

China Biologic Products Announces Record Fourth Quarter and Full Year 2009 Results

- Full-year revenue grew 154.5% to \$119.0 million
- Non-GAAP adjusted net income rose 135.0% to \$31.3 million, or \$1.38 per diluted share

TAI'AN, Shandong, China, March 24 /PRNewswire-Asia-FirstCall/ -- China Biologic Products, Inc. (Nasdaq: CBPO) ("China Biologic" or the "Company"), one of the leading plasma-based biopharmaceutical companies in the People's Republic of China ("PRC"), operating through its indirect majority-owned subsidiaries, Shandong Taibang Biological Products Co. Ltd. ("Taibang") and Guiyang Dalin Biologic Technologies Co., Ltd. ("Dalin") and its equity investment in Xi'an Huitian Blood Products Co., Ltd. ("Huitian"), today reported financial results for the fourth quarter and year ended December 31, 2009.

Fourth Quarter 2009 Highlights

- Revenues increased 185.6% year-over-year to \$37.6 million
- Excluding Dalin, revenues rose 46.7% year-over-year to \$19.3 million or 51.4% of total revenue
- Gross profit increased 208.6% year-over-year to \$27.3 million, representing a gross margin of 72.7% as compared to 67.2% a year ago
- Operating income grew 342.3% year-over-year to \$20.8 million, representing an operating margin of 55.2%
- GAAP net loss attributable to controlling interest was \$3.8 million, or \$0.17 per share, including a \$14.7 million charge related to change in the fair value of derivative liabilities
- Non-GAAP adjusted net income was \$11.1 million or \$0.44 per diluted share, a 242.4% increase from \$3.2 million or \$0.15 per diluted share in the fourth quarter of 2008
- The Company's common stock began trading on the NASDAQ Global Market on December 2, 2009

"With our successful integration of Dalin, China Biologic achieved record top and bottom line results and significant growth in fiscal 2009, said Mr. Chao Ming Zhao, Chief Executive Officer of China Biologic. "In addition, we believe that the successful implementation of the Company's strategic marketing efforts has attracted more donors to our plasma collection centers and has resulted in an increase in our overall collection volume. With a continued shortage of plasma supply, the Company has continued to work to enhance our production plans and increase our output and we have been able to maximize our yield per

unit of plasma collected to realize a higher profit margin. Fiscal 2009 was also a special year for us and our shareholders as the Company's common stock began trading on the NASDAQ Global Market.

Full-Year 2009 Highlights

- Revenues increased 154.5% year-over-year to a record \$119.0 million, exceeding our guidance of \$90 to \$100 million
- Excluding the acquisition of Dalin, revenues grew 43.1 % year-over-year to \$66.9 million
- Gross profit rose 164.1% to \$86.4 million, representing a gross margin of 72.6% as compared to 70.0% a year ago
- Operating income increased 201.8%, to \$61.4 million, representing an operating margin of 51.6%
- GAAP net income attributable to controlling interest was \$1.3 million, or \$0.07 per diluted share, including a \$29.6 million charge related to change in the fair value of derivative liabilities
- Non-GAAP adjusted net income was \$31.3 million or \$1.38 per diluted share, a 135.0% increase from \$13.3 million or \$0.62 per diluted share in 2008

During the full year 2009, the Company achieved the following key milestones:

- Closed the acquisition of 90% interest in Dalin, and its 54% majority- owned operating subsidiary, Qianfeng Biological Products Co., Ltd. ("Qianfeng"), one of the largest plasma-based biopharmaceutical companies in China located in Guiyang, Guizhou Province. Starting from January 1, 2009, Qianfeng's operations were consolidated into the Company's financial results.
- Completed the purchase of 35% equity interest in Xi'an Huitian Blood Products Co, Ltd ("Huitian"), a plasma-based biopharmaceutical company in Xi'an, Shaanxi Province
- Qianfeng received renewal of SFDA certification, valid until September 2014, of compliance with Good Manufacturing Practices ("GMP") for its production facility with 400 tons of annual production capacity for plasma-based products.
- China Biologic was named to Forbes Magazine's Fifth Annual List of Asia's "200 Best Under a Billion" for the year 2009. To assemble its Best Under a Billion for the Asia-Pacific region, Forbes considered only listed entities with sales under \$1 billion, that have posted solid top and bottom-line gains, and appear to be headed for more.

