

China Biologic Products, Inc.  
Form 10-Q  
August 13, 2010

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

**FORM 10-Q**

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

For the quarterly period ended: June 30, 2010

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

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

Commission File Number: 001-34566

**CHINA BIOLOGIC PRODUCTS, INC.**

(Name of Small Business Issuer in Its Charter)

**DELAWARE**

(State or other jurisdiction of incorporation or  
organization)

**75-2308816**

(I.R.S. Employer Identification No.)

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

**(+86) 538-620-2306**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares outstanding of each of the issuer's classes of common equity, as of August 9, 2010 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.0001 par value	23,513,533

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**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

**CHINA BIOLOGIC PRODUCTS, INC.**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
AS OF JUNE 30, 2010 and DECEMBER 31, 2009

ASSETS

	June 30, 2010 (Unaudited)	December 31, 2009
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 56,263,131	\$ 53,843,951
Accounts receivable, net of allowance for doubtful accounts of \$1,253,975 and \$1,254,955 as of June 30, 2010 and December 31, 2009, respectively	5,658,429	1,767,076
Accounts receivable - related party	229,817	222,617
Other receivables	2,291,010	2,186,441
Inventories, net of allowance for obsolete of \$742,269 and \$519,333 as of June 30, 2010 and December 31, 2009, respectively	41,434,786	35,132,724
Prepayments and deferred expense	1,848,327	1,299,125
Deferred tax assets	1,119,908	1,053,771
Total current assets	108,845,408	95,505,705
<b>PLANT AND EQUIPMENT, net</b>		
	35,598,253	28,873,413
<b>OTHER ASSETS:</b>		
Investment in unconsolidated affiliate	7,001,553	6,627,355
Prepayments - non-current	2,637,092	3,223,960
Intangible assets, net	19,988,081	21,180,322
Goodwill	12,425,589	12,425,589
Total other assets	42,052,315	43,457,226
<b>Total assets</b>	<b>\$ 186,495,976</b>	<b>\$ 167,836,344</b>

LIABILITIES AND EQUITY

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 3,268,413	\$ 3,701,843
Notes payable	-	48,598
Short term loans - bank	5,965,650	4,474,350
Short term loans - holder of noncontrolling interest	-	3,652,500
Other payables and accrued liabilities	20,592,061	19,246,814
Other payable - related parties	3,100,153	3,087,527
Accrued interest - holder of noncontrolling interest	-	2,068,526
Customer deposits	4,051,003	3,868,577
Taxes payable	7,509,571	8,774,079
Investment payable	78,800	2,195,365
Current maturities of notes payable, net of discount of \$7,112,409 as of June 30, 2010	387,591	-
Total current liabilities	44,953,242	51,118,179
<b>OTHER LIABILITIES:</b>		
Other payable - land use right	324,265	323,687
Derivative liability - conversion option	13,522,842	19,960,145

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Fair value of derivative instruments	8,658,837	12,701,262
Notes payable, net of discount of \$8,464,380 as of December 31, 2009	-	89,760
Total other liabilities	22,505,944	33,074,854
Total liabilities	67,459,186	84,193,033
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Common stock, \$0.0001 par value, 100,000,000 shares authorized, 23,513,533 and 23,056,442 shares issued and outstanding at June 30 ,2010 and December 31, 2009, respectively	2,351	2,305
Additional paid-in-capital	28,070,754	22,517,077
Statutory reserves	23,233,527	17,414,769
Retained earnings	22,967,030	5,302,605
Accumulated other comprehensive income	4,520,744	4,227,394
Total shareholders' equity	78,794,406	49,464,150
NONCONTROLLING INTEREST	40,242,384	34,179,161
Total equity	119,036,790	83,643,311
Total liabilities and equity	\$ 186,495,976	\$ 167,836,344

The accompanying notes are an integral part of these consolidated statements.

## CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
<b>REVENUES:</b>				
Revenues	\$ 40,580,807	\$ 33,030,868	\$ 67,442,329	\$ 53,936,737
Revenues - related party	327,509	150,677	564,540	393,406
Total revenues	40,908,316	33,181,545	68,006,869	54,330,143
<b>COST OF REVENUES:</b>				
Cost of revenues	9,058,906	9,161,765	15,857,760	15,376,695
GROSS PROFIT	31,849,410	24,019,780	52,149,109	38,953,448
<b>OPERATING EXPENSES:</b>				
Selling expenses	1,856,881	1,114,614	2,799,789	1,694,110
General and administrative expenses	5,905,950	6,004,802	10,868,202	9,827,709
Research and development expenses	1,317,483	367,856	2,486,138	835,583
Total operating expenses	9,080,314	7,487,272	16,154,129	12,357,402
INCOME FROM OPERATIONS	22,769,096	16,532,508	35,994,980	26,596,046
<b>OTHER (INCOME) EXPENSE :</b>				
Equity in loss (income) of unconsolidated affiliate	(157,114)	90,390	(345,655)	50,143
Change in fair value of derivative liabilities	(2,270,829)	1,295,732	(6,104,406)	1,688,755
Interest expense, net	439,005	883,914	620,058	1,254,767
Other income - related party	(449)	-	(914,738)	-
Other expense, net	102,914	(16,005)	197,234	35,310
Total other (income) expense, net	(1,886,473)	2,254,031	(6,547,507)	3,028,975
INCOME BEFORE PROVISION FOR INCOME TAXES AND NONCONTROLLING INTEREST	24,655,569	14,278,477	42,542,487	23,567,071
PROVISION FOR INCOME TAXES	5,086,881	2,982,101	8,282,947	5,012,295
NET INCOME	19,568,688	11,296,376	34,259,540	18,554,776
Less: Net income attributable to noncontrolling interest	6,691,145	4,325,631	10,776,357	7,325,713
NET INCOME ATTRIBUTABLE TO CONTROLLING INTEREST	12,877,543	6,970,745	23,483,183	11,229,063
<b>OTHER COMPREHENSIVE INCOME:</b>				
Foreign currency translation adjustments	274,049	(1,250)	293,350	17,387
Comprehensive (income) loss attributable to noncontrolling interest	162,723	(33,362)	138,768	393,940
COMPREHENSIVE INCOME	\$ 13,314,315	\$ 6,936,133	\$ 23,915,301	\$ 11,640,390

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**BASIC EARNINGS PER SHARE:**

Weighted average number of shares	23,511,435	21,442,909	23,449,508	21,438,948
Earnings per share	\$ 0.55	\$ 0.33	\$ 1.00	\$ 0.52

**DILUTED EARNINGS PER SHARE:**

Weighted average number of shares	26,599,255	21,811,473	26,541,685	21,527,509
Earnings per share	\$ 0.49	\$ 0.32	\$ 0.90	\$ 0.52

The accompanying notes are an integral part of these consolidated statements.



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CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common stock		Additional	Retained earnings		Accumulated
	Shares	Par value	Paid-in capital	Statutory reserves	Unrestricted	other comprehensive income
BALANCE, December 31, 2008	21,434,942	\$ 2,143	\$ 10,700,032	\$ 6,989,801	\$ 15,392,253	\$ 4,1
Cumulative effect of reclassification of warrants			(738,449)		(929,577)	
Stock based compensation			54,967			
Issuance of common stock upon exercise of warrants	40,000	4	238,705			
Net income					11,229,063	
Dividend declared to noncontrolling interest						
Noncontrolling interest acquired from acquisition						
Adjustment to statutory reserve				4,748,201	(4,748,201)	
Foreign currency translation adjustments						
BALANCE, June 30, 2009 (unaudited)	21,474,942	\$ 2,147	\$ 10,255,255	\$ 11,738,002	\$ 20,943,538	\$ 4,1
Stock based compensation			7,314			
Issuance of common stock upon exercise of warrants	1,244,000	124	9,717,212			
Issuance of common stock upon conversion of convertible notes	250,000	25	2,187,305			
Stock option exercised	87,500	9	349,991			
Net income					(9,964,166)	
Dividend declared to noncontrolling interest						
Adjustment to statutory reserve				5,676,767	(5,676,767)	
Foreign currency translation adjustments						
BALANCE, December 31, 2009	23,056,442	\$ 2,305	\$ 22,517,077	\$ 17,414,769	\$ 5,302,605	\$ 4,2
Stock based compensation			617,841			
Issuance of common stock upon exercise of warrants	180,826	18	2,436,907			
Issuance of common stock upon conversion of convertible notes	263,535	27	2,498,930			
Stock option exercised	12,730	1	(1)			
Net income					23,483,183	
Dividend declared to noncontrolling interest						
Adjustment to statutory reserve				5,818,758	(5,818,758)	
Noncontrolling interest transfer per equity transferred in Fangcheng						
Foreign currency translation adjustments						2
BALANCE, June 30, 2010 (unaudited)	23,513,533	\$ 2,351	\$ 28,070,754	\$ 23,233,527	\$ 22,967,030	\$ 4,5

The accompanying notes are an integral part of these consolidated statements.

