3% in RMB term and decreased by 2.8% in USD term mainly due to an increase in price we charged the company's major distributors.

The sales volume of human albumin products increased by 5.6% for the six months ended June 30, 2017 as compared to the same period in 2016, primarily due to enhanced production and sales volume at Guizhou Taibang as a result of increased plasma supply volume. The sales volume of IVIG products decreased by 2.5% for the six months ended June 30, 2017 as compared to the same period in 2016, primarily due to a high comparison base in the six months period ended June 30, 2016 when we sold the IVIG products processed from the approximately 143 tonnes of source plasma and plasma pastes outsourced from Xinjiang Deyuan in 2015.

Revenue from hyper-immune products, which were included in other immunoglobulin products, increased by 26.1% in USD term for the six months ended June 30, 2017 as compared to the same period in 2016, mainly attributable to an increase in sales of human rabies immunoglobulin, reflecting our enhanced production volume in response to a strong market demand.

Revenue from placenta polypeptide products increased by 23.5% and 17.5% in RMB term and USD term, respectively, reaching 10.8% of total sales, for the six months ended June 30, 2017 as compared to the same period in 2016, attributable to higher-than-normal product sales volume in the first quarter of 2017 possibly in anticipation of the nationwide implementation of a two-invoice policy system which will potentially result in a higher billing price for distributors in the future.

Revenue from human coagulation factor VIII and human prothrombin complex concentrate, which are included in other plasma products, increased by 29.3% and 22.9% in RMB term and USD term, respectively, for the six months ended June 30, 2017 as compared to the same period in 2016, reflecting our continued medical marketing activities, representing at 5.3% of total sales for the six months period ended June 30, 2017.

Cost of sales and gross profit

	For the Six Months Ended June 30,		Change	
	2017	**2016**	**Amount**	**%**
	(U.S. dollars in millions, except percentage)			
Cost of sales	62.3	65.5	(3.2)	(4.9)
as a percentage of total sales	34.5%	37.0%	(2.5)	
Gross Profit	118.4	111.5	6.9	6.2
Gross Margin	65.5%	63.0%		2.5

Our cost of sales was $62.3 million, or 34.5% of our sales for the six months ended June 30, 2017, as compared to $65.5 million, or 37.0% of our sales for the same period in 2016. Our gross profit was $118.4 million and $111.5 million for the six months ended June 30, 2017 and 2016, respectively, representing gross margins of 65.5% and 63.0%, respectively.

The decrease in cost of sales as a percentage of sales for the six months ended June 30, 2017 as compared to the same period in 2016 was mainly due to greater sales proportion of higher-margin hyper-immune products and placenta polypeptide products, as well as lower sales proportion of the high-cost outsourced raw plasma.

Operating expenses

	For the Six Months Ended June 30,		Change	
	2017	**2016**	**Amount**	**%**
	(U.S. dollars in millions, except percentage)			
Operating expenses	40.2	30.6	9.6	31.4
as a percentage of total sales	22.2%	17.3%		4.9

Our total operating expenses increased by $9.6 million, or 31.4%, to $40.2 million for the six months ended June 30, 2017, from $30.6 million for the same period in 2016. As a percentage of sales, total operating expenses increased by 4.9% to 22.2% for the six months ended June 30, 2017, from 17.3% for the same period in 2016. The increase in the total operating expenses was mainly due to the increase in the selling expenses and general and administrative expenses as discussed below.

Selling expenses

	For the Six Months Ended June 30,		Change	
	2017	2016	Amount	%
	(U.S. dollars in millions, except percentage)			
Selling expenses	7.4	4.3	3.1	72.1
as a percentage of total sales	4.1%	2.4%		1.7

Our selling expenses increased by $3.1 million, or 72.1%, to $7.4 million for the six months ended June 30, 2017, from $4.3 million for the same period in 2016. As a percentage of sales, our selling expenses increased by 1.7% to 4.1% for the six months ended June 30, 2017, from 2.4% for the same period in 2016, primarily due to higher marketing and promotion costs related to placenta polypeptide products, coagulation factor products and certain hyper-immune products.