Fourth Quarter 2009 Results

For the three months ended December 31, 2009, total revenues reached a record \$37.6 million, up 185.6% from the same period a year ago. Excluding revenues from Dalin, which was acquired in January 2009, revenues rose 46.7% to \$19.3 million from \$13.2 million a year ago. The strong organic growth was partly attributable to increased demand for the Human immunoglobulin for intravenous injection product ("IVIG") product ahead of potential price increase in 2010.

Gross profit for the fourth quarter 2009 was \$27.3 million, up 208.6% from \$8.9 million in the comparable period a year ago. Gross margin also increased to 72.7% from 67.2% year-over-year. The gross profit and margin increases were primarily attributable to the consolidation of Dalin and price increases implemented during the year.

Operating expenses increased 58.1% year-over-year to \$6.6 million, primarily reflecting consolidation of Dalin in the 2009 quarter. Income from operations for the period was \$20.8 million, a 342.3% increase from \$4.7 million a year ago.

Income taxes increased to \$3.0 million from \$0.2 million, primarily reflecting a higher effective tax rate of 61.7% as compared to 3.7% in the year ago quarter. The higher effective tax rate was due to non-cash expenses incurred in 2009 that are not deductible under PRC tax law.

GAAP net loss attributable to controlling interest for was \$3.8 million, or \$0.17 per diluted share, and included a \$14.7 million charge related to change in fair value of derivative liabilities, as compared to net income of \$3.2 million, or \$0.15 per diluted share, in the year ago quarter.

Excluding non-cash employee compensation expenses, change in the fair value of derivative liabilities and adding back interest related to the convertible notes under the if-converted method, non-GAAP adjusted net income for the three months ended December 31, 2009 was \$11.1 million, or \$0.44 per diluted share, up 242.4% from \$3.2 million or \$0.15 per diluted share in the year ago quarter.

Full Year 2009 Results

Revenues for the full year 2009 increased 154.5% to a record \$119.0 million from \$46.8 million in 2008. The increase in revenues is primarily attributable to the consolidation of Dalin, which was acquired in April 2009, beginning January 2009. During 2009, Dalin accounted for \$52.1 million in revenues, or 43.8% of total revenues. Excluding Dalin, 2009 base revenues grew 43.1% year-over-year to \$66.9 million from \$46.8 million. Growth in base revenue was primarily due to increase in the prices of plasma-based products, higher sales volume and a modest increase related to foreign exchange translation.

Human albumin product revenues rose 118.9% year-over-year to \$59.2 million, accounting for 49.7% of sales in 2009, as compared to 57.8% in 2008. Revenue growth reflected volume increase of 117.8% and an average selling price (ASP) increase of 0.5%. IVIG revenues grew 324.4% to \$43.7 million in 2009 and represented 36.8% of total revenues, as compared to 22.0% of revenues in 2008. Increase in human

immunoglobulin for intravenous injection revenues included sales volume and ASP increases of 293.4% and 7.9%, respectively. Sales of the human tetanus immunoglobulin product rose 76.9% to \$2.6 million, contributing 2.2% of total revenues as compared to 3.1% in 2008. Sales volume and ASP for human tetanus immunoglobulin increased 40.2% and 26.2%, respectively. Sales volume for human hepatitis B immunoglobulin and human rabies immunoglobulin products decreased, due to a temporary shortage of vaccines needed to generate each type of raw material, by 0.5% and 5.1%, respectively.

Gross profit for 2009 was \$86.4 million, up 164.1% from \$32.7 million in 2008. Gross margin was 72.6% in 2009, as compared to 70.0% in the prior year. The increase in gross profit and margin were primarily due to the consolidation of Dalin operations, an increase in the ASP across the products and management's ability to maintain efficiencies in the production process.

Total operating expenses in the full year 2009 increased 102.0% to \$25.0 million, versus \$12.4 million in the prior year period. As a percentage of sales revenue, total expenses decreased to 21.0% for the full year 2009 from 26.5% in 2008.