## CHINA BIOLOGIC PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009  
(Unaudited)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income attributable to controlling interest	\$ 23,483,183	\$ 11,229,063
Net income attributable to noncontrolling interest	10,776,357	7,325,713
Consolidated net income	34,259,540	18,554,776
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	1,670,321	1,589,625
Amortization	1,740,659	1,704,248
(Gain) Loss on disposal of equipment	3,020	(506)
Recovery of bad debt previously reserved	(8,973)	(22,311)
Allowance for bad debt - other receivables and prepayment	432,895	406,736
Allowance for obsolete inventories	219,897	-
Deferred tax assets	(61,571)	-
Stock based compensation	617,841	54,967
Change in fair value of derivative liabilities	(6,104,406)	1,688,755
Amortization of deferred note issuance cost	171,667	25,323
Amortization of discount on convertible notes	312,259	20,356
Equity in (income) loss of unconsolidated affiliate	(345,655)	50,143
Change in operating assets and liabilities:		
Accounts receivable	(3,861,953)	(676,036)
Accounts receivable - related party	(6,264)	(375,810)
Other receivables	(95,231)	(23,082)
Inventories	(6,351,255)	(4,130,960)
Prepayments and deferred expenses	(849,198)	(750,937)
Accounts payable	(446,713)	(50,767)
Other payables and accrued liabilities	1,252,134	4,594,379
Accrued interest - holder of noncontrolling interest	(2,068,526)	911,084
Customer deposits	169,398	4,251,476
Taxes payable	(1,294,805)	608,063
Net cash provided by operating activities	19,355,081	28,429,522
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash acquired through acquisition	-	11,943,673
Payments made for acquisition	(4,022,288)	(10,373,854)
Purchase of plant and equipment	(6,154,212)	(1,865,746)
Additions to intangible assets	(87,769)	(1,014,766)
Advances on non-current assets	(471,667)	(590,428)
Net cash used in investing activities	(10,735,936)	(1,901,121)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from warrants conversion	689,160	113,700
Proceeds from issuance of convertible notes	-	8,971,337
Repayments of former shareholders loan in acquiring company	-	(2,652,737)
Proceeds from short term loans - bank	5,867,600	13,513,754
Payments on short term loans - bank	(4,400,700)	-

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Payments on long term loan - bank	-	(5,862,800)
Repayments of non-controlling shareholder loan	(3,652,500)	-
Payments on notes payables	(48,595)	-
Distribution paid to noncontrolling interest shareholders	(4,864,240)	-
Net cash (used in) provided by financing activities	(6,409,275)	14,083,254
EFFECTS OF EXCHANGE RATE CHANGE IN CASH	209,310	52,750
INCREASE IN CASH	2,419,180	40,664,405
CASH and CASH EQUIVALENTS, beginning of periods	53,843,951	8,814,616
CASH and CASH EQUIVALENTS, end of periods	\$ 56,263,131	\$ 49,479,021
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	\$ 9,500,399	\$ 4,351,056
Interest paid	\$ 161,684	\$ 715,158
Non-cash investing and financing activities:		
Reclassification of derivative liability to equity related to conversion of convertible notes	\$ 2,498,957	\$ -
Reclassification of derivative liability to equity related to exercise of warrants	\$ 1,747,765	\$ 125,009
Distribution paid in exchange of holder of noncontrolling interest loan	\$ -	\$ 3,736,773
Distribution paid by offsetting accounts receivable - related party	\$ -	\$ 3,720,649
Net assets addition with unpaid commitment	\$ -	\$ 2,849,321
Intangible assets acquired with prepayments made in prior periods	\$ 440,070	\$ -
Plant and equipment acquired with prepayments made in prior periods	\$ 629,166	\$ 14,290,227
The accompanying notes are an integral part of these consolidated statements.		

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CHINA BIOLOGIC PRODUCTS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010  
(Unaudited)

**Note 1 Organization background and principal activities**

**Principal Activities and Reorganization**

China Biologic Products, Inc. (the Company or CBP) was originally incorporated in 1992 under the laws of the state of Texas. After it completed the acquisition with Logic Express Limited, it converted to a Delaware corporation. The Company through its direct and indirect subsidiaries is principally engaged in the research, development, commercialization, manufacture and sale of human blood products to customers in the People's Republic of China (the PRC) and to some extent in India.