General and administrative expenses

	For the Six Months Ended June 30,		Change	
	2017	2016	Amount	%
	(U.S. dollars in millions, except percentage)			
General and administrative expenses	29.5	23.9	5.6	23.4
as a percentage of total sales	16.3%	13.5%		2.8

Our general and administrative expenses increased by $5.6 million, or 23.4%, to $29.5 million for the six months ended June 30, 2017, from $23.9 million for the same period in 2016. General and administrative expenses as a percentage of sales increased by 2.8% to 16.3% for the six months ended June 30, 2017, from 13.5% for the same period in 2016. The increase in general and administrative expenses was mainly due to the increase in share-based compensation expenses totaling $6.9 million, as well as a prepayment provision of $1.2 million incurred in the second quarter of 2016.

Research and development expenses

	For the Six Months Ended June 30, 2017	2016	Change Amount	%
	(U.S. dollars in millions, except percentage)			
Research and development expenses	3.3	2.4	0.9	37.5
as a percentage of total sales	1.8%	1.4%		0.4

Our research and development expenses increased by $0.9 million, or 37.5%, to $3.3 million for the six months ended June 30, 2017, from $2.4 million for the same period in 2016, mainly due to the expenditure incurred for certain clinical trial programs for the six months period ended June 30, 2017.

Income tax

	For the Six Months Ended June 30, 2017	2016	Change Amount	%
	(U.S. dollars in millions, except percentage)			
Income tax	13.8	13.6	0.2	1.5
as a percentage of total sales	7.6%	7.7%		(0.1)

Our provision for income taxes increased by $0.2 million, or 1.5%, to $13.8 million for the six months ended June 30, 2017, from $13.6 million for the same period in 2016. Our effective income tax rate was 16.6% and 16.2% for the six months ended June 30, 2017 and 2016, respectively. The difference between the effective income tax rates and statutory income tax rate of 25% for the six months ended June 30, 2017 and 2016 was primarily due to the application of a preferential tax rate of 15% to both Guizhou Taibang and Shandong Taibang in 2017 and 2016, which was partially offset by valuation allowances against the deferred tax assets of China Biologic in the U.S. relating to operating losses.

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash flows from operations, supplemented by bank borrowings and equity contributions by our shareholders. As of June 30, 2017, we had $223.2 million in cash and cash equivalents, primarily consisting of demand deposits.

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

	For the Six Months Ended June 30, 2017	For the Six Months Ended June 30, 2016
	(U.S. dollars in millions)	
Net cash provided by operating activities	36.9	57.0
Net cash used in investing activities	(16.6)	(26.3)
Net cash provided by financing activities	14.8	32.2
Effects of exchange rate change on cash	4.3	(3.8)
Net increase in cash and cash equivalents	39.4	59.1
Cash and cash equivalents at beginning of the period	183.8	144.9
Cash and cash equivalents at end of the period	223.2	204.0

Operating Activities

Net cash provided by operating activities for the six months ended June 30, 2017 was $36.9 million, as compared to $57.0 million for the same period in 2016. The decrease in net cash provided by operating activities was primarily due to the increases in accounts receivable and inventories.

Accounts receivable

Accounts receivable increased by $26.1 million during the six months ended June 30, 2017, as compared to $13.9 million in the same period of 2016. The accounts receivable turnover days for plasma products increased to 51 days during the first half year of 2017 from 35 days in the first half year of 2016. The increased turnover days are combined results of a higher percentage of direct sales and a higher concentration on large hospital customers and distributor customers that typically request longer credit terms.

Inventories

Inventories increased by $22.8 million in the six months period ended June 30, 2017, mainly comprising of outsourced and our self-collected raw material plasma increase. This increase was higher than the inventory increase of $12.5 million in the same quarter of 2016, mainly because we had to stockpile sufficient inventories in preparation for the planned temporary production suspension at our Shandong facility.

Investing Activities

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

Net cash used in investing activities for the six months ended June 30, 2017 was $16.6 million, as compared to $26.3 million for the same period in 2016. During the six months ended June 30, 2017 and 2016, we paid $16.6 million and $26.6 million, respectively, for the acquisition of property, plant and equipment, land use rights and intangible assets for Shandong Taibang and Guizhou Taibang. In addition, during the six months ended June 30, 2016, we granted a loan of $6.3 million to Xinjiang Deyuan pursuant to a cooperation agreement we entered into with Xinjiang Deyuan in August 2015.

Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2017 was $14.8 million, as compared to net cash provided by financing activities of $32.2 million for the same period in 2016. The net cash provided by financing activities in the six months period ended June 30, 2017 mainly consisted of $14.3 million short-term loan net proceeds. The net cash provided by financing activities for the six months ended June 30, 2016 mainly consisted of $2.4 million proceeds from the exercise of stock options and the maturity of a $37.8 million time deposit as a security collateral for a 24-month loan which was fully repaid in June 2015, partially offset by a dividend of $7.9 million paid to the noncontrolling shareholder by Shandong Taibang.

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

Obligations under Material Contracts

The following table sets forth our material contractual obligations as of June 30, 2017:

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than one year**	**One to three years**	**Three to five years**	**More than five years**
		(U.S. dollars in millions)			
Operating lease commitment	0.8	0.4	0.3	—	0.1
Purchase commitment	25.1	22.3	2.8	—	—
Capital commitment	23.0	20.7	2.3	—	—
Total	48.9	43.4	5.4	—	0.1

Seasonality of Our Sales

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

Inflation

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is an illustrative unaudited pro forma consolidated balance sheet, an illustrative unaudited pro forma consolidated income statement, an illustrative unaudited pro forma consolidated statement of comprehensive income and an illustrative unaudited pro forma consolidated statement of cash flows of the Group (the "Unaudited Pro Forma Financial Information") which have been prepared by the Directors to illustrate the effect of the subscription of approximately 16.66% of the enlarged issued share capital of CBPO in consideration of the entire issued share capital of Health Forward (the "Transactions") as if it had taken place on 30 June 2017 for the unaudited pro forma consolidated balance sheet and on 1 January 2016 for the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Group had the Transactions been completed on 1 January 2016 or 30 June 2017 where applicable, or at any future dates.

Unaudited Pro Forma Consolidated Balance Sheet

	Unaudited consolidated balance sheet of the Group as at 30 June 2017	Pro forma adjustments				Unaudited pro forma consolidated balance sheet of the Group as at 30 June 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)(i)*	*Note 2(a)(ii)*	*Note 2(b)*	*Note 2(c)*	
Assets						
Non-current assets						
Land use rights	60,237	(12,595)				47,642
Property, plant and equipment	830,440	(28,201)				802,239
Intangible assets	828,270	(638,902)				189,368
Investment in associates	—			3,380,000		3,380,000
Deferred income tax assets	3,874	(1,481)				2,393
Long-term prepayments	4,923					4,923
	1,727,744					4,426,565
Current assets						
Inventories	64,048	(18,557)				45,491
Amount due from related parties	—	(20,632)	(515,023)		535,655	—
Trade and other receivables	269,141	(4,473)				264,668
Available-for-sale financial assets	600,373	(600,373)				—
Cash and cash equivalents	415,739	(67,983)	(642)	(266,229)		80,885
	1,349,301					391,044
Total assets	3,077,045					4,817,609
Equity						
Equity attributable to owners of the Company						
Share capital	973					973
Share premium	1,511,415					1,511,415
Other reserves	406,514			(6,658)		399,856
Retained earnings	824,301			2,012,179	(2)	2,836,478
	2,743,203					4,748,722
Non-controlling interests	177,643			(179,451)		(1,808)
Total equity	2,920,846					4,746,914

	Unaudited consolidated balance sheet of the Group as at 30 June 2017	Pro forma adjustments				Unaudited pro forma consolidated balance sheet of the Group as at 30 June 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(a)(i)*	*Note 2(a)(ii)*	*Note 2(b)*	*Note 2(c)*	
Liabilities						
Non-current liabilities						
Deferred income tax liabilities	51,941	(42,576)				9,365
Deferred income	1,183					1,183
	53,124					10,548
Current liabilities						
Amount due to related parties	—	(36,295)	(492,607)		528,902	—
Trade and other payables	101,418	(48,785)			6,755	59,388
Current income tax liabilities	1,657	(894)	(4)			759
	103,075					60,147
Total liabilities	156,199					70,695
Total equity and liabilities	3,077,045					4,817,609