Selling expenses increased 59.5% to \$3.5 million from \$2.2 million in 2008. The dollar increase in selling expenses was primarily due to the consolidation of Dalin's selling activities, increased marketing efforts to increase direct sales to new hospitals, and expansion of the sales force in Qianfeng to expand into new sales territories.

General and administrative ("G&A") expenses rose 120.2% to \$19.8 million. As a percentage of sales, G&A expenses decreased to 16.6% in 2009 from 19.2% for full year 2008. The dollar increase in G&A expenses was mainly due to an increase in the administrative salary and employee benefit costs, higher depreciation and amortization expenses and professional service charge in connection with the Dalin acquisition. The Company incurred \$62,281 in non-cash stock-based compensation expense, as compared to \$1.3 million for the full year 2008.

Research and development expenses in 2009 increased 42.5% to \$1.7 million, or 1.4% of total revenues, as compared to \$1.2 million, or 2.5% of total revenue, in 2008. The dollar increase was primarily due to the consolidation of Dalin and increased costs from continuing clinical trials on new products during the 2009 period.

Total net other expenses in the full year 2009 were \$33.3 million, as compared to \$0.4 million in the prior year, primarily reflecting a charge related to change in the fair value of warrant liabilities and higher interest expenses in 2009. The Company recognized a loss of \$29.6 million related to change in the fair value of warrant liabilities. No such charge was required in 2008. Net interest expense increased to \$3.9 million for the full year 2009 from \$0.4 million in 2008, primarily due to higher interest expense related to financing in the acquisition of Dalin, as well as the interest accrued to Qianfeng's strategic investors.

Provision for income taxes increased 128.7% to \$10.5 million in 2009, from \$4.6 million in 2008. The effective tax rate for 2009 was 37.4%, as compared to 23.1% in 2008. The increase in effective tax rate was due to the \$29.6 million non-cash expense incurred in 2009 that is not deductible under PRC tax law, resulting in an overstated effective tax rate.

GAAP net income attributable to controlling interest in 2009 was \$1.3 million, as compared to net income attributable to controlling interest of \$12.0 million in 2008. Diluted earnings per share were \$0.07 as compared to earnings per share of \$0.56 a year ago. Non-GAAP adjusted net income for 2009 was \$31.3 million or \$1.38 per diluted share, an increase of 135% from \$13.3 million, or \$0.62 per diluted share for the full year 2008. Non-GAAP adjusted net income and diluted earnings per share in 2009 exclude \$29.6 million charge related to change in the fair value of derivative liabilities, non-cash employee compensation expenses, and adding back interest related to the convertible notes under the if-converted method.

Financial Condition

As of December 31, 2009, the Company had \$53.8 million in cash and cash equivalents, approximately \$44.4 million in working capital, and a current ratio of 1.9x. Total shareholder's equity for the fiscal year ended on December 31, 2009 was \$50.5 million, as compared to \$37.8 million at the end of 2008. The Company generated \$50.3 million in net cash from operating activities in 2009 as compared to \$20.0 million in 2008.

The Company believes that it has sufficient funds to support its strategic growth outlook, including capital expenditure plans of approximately \$15 million in 2010 to expand the plasma collection network, both for new constructions and for the scale up existing collection stations, and upgrading the fractionation facility in Qianfeng.

Recent Developments

On February 2, 2010, China Biologic appointed Dr. Xiangmin Cui to serve as an independent member of its board of directors, as the Chairman of the Compensation Committee, and as a member on the Audit and Nominating Committees. Dr. Cui filled the vacancy left by Dr. Gan's January 8, 2010 resignation to dedicate more time to her other professional activities.

On March 1, 2010, China Biologic's special committee of independent directors appointed by the Company's board of directors in the wake of the recent allegations against certain directors and an employee of the Company has retained O'Melveny & Myers LLP, an international law firm, to advise the special committee and to assist in the investigation of the allegations.

2010 Guidance and Business Outlook

China Biologic expects 2010 revenue to be in the range between \$142 million and \$149 million. This guidance assumes only organic growth and does not include and excludes acquisitions or approval for the construction of new plasma collection stations. The guidance does not assume any material price or volume increases during 2010.

The Company expects 2010 adjusted net income to be in the range of \$34 million to \$36 million, excluding any non-cash charge related to change in the fair value of derivative liabilities and stock-based compensation expense, and any adjustments in the U.S. federal income tax provision in 2010 related to the expiration of the look-through exception for Subpart F income on December 31, 2009.