***Current Development***

**Dalin Acquisition and Entrustment Agreement**

Logic Express Ltd. (Logic Express), CBP's wholly owned subsidiary, through Logic Holdings(Hong Kong) Ltd. (Logic Holdings) completed the acquisition of 90% interest in Guiyang Dalin Biologic Technologies Co. Ltd. (Dalin), previously known as Chongqing Dalin Biologic Technologies Co. Ltd., in April 2009 upon payment of 90% of the total purchase price of approximately RMB 194,400,000 (\$28,479,600). The Company is obligated to pay the remaining 10% of the purchase price, RMB 19,440,000 (approximately \$2,847,960), on or before April 9, 2010, the one-year anniversary of the local Administration for Industry and Commerce's approval of the equity transfer. On April 9, 2010, the Company paid the final 10% of the total purchase price according to the equity transfer agreement.

In accordance with the terms of the equity transfer agreement, Logic Holdings effectively became a 90% shareholder in Dalin, including the right to receive its pro rata share of the profits on January 1, 2009.

On April 6, 2009, Logic Express entered into an equity transfer and entrustment agreement, or Entrustment Agreement, among Logic Express, Shandong Taibang Biological Products Co. Ltd (Shandong Taibang), and the Shandong Institute of Biological Products (the Shandong Institute), the holder of the minority interests in Shandong Taibang, pursuant to which, Logic Express agreed to permit Shandong Taibang and the Shandong Institute to participate in the indirect purchase of Qianfeng's equity interests. Under the terms of the Entrustment Agreement, Shandong Taibang agreed to contribute 18% or RMB 35,000,000 (approximately \$5,116,184) of the Dalin purchase price and the Shandong Institute agreed to contribute 12.86% or RMB 25,000,000 (approximately \$3,654,917) of the Dalin purchase price. Logic Express is obligated to repay to Shandong Taibang and the Shandong Institute their respective investment amounts on or before April 6th, 2010, along with their pro rata share, based on their percentage of the Dalin purchase price contributed, of any distribution on the indirect equity investment in Qianfeng payable to Logic Express during 2009. On April 12, 2010, the Company fully paid Shandong Institute and Shandong Taibang on the respective investment amounts, as well as the interest, according to the Entrustment Agreement, as described in more detail in Note 3 below.

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June 30, 2010  
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Formation of PRC Subsidiary

On December 21, 2009, the Company established Logic Management and Consulting (China) Co., Ltd. ( Logic China ), wholly-owned by the Hong Kong subsidiary, for the purpose of being a holding company for the majority interest in Dalin and to facilitate our Chinese operation at the holding company level. On December 28, 2009, the Company transferred the 90% equity interest in Guiyang Dalin from Logic Holding to Logic China to better situate the Company in PRC operations.

Acquisition of 20% of equity interest in Fangcheng Plasma Co.

On January 13, 2010, the 20% title of Fangcheng Plasma Company was transferred from former non-controlling interest to Taibang, who is now the 100% owner of Fangcheng Plasma Company.

Acquisition of Ziguang Bio-Technology Co.

On January 22, 2010, Shandong Taibang entered into an Equity Transfer Agreement with Yuncheng Ziguang Biotechnology Co., Ltd. which is located in Yuncheng, Shandong Province. Under the terms of the Equity Transfer Agreement, Shandong Taibang agreed to purchase 100% of Yuncheng Ziguang s equity interest at a purchase price of RMB 10,066,672 (approximately \$1,476,781), which was paid on February 24, 2010. The purpose of this acquisition is for relocation of Shandong Taibang s Yang Gu Plasma Company into the facility of Yuncheng Ziguang. Currently, Yuncheng Ziguang has no operation and is under the construction for such purpose.

**Note 2 Summary of significant accounting policies**

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Company s functional currency is the Chinese Renminbi ( RMB ); however, the Company s reporting currency is the United States Dollar ( USD ); therefore, the accompanying consolidated financial statements have been translated and presented in USD. All material inter-company transactions and balances have been eliminated in the consolidation.

While management has included all normal recurring adjustments considered necessary to give a fair presentation of the operating results for the periods presented, interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the 2009 annual report filed on Form 10-K.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. For example, management estimates the fair value of stock based compensation, potential losses on outstanding receivables and slow-moving inventories, impairment loss of long-lived assets, allocation of plasma production cost, as well as bonus accruals for year end management bonus. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ

from these estimates.

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June 30, 2010  
(Unaudited)

Foreign Currency Translation

The reporting currency of the Company is the US dollar. The Company's functional currency is the Chinese Renminbi ( RMB ), also the local currency of the Company's principal operating subsidiaries. Results of operations and cash flows are translated at average exchange rates during the period. Assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China at the end of the period. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the consolidated statements of changes in equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

In accordance with Financial Accounting Standards Board's (FASB) accounting standard, cash flows from the Company's operations is calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the consolidated statement of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheet.