Unaudited Pro Forma Consolidated Income Statement

	Audited consolidated income statement of the Group for the year ended 31 December 2016	Pro forma adjustments				Unaudited pro forma consolidated income statement of the Group for the year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 3(a)(i)*	*Note 3(a)(ii)*	*Note 3(b)*	*Note 3(c)*	
Continuing operations						
Revenue	566,822	(247,239)				319,583
Cost of sales	(148,629)	39,353				(109,276)
Gross profit	418,193					210,307
Selling expenses	(77,276)	35,580				(41,696)
Administrative expenses	(56,652)	11,331	61	(1,240)		(46,500)
Research and development expenses	(19,664)	7,952				(11,712)
Other gains — net	14,139	(2,151)	(56)	2,675,797		2,687,729
Operating profit	278,740					2,798,128
Finance income — net	4,485	(210)	(56)			4,219
Share of post-tax profit of associates	—				72,829	72,829
Profit before income tax	283,225					2,875,176
Income tax expenses	(43,068)	22,856	5	(264,956)		(285,163)
Profit for the year from continuing operations	240,157					2,590,013
Discontinued operations						
Loss for the year from discontinued operations	(46,711)					(46,711)
Profit for the year	193,446					2,543,302
Profit/(loss) attributable to:						
Owners of the Company	194,949	(132,528)	(46)	2,409,601	72,829	2,544,805
Non-controlling interests	(1,503)					(1,503)
	193,446					2,543,302
Profit/(loss) attributable to owners of the Company arises from:						
Continuing operations	241,660	(132,528)	(46)	2,409,601	72,829	2,591,516
Discontinued operations	(46,711)					(46,711)
	194,949					2,544,805

Unaudited Pro Forma Consolidated Statement of Comprehensive Income

	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2016	Pro forma adjustments				Unaudited pro forma consolidated statement of comprehensive income of the Group for the year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 3(a)(i)*	*Note 3(a)(ii)*	*Note 3(b)*	*Note 3(c)*	
Profit for the year	193,446	(132,528)	(46)	2,409,601	72,829	2,543,302
Other comprehensive income:						
Items that may be reclassified to profit or loss						
Currency translation differences	105				(29,441)	(29,336)
Other comprehensive income for the year, net of tax	105					(29,336)
Total comprehensive income for the year	193,551					2,513,966
Attributable to:						
— Owners of the Company	195,054	(132,528)	(46)	2,409,601	43,388	2,515,469
— Non-controlling interests	(1,503)					(1,503)
Total comprehensive income for the year	193,551					2,513,966
Total comprehensive income attributable to owners of the Company arises from:						
Continuing operations	241,765	(132,528)	(46)	2,409,601	43,388	2,562,180
Discontinued operations	(46,711)					(46,711)
	195,054					2,515,469

Unaudited Pro Forma Consolidated Statement of Cash Flows

	Audited consolidated statement of cash flows of the Group for the year ended 31 December 2016	Pro forma adjustments					Unaudited pro forma consolidated statement of cash flows of the Group for the year ended 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 4(a)(i)*	*Note 4(a)(ii)*	*Note 3(b)*	*Note 4(b)*	*Note 4(c)*	
Cash flows from operating activities							
Cash generated from operations	324,380	(176,861)	185	(1,240)			146,464
Income tax paid	(57,617)	29,062		(17,294)			(45,849)
Net cash generated from operating activities	266,763						100,615
Cash flows from investing activities							
Disposals of subsidiaries	(29,908)						(29,908)
Payments for property, plant and equipment	(4,366)	1,516					(2,850)
Payments for construction in progress	(270,562)	762					(269,800)
Purchases of land use rights	(630)						(630)
Purchases of intangible assets	(1,218)						(1,218)
Purchases of available-for-sale financial assets	(309,700)	309,700					—
Payment of withholding tax for disposal gain of Health Forward	—			(247,662)			(247,662)
Loans provided to the Group	—	130,000				(130,000)	—
Proceeds from disposals of available-for-sale financial assets	310,859	(310,859)					—
Proceeds from disposals of property, plant and equipment	589	(187)					402
Interest received	3,979	(325)					3,654
Net decrease in term deposits	40,000						40,000
Dividends received from Tianxinfu	—				31,500		31,500
Net cash used in investing activities	(260,957)						(476,512)
Cash flows from financing activities							
Buy-back of shares	(147,721)						(147,721)
Proceeds from employee share option exercised	102						102
Proceeds from borrowings from Tianxinfu	—					130,000	130,000
Dividends paid to the Group	—	31,500			(31,500)		—
Net cash used in financing activities	(147,619)						(17,619)
Net decrease in cash and cash equivalents	(141,813)						(393,516)
Cash and cash equivalents at beginning of the year	288,224	(98,431)	(2,058)				187,735
Exchange gains on cash and cash equivalents	3,152	(3)	(9)				3,140
Cash and cash equivalents at end of the year	149,563						(202,641)

II. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the unaudited consolidated balance sheet of the Group as at 30 June 2017 as set out in the Appendix II of this circular; the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2016 as set out in the Appendix I to this Circular.

2. The following pro forma adjustments have been made to the unaudited pro forma consolidated balance sheet assuming the Transactions had taken place on 30 June 2017:

(a) (i) The adjustment represents the exclusion of assets and liabilities of Tianxinfu. The amounts have been extracted from the interim consolidated balance sheet of Tianxinfu as at 30 June 2017 as set out in note 29 of Appendix II to this Circular.

(ii) The adjustment represents the exclusion of assets and liabilities of Health Forward. The amounts have been extracted from the assets and liabilities of Health Forward as at 30 June 2017 as set out in note 29 of Appendix II to this Circular.

(b) The adjustment represents the estimated consideration for the Transactions of approximately RMB3,380 million and the related income tax, withholding and other tax expenses relating to the intra-group reorganisation and disposal of Health Forward.

The estimated gain on disposal of Health Forward assuming the Transactions had taken place on 30 June 2017 is calculated as follows:

	RMB'000
Total consideration	3,380,000
Less: Carrying amount of net assets of Tianxinfu and Health Forward as at 30 June 2017	(1,287,701)
Add: Release of foreign exchange reserves attributable to Health Forward	3,514
Release of reserves of change in value of available-for-sale financial assets attributable to Tianxinfu	3,144
Add: Non-controlling interest of Tianxinfu	179,451
Estimated gain before withholding tax	2,278,408
Less: withholding tax	(247,695)
Estimated gain after withholding tax	2,030,713
Less: Income tax expenses of intra-group reorganisation	(17,294)
Stamp tax expenses of intra-group reorganisation	(1,240)
Estimated net gain	2,012,179

(c) The adjustment represents reclassifications and intra-group eliminations.

3. The following pro forma adjustments have been made to the unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of comprehensive income assuming the Transactions had taken place on 1 January 2016:

(a) (i) The adjustment represents the exclusion of operating results of Tianxinfu. The amounts have been extracted from the financial information of Tianxinfu for the year ended 31 December 2016 as set out in note 42 of Appendix I to this Circular.

(ii) The adjustment represents the exclusion of operating results of Health Forward. The amounts have been extracted from the unaudited financial information of Health Forward for the year ended 31 December 2016 as set out in note 42 of Appendix I to this Circular.

(b) The adjustment represents the estimated net gain on disposal of Health Forward assuming the Transactions had taken place on 1 January 2016.

	RMB'000
Total consideration	3,380,000
Less: Carrying amount of net assets of Tianxinfu and Health Forward as at 1 January 2016	(708,705)
Add: Release of foreign exchange reserves attributable to Health Forward	3,335
Add: Non-controlling interest of Tianxinfu	1,167
Estimated gain before withholding tax	2,675,797
Less: withholding tax	(247,662)
Estimated gain after withholding tax	2,428,135
Less: Income tax expenses of intra-group reorganisation	(17,294)
Other tax expenses of intra-group reorganisation	(1,240)
Estimated net gain	2,409,601

(c) The adjustment represents share of profit of investment in the CBPO. After completion of the Transaction, the Group will account for the result of CBPO using equity method. This adjustment has taken into account of depreciations or amortisations arising from the uplift of fair values of the net identifiable assets/liabilities of the CBPO Group.