As a matter of policy, the Company does not intend to update this guidance during the year.

Mr. Zhao added, "Through the dedication and commitment of our hard working employees, we have been able to successfully increase our presence in the plasma-based biopharmaceutical product market in China. We estimate our current market share is at approximately 18%. We plan to continue our marketing efforts to increase public awareness of plasma donation, as well as provide appropriate nutritional supplement compensation to plasma donor, and apply for the construction of additional plasma collection stations."

"With our aggressive research and development efforts in the past few years, Human Prothrombin Complex Concentrate and Human Coagulation Factor VIII have successfully completed clinical trials and have submitted applications to the SFDA for official production permit and product certification. The Company looks forward to SFDA approval of these products in the second half of 2010 and expects to launch the commercial production of the products in late 2010 or early 2011. We believe that the addition of these two new products will broaden our product portfolio and improve our mix, enhance the Company's competitive position and maximize the yield from our current plasma supply."

Conference Call

China Biologic will host a conference call at 9:00 a.m. EDT on Wednesday, March 24, 2010, to discuss the fourth quarter 2009 and year-end financial results. To participate in the conference call, please dial the following number five to ten minutes prior to the scheduled conference call time: 877-409-5468. International callers should dial +1-702-894-2400. The pass code for the call is 64404888. If you are unable to participate in the call at this time, a replay will be available for 14 days starting on Wednesday, March 24, 2010 at 11:00 a.m. EDT. To access the replay, dial 800-642-1687, international callers should dial +1-706-645-9291. The conference pass code is 64404888.

Use of Non-GAAP Financial Measures

This press release contains non-GAAP financial measures that exclude non-cash compensation expenses related to options granted to employees and directors under the Company's 2008 Equity

Incentive Plan and changes in the fair value of derivative liabilities, including warrants and derivative instruments (including the conversion option) embedded in the Company's Senior Secured Convertible Notes. To supplement the Company's condensed consolidated financial statements presented on a GAAP basis, the Company has provided non-GAAP financial information excluding the impact of this item in this release. The Company's management believes that these non-GAAP measures provide investors with a better understanding of how the results relate to the Company's historical performance. A reconciliation of the adjustments to GAAP results appears in the table accompanying this press release. This additional non-GAAP information is not meant to be considered in isolation or as a substitute for GAAP financials. The non-GAAP financial information that the Company provides also may differ from the non-GAAP information provided by other companies.

About China Biologic Products, Inc.

China Biologic Products, Inc., through its indirect majority-owned subsidiaries, Shandong Taibang Biological Products Co. Ltd. and Guiyang Dalin Biologic Technologies Co., Ltd, and its equity investment in Xi'an Huitian Blood Products Co., Ltd., is currently the largest non-state-owned plasma-based biopharmaceutical company in China. The Company is a fully integrated biologic products company with plasma collection, production and manufacturing, research and development, and commercial operations. The Company's plasma-based biopharmaceutical products are irreplaceable during medical emergencies, and are used for the prevention and treatment of various diseases. The Company sells its products to hospitals and other healthcare facilities in China. Please see the Company's website <http://www.chinabiologic.com> for additional information.

Safe Harbor Statement

This release may contain certain "forward-looking statements" relating to the business of China Biologic Products, Inc. and its subsidiaries. All statements, other than statements of historical fact included herein are "forward-looking statements," including statements regarding: the achievability of the financial guidance provided by the management; the success of the R&D pipeline projects, SFDA approval and commercial launch of new products; the Company's ability to build new or expand existing plasma collection stations; the Company's ability to achieve its commercial objectives; the business strategy, plans and objectives of the Company and its subsidiaries; and any other statements of non-historical information. These forward-looking statements are often identified by the use of forward-looking terminology such as "believes," "expects" or similar expressions, and involve known and unknown risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Investors should not place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety

of factors, including those discussed in the Company's periodic reports that are filed with the Securities and Exchange Commission and available on its website (<http://www.sec.gov>). All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these factors. Other than as required under the securities laws, the Company does not assume a duty to update these forward-looking statements.