The consolidated balance sheet amounts, with the exception of equity, at June 30, 2010 and December 31, 2009 were translated at RMB 6.79 to \$1.00 and RMB 6.82 to \$1.00, respectively. The equity accounts were stated at their historical rate. The average translation rates applied to consolidated statements of income for the three months ended June 30, 2010 and 2009 were RMB 6.82 and RMB 6.82 to \$1.00, respectively. The average translation rates applied to consolidated statements of income and cash flow for the six months ended June 30, 2010 and 2009 were RMB 6.82 and RMB 6.82 to \$1.00, respectively.

Revenue Recognition

The Company recognizes revenue when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable, which are generally considered to be met upon delivery and acceptance of products at the customer site. Sales are presented net of any discounts given to customers. As a policy, the Company does not accept any product returns and based on the Company's records, product returns, if any, are immaterial. Sales revenue represents the invoiced value of goods, net of a value-added tax ( VAT ).

The Company's revenues are primarily derived from the manufacture and sale of human blood products. The Company's revenues by significant types of product for the three and six months ended June 30, 2010 and 2009 are as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010  
(Unaudited)

	Three months ended June 30,				Six months ended June 30,			
	(Unaudited)				(Unaudited)			
	2010		2009		2010		2009	
Human Albumin 20%/10% in 10ml, 25ml and 50ml	\$	18,989,767	\$	15,741,932	\$	31,689,174	\$	28,093,631
Human Hepatitis B Immunoglobulin		2,839,125		1,234,060		6,171,432		1,294,159
Human Immunoglobulin for Intravenous Injection		16,095,707		14,163,778		21,491,172		19,536,280
Human Rabies Immunoglobulin		1,326,275		926,240		5,104,397		2,555,251
Human Tetanus Immunoglobulin		1,168,355		342,924		1,855,670		1,372,610
Human Immunoglobulin		200,531		322,063		850,504		535,940
Others		288,556		450,548		844,520		942,272
Totals	\$	40,908,316	\$	33,181,545	\$	68,006,869	\$	54,330,143

The Company is engaged in sale of human blood products to customers in China and India. The amount sold in India was less than 10% of total sales for the three and six months ended June 30, 2010 and June 30, 2009, respectively.

#### Shipping and Handling

Shipping and handling costs related to costs of goods sold are included in selling expenses and totaled \$90,388 and \$79,611 for the three months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010 and 2009, costs totaled \$158,823 and \$123,791, respectively.

#### Financial Instruments

On January 1, 2008, the Company adopted FASB's accounting standard related to fair value measurements and began recording financial assets and liabilities subject to recurring fair value measurement at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. These fair value principles prioritize valuation inputs across three broad levels. Receivables, payables, short and long term loans, and derivative liabilities qualify as financial instruments. Management concluded the carrying values of the receivables, payables and short term loans approximate their fair values because of the short period of time between the origination of such instruments and their expected realization, and if applicable, their stated rates of interest are equivalent to interest rates currently available. The fair values of the long term debt and derivative liabilities are measured pursuant to the three levels defined by the FASB's accounting standard as follow:

- Level 1: inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3: inputs to the valuation methodology are unobservable and significant to the fair value.



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As required by FASB's accounting standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Depending on the product and the terms of the transaction, the fair value of the derivative liabilities were modeled using a series of techniques, including closed-form analytic formula, such as the Black-Scholes Option Pricing Model, which does not entail material subjectivity because the methodology employed does not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets. Derivative liabilities related to warrants issued by the Company and the liability related to derivative instruments (including the conversion option) embedded in the Company's Senior Secured Convertible Notes are carried at fair value, with changes in the fair value charged or credited to income. The fair values are determined using the Black-Scholes Model or a binomial model, defined in FASB's accounting standard related to fair value measurements as level 2 inputs.

	Carrying Value as of June 30, 2010 (Unaudited)		Fair Value Measurements at June 30, 2010 using Fair Value Hierarchy (Unaudited)		
			Level 1	Level 2	Level 3
Derivative liabilities-Conversion option	\$ 13,522,842	\$ -	\$ 13,522,842	\$ -	
Warrants liabilities	\$ 8,658,837	\$ -	\$ 8,658,837	\$ -	

The assumptions used in calculating the fair value of the derivative liabilities as of June 30, 2010 using the Black-Scholes option pricing model are as follows:

	Conversion Options	Warrants
Expected dividend yield	0%	0%
Risk-free interest rate	0.32%	0.60%
Expected life (in years)	0.93	1.95
Weighted average expected volatility	80%	120%

The Company did not identify any other assets or liabilities that are required to be presented on the balance sheet at fair value in accordance with FASB's accounting standard.