	For year ended 31 December 2016 *RMB'000*
Profit attributable to owners of CBPO *(note (i))*	648,169
Add: profit attributable to owners of Tianxinfu	132,528
profit attributable to owners of Health Forward	46
Less: depreciations or amortisations arising from the uplift of fair values of the net identifiable assets/liabilities of the CBPO Group after deferred tax *(note (ii))*	(343,593)
Total	437,150
16.66% Share of profit of investment in CBPO Group	72,829

Note (i) Profit attributable to owners of CBPO was arrived at using the adjusted profit attributable to owners of CBPO for the year ended 31 December 2016 of approximately US$96,521,000, as set out in page IV-119 of Appendix IV, after converting into RMB using the average exchange rate for the year ended 31 December 2016.

Note (ii) Depreciations or amortisations were estimated on the uplift of the fair values of the net identifiable assets/liabilities of approximately RMB4,092 million arose from Technology, Trademark, Land used rights and Property, plant and equipment, excluding goodwill, using the straight-line method over their respective useful lives ranging from 8 to 45 years. The fair values remeasurement of the net identifiable assets/liabilities have been assessed by the Directors of the Company using the valuation results made by an independent valuer as at 30 June 2017.

4. The following pro forma adjustments are made to the unaudited pro forma consolidated statement of cash flows assuming the Transactions had taken place on 1 January 2016:

(a) (i) The adjustment represents the exclusion of cash flows of Tianxinfu. The amounts have been extracted from the financial information of Tianxinfu for the year ended 31 December 2016 as set out in note 42 of Appendix I to this Circular.

(ii) The adjustment represents the exclusion of cash flows of Health Forward. The amounts have been extracted from the financial information of Health Forward for the year ended 31 December 2016 as set out in note 42 of Appendix I to this Circular.

(b) The adjustment represents the dividend paid by Tianxinfu to the Group during the year ended 31 December 2016.

(c) The adjustment represents the intra-group loan granted by Tianxinfu to the Group during the year ended 31 December 2016.

5. Apart from above, no adjustments have been made to the unaudited pro forma consolidated balance sheet and the unaudited pro form consolidated income statement, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2017 or 31 December 2016, respectively.

III. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of PW Medtech Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of PW Medtech Group Limited (the "Company") and its subsidiaries (collectively the "Group"), which has been prepared by the directors to illustrate the effect of the subscription of approximately 16.66% of the enlarged issued share capital of China Biologic Products Holdings, Inc., (the "CBPO") in consideration of the entire issued share capital of Health Forward Holdings Limited (the "Transaction"). The unaudited pro forma financial information consists of an illustrative unaudited pro forma consolidated balance sheet as at 30 June 2017, an illustrative unaudited pro forma consolidated income statement, an illustrative unaudited pro forma consolidated statement of comprehensive income and an illustrative pro forma consolidated statement of cash flow for the year ended 31 December 2016, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages V-1 to V-9 of the Company's circular dated 14 November 2017 (the "Circular"), in connection with the Transaction by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages V-1 to V-9.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2017 and the Group's financial performance and cash flows for the year ended 31 December 2016 as if the Transaction had taken place at 30 June 2017 and 1 January 2016 respectively. As part of this process, the Unaudited Pro Forma Financial Information is prepared based on (i) the Group's financial position, financial performance and cash flows has been extracted by the directors from the Group's financial statements for the period ended 30 June 2017 and for the year ended 31

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December 2016, as set out in appendix II and I to the Circular, respectively; (ii) CBPO's unaudited adjusted financial information under the Company's policies as at 30 June 2017 or for the year ended 31 December 2016 and as set out in appendix IV to the Circular.

DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANT'S RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2017 or 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 14 November 2017

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors in Securities

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

(A) ***Long position in the Shares***

Name of Director	Capacity	Number of Shares interested	Approximate percentage^{+} of the Company's issued share capital
Ms. Yue'e ZHANG	Beneficial owner	50,000	0.003%
Mr. JIANG Liwei	Beneficial owner	2,638,714	0.17%
Mr. LIN Junshan	Beneficial owner	1,673,427	0.11%
Mr. CHEN Geng	Beneficial owner	318,472	0.02%

(B) ***Long position in underlying Shares — physically settled unlisted equity derivatives***

Name of Director	Capacity	Number of underlying Shares in respect of the share options granted	Approximate percentage+ of underlying Shares over the Company's issued share capital
Mr. CHEN Geng	Beneficial owner	318,471*	0.02%
Mr. WANG Xiaogang	Beneficial owner	318,471*	0.02%

* The exercise price per Share of the share options granted is RMB0.626 and the exercise period of the share options is from May 8, 2014 to July 5, 2023.

\+ The percentage represents the number of Shares/underlying Shares interested divided by the number of issued Shares as at the Latest Practicable Date.

Save as disclosed above, none of the Directors or the chief executive of the Company has any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Interests of Directors in the Group's Assets or Contracts or Arrangements Significant to the Group

As at the Latest Practicable Date, none of the Directors had any interest in any asset which have been, since December 31, 2016 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the businesses of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contract expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation) between any of the Directors of the Company and any member of the Group.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's businesses) which competes or is likely to compete, either directly, or indirectly with the Group's businesses (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling shareholder).

5. MATERIAL ADVERSE CHANGES

The Directors confirm that there was no material adverse changes in the financial or trading position of the Group since December 31, 2016 (being the date to which the latest published audited accounts of the Company were made up).

6. LITIGATION

As of the Latest Practicable Date, none of the members of the Group were engaged in any litigation or arbitration or claim of material importance affecting its business operation, and the Directors were not aware of any litigation or arbitration or claim of material importance affecting its business operation which was pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACTS

Except for the Share Exchange Agreement and the Investor Rights Agreement (the details of which are disclosed in this circular), the following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular:

(i) the agreement dated February 27, 2017, and entered into among:

(a) Xinyu Yongshuo Management and Consulting LLP (新餘永碩管理諮詢合夥企業(有限合夥));

(b) Tianxinfu;

(c) PW Medtech (Beijing) Limited (普華和順(北京)醫療科技有限公司); and

(d) Health Access Limited;

in relation to the increase in the registered capital of Tianxinfu from RMB45 million to RMB56.25 million by issuing an aggregate of 11,250,000 new shares of Tianxinfu to Xinyu Yongshuo Management and Consulting LLP at a total consideration of RMB500 million;

(ii) the equity transfer agreement dated December 24, 2016, and entered into among:

(a) PWM Investment Holdings Company Limited;

(b) Health Forward;

(c) Tianjin Yingshang Technological Development Co., Ltd. (天津英尚科技發展有限公司);

(d) Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼生物材料有限公司); and

(e) Zhangjiakou Guorong Enterprise Management LLP (張家口國榮企業管理中心(有限合夥));

in relation to the transfer of all equity interests of Tianjin Walkman Biomaterial Co., Ltd. held by PWM Investment Holdings Company Limited and Health Forward, namely 79.02% equity interests of Tianjin Walkman Biomaterial Co., Ltd. in aggregate;

(iii) the equity transfer agreement dated December 24, 2016, and entered into among:

(a) PWM Investment Holdings Company Limited;

(b) Tianjin Walkman Biomaterial Co., Ltd.;

(c) Shenzhen Bone Medical Device Co., Ltd. (深圳市博恩醫療器材有限公司); and

(d) Zhangjiakou Guorong Enterprise Management LLP;

in relation to the transfer of all equity interests of Shenzhen Bone Medical Device Co., Ltd. held by PWM Investment Holdings Company Limited, namely 88.57% equity interests in Shenzhen Bone Medical Device Co., Ltd.; and

(iv) the agreement dated December 24, 2016, and entered into among:

(a) PWM Investment Holdings Company Limited;

(b) Lhasa Tianqiong Investment Management Co., Ltd. (拉薩天穹投資管理有限公司); and

(c) Zhangjiakou Guorong Enterprise Management LLP;

in relation to the transfer of all equity interests of Lhasa Tianqiong Investment Management Co., Ltd., held by PWM Investment Holdings Company Limited, namely 100% equity interests in Lhasa Tianqiong Investment Management Co., Ltd.