- FINANCIAL TABLES FOLLOW -

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

FOR THE THREE MONTHS AND FISCAL-YEAR ENDED DECEMBER, 2009 AND 2008

Three Months Ended Three Months Ended

December 31, 2009 December 31, 2008

Net Diluted Net Diluted

Net Income (Loss) Diluted EPS Income EPS Income EPS

Adjusted Net Income - Non GAAP \$11,069,396 \$0.44 \$3,233,097 \$0.15

Non-cash employee compensation(1) \$0.00 \$0.00 27,926 \$0.00

Loss in fair value of derivative

liabilities(2) \$14,695,101 \$0.59 \$0.00 \$0.00

Interest of Convertible Notes(3) \$144,892 \$0.01 \$0.00

Net Income attributable to

controlling interest \$(3,770,597) \$(0.17) \$3,205,171 \$0.15

Weighted average number of

shares - diluted 24,947,251 21,556,342

Fiscal Year Ended Fiscal Year Ended

December 31, 2009 December 31, 2008

Net Diluted Net Diluted

Net Income (Loss) Diluted EPS Income EPS Income EPS

Adjusted Net Income - Non GAAP \$31,255,377 \$1.38 \$13,297,398 \$0.62

Non-cash employee compensation(1) \$62,281 \$0.00 \$1,311,727 \$0.06

Loss in fair value of derivative

liabilities(2) \$29,626,189 \$1.31 \$0.00 \$0.00

Interest of Convertible Notes(3) \$302,010 \$0.01

Net Income attributable to

controlling interest \$1,264,897 \$0.07 \$11,985,671 \$0.56

Weighted average number of

Shares 22,644,342 21,556,342

(1) Non-cash compensation expenses related to options granted to employees

and directors under the Company's 2008 Equity Incentive Plan

(2) Adoption of a new accounting rule effective January 1, 2009 requires

changes in the fair value of derivative liabilities to be recognized

in earnings each quarter.

(3) Interest of Convertible Notes is added back to net income attributable

to controlling interest using the if-converted method.

CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND TWELVE MONTHS ENDED DECEMBER 31, 2009 AND 2008

(Unaudited)

Three months ended Twelve months ended

December 31, December 31,

2009 2008 2009 2008

REVENUES \$37,628,272 \$13,176,396 \$118,998,155 \$46,751,160

COST OF REVENUES 10,284,313 4,315,499 32,621,908 14,040,602

GROSS PROFIT 27,343,959 8,860,897 86,376,247 32,710,558

OPERATING EXPENSES

Selling

expenses 1,215,663 426,733 3,529,242 2,212,073

General and

administrative

expenses 4,810,277 3,240,133 19,807,123 8,996,220

Research and

development

expenses 564,606 501,842 1,662,690 1,166,494

Total

operating

expenses 6,590,546 4,168,708 24,999,055 12,374,787

INCOME FROM

OPERATIONS 20,753,413 4,692,189 61,377,192 20,335,771

OTHER EXPENSES

(INCOME)

Equity in

income of

unconsolidated

affiliate (586,076) (175,231) (566,984) (175,231)

Change in fair

value of

derivative

liabilities 14,695,101 0 29,626,189 0

Other income -

related party (97,447) 0 (97,447) 0

Interest

expense, net 1,950,711 381,028 3,930,249 373,497

Other expense,

net (14,257) 141,123 358,699 251,390

Total other

expenses,

net 15,948,032 346,920 33,250,706 449,656

INCOME BEFORE

PROVISION FOR INCOME

TAXES AND

NONCONTROLLING

INTEREST 4,805,381 4,345,269 28,126,486 19,886,115

PROVISION FOR INCOME

TAXES 2,965,782 159,462 10,513,100 4,596,603

NET INCOME BEFORE

NONCONTROLLING

INTEREST 1,839,599 4,185,807 17,613,386 15,289,512

Less: Net income

attributable to

noncontrolling

interest 5,610,194 980,636 16,348,489 3,303,841

NET INCOME

ATTRIBUTABLE TO

CONTROLLING INTEREST (3,770,595) 3,205,171 1,264,897 11,985,671

OTHER COMPREHENSIVE

INCOME:

Foreign

currency

translation

adjustments 174,304 151,152 523,906 2,144,091

COMPREHENSIVE INCOME \$(3,596,301) \$3,356,323 \$1,788,803 \$14,129,762

BASIC EARNINGS PER

SHARE:

Weighted

average number

of shares 22,486,993 21,434,942 21,754,911 21,434,942

Earnings per

share \$(0.17) \$0.15 \$0.06 \$0.56

DILUTED EARNINGS PER

SHARE:

Weighted

average number

of shares 22,486,993 21,556,342 22,644,342 21,556,342

Earnings per

share \$(0.17) \$0.15 \$0.07 \$0.56

CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2009 AND 2008

ASSETS

December 31, December 31,

2009 2008

CURRENT ASSETS:

Cash and cash

equivalents \$53,843,951 \$8,814,616

Accounts receivable, net

of allowance for

doubtful accounts of

\$1,254,955 and

\$1,268,052 as of

December 31, 2009 and

2008, respectively 1,767,076 313,087

Accounts receivable -

related party 222,617 0

Dividend receivable 0 147,256

Other receivables 2,186,441 356,957

Inventories, net of

allowance for obsolete

of \$519,333 and \$0 as

of December 31, 2009

and 2008, respectively 35,132,724 14,949,196

Prepayments and deferred

expense 1,299,125 614,704

Deferred tax assets 1,053,771 0

Total current

assets 95,505,705 25,195,816

PLANT AND EQUIPMENT, net 28,873,413 19,299,364

OTHER ASSETS:

Investment in

unconsolidated

affiliate 6,627,355 6,533,977

Refundable deposit for

potential acquisition 0 14,181,800

Prepayments - non-

current 3,223,960 955,874

Intangible assets, net 21,180,322 1,002,561

Goodwill 12,425,589 0

Total other

assets 43,457,226 22,674,212

Total assets \$167,836,344 \$67,169,392

LIABILITIES AND EQUITY

CURRENT LIABILITIES:

Accounts payable \$3,701,843 \$2,481,889

Notes payable 48,598 29,340

Short term loans - bank 4,474,350 0

Short term loans -
holder of
noncontrolling interest 3,652,500 773,277

Other payables and
accrued liabilities 19,246,814 3,962,931

Other payable - related
parties 3,086,940 0

Accrued interest -
holder of
noncontrolling interest 2,068,526 0

Distribution payable to
holder of
noncontrolling interest 587 3,252,354

Customer deposits 3,868,577 1,091,792

Taxes payable 8,774,079 4,060,010

Investment payable 2,195,365 3,275,501

Total current liabilities 51,118,179 18,927,094

OTHER LIABILITIES:

Other payable - land use
right 323,687 325,390

Notes payable, net of
discount of \$8,464,380

as of December 31, 2009 89,760 0

Long term loan - bank,

net of current

maturities 0 5,868,000

Derivative liability -

conversion option 19,960,145 0

Fair value of derivative

instruments 12,701,262 0

Total other

liabilities 33,074,854 6,193,390

Total

liabilities 84,193,033 25,120,484

COMMITMENTS AND CONTINGENCIES

EQUITY:

Common stock, \$0.0001 par value, 100,000,000 shares

authorized,

23,056,442 and 21,434,942 shares

issued and outstanding at

December 31, 2009 and

2008, respectively 2,305 2,143

Additional paid-in-capital 22,517,077 10,700,032

Statutory reserves 17,414,769 6,989,801

Retained earnings 5,302,605 15,392,253

Accumulated other

comprehensive income 5,276,791 4,752,885

Total shareholder s' equity 50,513,547 37,837,114

NONCONTROLLING INTEREST 33,129,764 4,211,794

Total equity 83,643,311 42,048,908

Total liabilities and

shareholder s' equity \$167,836,344 \$67,169,392

CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

2009 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income attributable to

controlling interest \$1,264,897 \$11,985,671

Net income attributable to

noncontrolling interest 16,348,489 3,303,841

Consolidated net income 17,613,386 15,289,512

Adjustments to reconcile

net income to cash

provided by operating

activities:

Depreciation 2,709,623 1,088,155

Amortization 3,358,532 61,095

Loss on disposal of

equipment 224,548 214,663

Recovery of bad
debt previously
reserved (31,826) (56,462)