### Concentration Risks

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

The Company maintains balances at financial institutions which, from time to time, may exceed Federal Deposit Insurance Corporation insured limits for the banks located in the United States or may exceed Hong Kong Deposit Protection Board insured limits for the banks located in Hong Kong. Balances at financial institutions or state-owned banks within the PRC are not covered by insurance. Total cash in banks as of June 30, 2010 and December 31, 2009 amounted to \$56,118,364 and \$53,576,495, respectively, \$570,424 and \$1,009,053 of which are covered by insurance, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts.



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The Company's major product, human albumin: 20%/10ml, 20%/25ml, 20%/50ml, 10%/10ml, 10%/25ml and 10%/50ml, accounted for 46.4% and 47.4% of the total revenues for the three months ended June 30, 2010 and 2009, respectively, and 46.6% and 51.7% of total revenues for the six months ended June 30, 2010 and 2009, respectively. If the market demands for human albumin cannot be sustained in the future or if the price of human albumin decreases, it would adversely affect the Company's operating results.

All of the Company's customers are located in the PRC and India. As of June 30, 2010 and 2009, the Company had no significant concentration of credit risk. There were no customers that individually comprised 10% or more of the revenue during the three and six months ended June 30, 2010 and 2009. Only one customer represented more than 10% of trade receivables at June 30, 2010 and no individual customer represented more than 10% of trade receivables at December 31, 2009. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

There were one and two vendors that individually comprised 10% or more of the purchase during the three and six months ended June 30, 2010 and no vendor that individually comprised 10% or more of the purchase during the same period in 2009. There were one individual vendors represented more than 10% of accounts payables at June 30, 2010 and none individual vendors represented more than 10% of accounts payables at December 31, 2009.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits in accounts maintained with state-owned banks within the PRC, Hong Kong and the United States. The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

#### Accounts Receivable

During the normal course of business, the Company extends unsecured credit to its customers. Management reviews its accounts receivable on a regular basis to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Account balances are written-off after management has exhausted all efforts of collection.

#### Inventories

Inventories are stated at the lower of cost or market using the weighted average method. The cost of major raw materials (plasma) used in the production are being allocated based on the management's estimation of historical yields and market value from the annual production for each different products. The cost of finished goods included direct costs of raw materials as well as direct labor used in production. Indirect production costs such as utilities and indirect labor related to production such as assembling, shipping and handling for raw material costs are also included in the cost of inventories.

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The Company reviews its inventory periodically for possible obsolete goods and cost in excess of net realizable value to determine if any reserves are necessary. As of June 30, 2010 and December 31, 2009, the Company reserved \$742,269 and \$519,333, respectively, as allowance for obsolete inventory for raw material plasma that may not qualify for production due to the 90-day quarantine period rules implemented by State Food and Drug Administration ("SFDA") on July 1, 2008.

Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with 5% residual value.

Estimated useful lives of the assets are as follows:

	Estimated Useful Life
Buildings and improvement	30 years
Machinery and equipment	10 years
Furniture, fixtures ,office equipment and vehicle	5-10 years

Construction in progress represents the costs incurred in connection with the construction of buildings, new additions, and capitalized interest incurred in connection with the Company's plant facilities. In accordance with the provisions of FASB's accounting standard related to capitalization of interest, interest incurred on borrowings is capitalized to the extent that borrowings do not exceed construction in progress. The credit is a reduction of interest expense. No depreciation is provided for construction in progress until such time as the assets are completed and placed into service. Maintenance, repairs and minor renewals are charged directly to expenses as incurred. Major additions and betterment to property and equipment are capitalized.

The Company periodically evaluates the carrying value of long-lived assets in accordance with FASB's accounting standard related to accounting for impairment and disposal of long-lived assets. When estimated cash flows generated by those assets are less than the carrying amounts of the asset, the Company recognizes an impairment loss. Based on its review, the Company believes that, as of June 30, 2010 and December 31, 2009, there were no impairments of its long-lived assets.

Investment in Unconsolidated Affiliate

Equity method investments are recorded at original cost and adjusted to recognize the Company's proportionate share of the investee's net income or losses and additional contributions made and distributions received. The Company recognizes a loss if it is determined that other than temporary decline in the value of the investment exists. Subsidiary 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 considered 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, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. The Company accounts for investments with ownership less than 20% using cost method.