The total consideration for (ii), (iii) and (iv) above was RMB450 million.

8. EXPERT

(a) The following are the qualifications of the expert who has given opinion or advice contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants

(b) PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its report and/or letter dated November 14, 2017 and references to its name in the form and context in which it appears.

(c) As at the Latest Practicable Date, PricewaterhouseCoopers did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(d) As at the Latest Practicable Date, PricewaterhouseCoopers had no interest in any asset which have been since December 31, 2016 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

MISCELLANEOUS

(a) Ms. SO Yee Kwan (ACS, ACIS) is the company secretary of the Company.

(b) The registered office of the Company is situated at The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands.

(c) The principal place of business in Hong Kong of the Company is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited which is situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Save as otherwise stipulated in this circular, in the event of any inconsistency between the English version and the Chinese version, the English version shall prevail.

DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from the date of this circular up to 14 days thereafter:

(i) the Articles of Association;

(ii) the Share Exchange Agreement;

(iii) the Investor Rights Agreement;

(iv) the letter from the Board, the text of which is set out in this circular;

(v) the accountant's report on the Group for the three financial years ended December 31, 2016 and the unaudited financial information for the six months ended June 30, 2017 of the Group, including the relevant financial information of the Disposal Business, as set forth in Appendix I and Appendix II to this circular;

(vi) the audited financial information of the CBPO Group for each of the financial years ended December 31, 2014, 2015 and 2016 and the unaudited financial information of the CBPO Group for the three and six months ended June 30, 2017 prepared under U.S. GAAP as set out in Appendix IV to this circular;

(vii) a line-by-line reconciliation of CBPO's financial information for the differences between CBPO's accounting policies under U.S. GAAP and the Company's accounting policies under HKFRS as set out in Appendix IV to this circular;

(viii) the report on the unaudited pro forma financial information of the New Group from PricewaterhouseCoopers, the text of which is set out in Appendix V to this circular;

(ix) a written statement signed by PricewaterhouseCoopers setting out the adjustments made by them in arriving at the figures shown in their reports set out in the Appendix I and Appendix II to this circular and giving the reasons therefor;

(x) the written consent of the expert referred to in the paragraph headed "Expert" in this appendix;

(xi) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(xii) this circular.

PW MEDTECH GROUP LIMITED
普华和顺集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1358)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of PW Medtech Group Limited (the "**Company**") will be held at 10:00 a.m. on Friday, December 1, 2017 at 1002–1003, Block C, Focus Square, No. 6 Futong East Avenue, Wangjing, Chaoyang District, Beijing, The People's Republic of China for the purposes of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the share exchange agreement dated October 12, 2017 (the "**Share Exchange Agreement**") entered into between the Company and China Biologic Products Holdings, Inc. ("**CBPO**"), and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;

(b) the investor rights agreement (the "**Investor Rights Agreement**") to be entered into between the Company and CBPO at the closing of the Share Exchange Agreement, and the transactions contemplated thereunder, be and are hereby approved and any one director of the Company be authorized to sign the same on behalf of the Company; and

(c) any one director of the Company be and is hereby authorized on behalf of the Company to do all such acts and sign, execute, seal (where required) and deliver the Investor Rights Agreement and all such other documents and to take all such steps as the directors of the Company in their discretion may consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Share Exchange Agreement and the Investor Rights Agreement and the transactions contemplated thereunder."

By order of the Board
PW Medtech Group Limited
普华和顺集团公司
Yue'e Zhang
Chairman

Hong Kong, November 14, 2017

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting (or any adjournment thereof) is entitled to appoint a proxy to attend and vote instead of him/her/it. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong (i.e. Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Meeting (i.e. not later than 10:00 a.m. (Hong Kong time) on Wednesday, November 29, 2017) or any adjournment thereof (as the case may be). Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the form of proxy shall be deemed to be revoked.

3. To ascertain shareholders' eligibility to attend and vote at the Meeting, the register of members of the Company will be closed from Tuesday, November 28, 2017 to Friday, December 1, 2017 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the Meeting, unregistered holders of shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates are lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited (at its address shown in Note 2 above) for registration no later than 4:30 p.m. (Hong Kong time), on Monday, November 27, 2017.