Allowance for bad
debt - accounts
receivable 18,737 0

Allowance for bad
debt - other
receivables and
prepayments 280,796 560,668

Allowance for
obsolete
inventories 519,333 0

Deferred tax assets (1,053,124) 0

Impairment of
assets 0 415,873

Stock based
compensation 62,281 1,311,727

Change in fair
value of warrant
liabilities 29,626,189 0

Amortization of
deferred note
issuance cost 247,199 0

Amortization of
discount on
convertible notes 100,253 0

Equity in income of
unconsolidated
affiliate (566,984) (175,231)

Change in operating
assets and
liabilities:

Notes receivable 0 43,245

Accounts receivable (1,707,714) 81,980

Accounts receivable
- related party 197,284 0

Other receivables (1,744,794) (33,462)

Other receivables -
related party 0 1,442

Inventories (12,456,975) (4,695,495)

Prepayments and
deferred expenses (248,794) (459,019)

Accounts payable (58,467) (376,527)

Other payables and
accrued
liabilities 7,058,773 2,658,552

Accrued interest -

holder of

noncontrolling

interest 2,068,526 0

Customer deposits 274,768 653,514

Taxes payable 3,809,437 3,585,237

Contingent

liability 0 (149,428)

Net cash provided

by operating

activities 50,300,987 20,020,039

CASH FLOWS FROM INVESTING ACTIVITIES:

Cash acquired through

acquisition 11,946,933 0

Proceeds from dividend

receivable 384,087 0

Payments made for

acquisition (10,373,854) 0

Payments made for

unconsolidated affiliate (3,225,420) (3,171,300)

Purchase of plant and

equipment (1,873,371) (4,033,667)

Additions to intangible

assets (2,106,203) (83,259)

Proceeds from sale of

equipment 36,771 73,641

Prepayments for potential

acquisition 0 (14,181,800)

Refunds of advances on non-

current assets 1,174,346 0

Advances on non-current

assets (2,823,743) (270,119)

Net cash provided

by investing

activities (6,860,454) (21,666,504)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from notes payable 19,246 28,830

Proceeds from warrants

conversion 3,649,770 0

Proceeds from stock option

exercised 350,000 0

Proceeds from issuance of

convertible notes 8,967,516 0

Repayments of former

shareholders loan in

acquiring company (2,841,302) 0

Proceeds from short term

loans - bank 13,517,442 0

Payments on short term

loans - bank (18,355,572) (720,750)

Repayment of non-

controlling shareholder

loan (772,803) 0

Proceeds from long term

loan-bank 0 5,766,000

Distribution paid to

noncontrolling interest

shareholders (2,969,372) (288,300)

Net cash provided

by financing

activities 1,564,925 4,785,780

EFFECTS OF EXCHANGE RATE CHANGE IN

CASH 23,877 665,268

INCREASE IN CASH 45,029,335 3,804,583

CASH and CASH EQUIVALENTS, beginning

of year 8,814,616 5,010,033

CASH and CASH EQUIVALENTS, end of

year \$53,843,951 \$8,814,616

SUPPLEMENTAL DISCLOSURE OF CASH FLOW

INFORMATION

Income taxes paid \$8,021,981 \$1,523,867

Interest paid (net of

capitalized interest) \$1,131,271 \$108,170

Non-cash investing and

financing activities:

Unpaid investment in

unconsolidated

affiliate \$0 \$3,218,565

Reclassification of

warrant liability to

paid-in capital upon

warrants conversion \$6,306,275 \$0

Convertible notes

exercised \$2,187,330 \$0

Distribution paid by

offsetting accounts

receivable - related

party \$944,036 \$0

Distribution paid in

exchange of holder of

noncontrolling

interest loan \$3,665,250 \$0

Distribution paid by

offsetting loan and

interest due from

holder of

noncontrolling

interest \$4,647,924 \$0

Net assets acquired

with prepayments made

in prior periods \$14,250,492 \$78,905

Net assets acquired

with unpaid investment \$2,850,098 \$0

Plant and equipment

acquired with

prepayments made in

prior periods \$2,296,113 \$0

Land use right acquired

with prepayments made

in prior periods \$146,610 \$0

For more information, please contact:

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