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Intangible Assets

Intangible assets are stated at cost (estimated fair value upon contribution or acquisition), less accumulated amortization. Amortization expense is recognized on the straight-line basis over the estimated useful lives of the assets as follows:

Intangible assets	Estimated useful lives
Land use rights	39-50 years
Permits and licenses	5-10 years
Blood donor network	10 years
Software	3.8 years
Good Manufacturing Practice certificate	5-10 years
Long-term customer-relationship intangible assets	4 years

All land in the PRC is owned by the government; however, the government grants land use rights. The Company has obtained rights to use most parcels of land for 50 years, and several parcels of land in entity Qianfeng for 39 years. The Company amortizes the cost of the land use rights over their useful life using the straight-line method.

Other intangible assets represent permits, licenses, blood donor network, software, Good Manufacturing Practice ( GMP ) certificate and long-term customer-relationship intangible assets. The Company amortized the cost of these intangible assets over their useful life using the straight-line method.

Intangible assets of the Company are reviewed at least annually or more often if circumstances dictate, to determine whether their carrying value has become impaired. The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations. The Company also re-evaluates the years of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of June 30, 2010, the Company expects these assets to be fully recoverable.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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Customer Deposits

Payments received before all of the relevant criteria for revenue recognition are recorded as customer deposits.

Research and Development Costs

Research and development costs composed of salary, material used and other expense as incurred.

Material used for the production of our new products that are pending for the approval from SFDA to validate for production are recorded in research and development expenses.

Retirement and Other Post Retirement Benefits

Contributions to retirement schemes (which are defined contribution plans) are charged to the statement of operations as and when the related employee service is provided.

Product Liability

The Company's products are covered by two product liability insurance of approximately \$2,934,000 (RMB 20,000,000) each for Shandong Taibang and Qianfeng. As of June 30, 2010 and December 31, 2009, no claim on the insurance policy was filed. However, there is one pre-existing potential claim against Qianfeng's products outstanding, which are still pending and the Company believes to be immaterial to the consolidated financial statements for the period ended June 30, 2010.

Income Taxes

The Company reports income taxes pursuant to FASB's accounting standard for income taxes. Under the asset and liability method of accounting for income taxes as required by this accounting standard, deferred income tax liabilities and assets are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. FASB's accounting standard for accounting for uncertainty in income taxes requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

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Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated using tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it is related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they related to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Provision for income taxes consist of taxes currently due plus deferred taxes. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the year incurred. No significant penalties or interest relating to income taxes have been incurred during the three and six months ended June 30, 2010 and 2009. GAAP also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

#### Value Added Tax

Enterprises or individuals, who sell products, engage in repair and maintenance or import and export goods in the PRC are subject to a VAT in accordance with Chinese laws. The VAT rate applicable to the Company is 6% of the gross sales price. Products distributed by Shandong Medical are subjected to a 17% VAT. No credit is available for VAT paid on purchases of raw material, and immaterial Credit is applied for VAT paid on supplies purchase.

#### Stock-based Compensation

The Company accounts and reports stock-based compensation pursuant to FASB's accounting standard related to accounting for stock-based compensation which defines a fair-value-based method of accounting for stock based employee compensation and transactions in which an entity issues its equity instruments to acquire goods and services from non-employees. Stock compensation for stock granted to non-employees has been determined in accordance with this standard as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured.



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Noncontrolling Interest

Effective January 1, 2009, the Company adopted FASB's accounting standard regarding non-controlling interest in consolidated financial statements. Certain provisions of this statement are required to be adopted retrospectively for all periods presented. Such provisions include a requirement that the carrying value of noncontrolling interests (previously referred to as minority interests) be removed from the mezzanine section of the balance sheet and reclassified as equity.

Further, as a result of adoption this accounting standard, net income attributable to noncontrolling interests is now excluded from the determination of consolidated net income.

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Recently Issued Accounting Pronouncements

In January 2010, FASB issued ASU No. 2010-01- Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company adopted this standard and the adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 Accounting and Reporting for Decreases in Ownership of a Subsidiary a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements An Amendment of ARB No. 51. If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The Company adopted this standard and the adoption of this standard did not have material effect on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.



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In February 2010, the FASB issued Accounting Standards Update 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements, or ASU 2010-09. ASU 2010-09 primarily rescinds the requirement that, for listed companies, financial statements clearly disclose the date through which subsequent events have been evaluated. Subsequent events must still be evaluated through the date of financial statement issuance; however, the disclosure requirement has been removed to avoid conflicts with other SEC guidelines. ASU 2010-09 was effective immediately upon issuance and was adopted in February 2010.

In April 2010, the FASB issued Accounting Standards Update 2010-13, Compensation Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades, or ASU 2010-13. This Update provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial porting of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company does not expect the adoption of ASU 2010-17 to have a significant impact on its consolidated financial statements.

In April 2010, the FASB issued Accounting Standard Update 2010-17, Revenue Recognition Milestone Method (Topic 605): Milestone Method of Revenue Recognition or ASU 2010-17. This Update provides guidance on the recognition of revenue under the milestone method, which allows a vendor to adopt an accounting policy to recognize all of the arrangement consideration that is contingent on the achievement of a substantive milestone (milestone consideration) in the period the milestone is achieved. The pronouncement is effective on a prospective basis for milestones achieved in fiscal years and interim periods within those years, beginning on or after June 15, 2010. Adoption of ASU 2010-17 does not have any significant impacts on its consolidated financial statements.

#### Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications have no effect on net income or cash flows.

#### **Note 3 Related party transactions**

The material related party transactions undertaken by the Company with related parties as of June 30, 2010 and December 31, 2009 are presented as follows:

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Assets		Purpose	June 30, 2010 (unaudited)	December 31, 2009
Accounts receivable	related party <sup>(1)</sup>	Processing fees	\$ 229,817	\$ 222,617
Liabilities		Purpose	June 30, 2010 (unaudited)	December 31, 2009
Short term loans	holder of noncontrolling interest <sup>(2)</sup>	Loan	\$ -	\$ 3,652,500
Accrued interest	holder of noncontrolling interest <sup>(2)</sup>	Interest payable	\$ -	\$ 2,068,526
Other payable	related parties <sup>(3)</sup>	Loan	\$ 2,131,455	\$ 2,122,772
Other payable	related parties <sup>(4)</sup>	Contribution	968,109	964,168
Distribution payable to noncontrolling interest		Distribution	589	587
Total other payable	related parties		\$ 3,100,153	\$ 3,087,527

(1) Qianfeng provides processing services for Guizhou Eakan, one of the Qianfeng's non-controlling shareholders. The Company's total processing services income amounted to \$125,628 and \$150,677 for the three months period ended June 30, 2010 and 2009, respectively. The Company's total processing services income amounted to \$362,659 and \$393,406 for the six months period ended June 30, 2010 and 2009, respectively. Starting from second quarter of 2010, Qianfeng changed the business model from processing service to full manufacturing, which includes raw material procurement, and selling of finished goods to Guizhou Eakan. The Company's sales income amounted to \$201,881 for the three and six-month period ended June 30, 2010. As of June 30, 2010 and December 31, 2009, accounts receivable due from Guizhou Eakan amounted to \$229,817 and \$222,617, respectively. The outstanding balance as of June 30, 2010 has been paid in cash in July 2010.

(2) On April 6, 2009, Logic Express entered into an equity transfer and entrustment agreement, or Entrustment Agreement, among Logic Express, Shandong Taibang, and the Shandong Institute of Biological Products, or the Shandong Institute, the holder of the noncontrolling interests in Shandong Taibang, pursuant to which, Logic Express agreed to permit Shandong Taibang and the Shandong Institute to participate in the indirect purchase of Qianfeng's equity interests. Under the terms of the Entrustment Agreement, Shandong Institute agreed to contribute 12.86% or \$3,652,500 (RMB 25,000,000) of the Dalin purchase price. Logic express is obligated to repay to the Shandong Institute their investment amount on or before April 6th, 2010, along with their pro rata share, based on their percentage of the Dalin purchase price contributed, of any distribution on the indirect equity investment in Qianfeng payable to Logic Express during 2009. As of June 30, 2010, the Company was able to settle the interest liability with Shandong Institute for \$913,839 less than the Company's previous estimation and resulted in an other non-operating income of \$913,839. On April 12, 2010, the Company fully paid the Shandong Institute and Shandong Taibang on the respective investment amounts, as well as the interest, according the Entrustment Agreement. The interest paid to the Shandong Institute is approximately \$1,154,687 final interest settlement plus additional interest of \$135,541 for the six days from April 6, 2010 to April 12, 2010.

(3) Qianfeng has payables to Guizhou Eakan Investing Corp. in the amount of approximately \$2,131,455 (RMB14,470,160). Guizhou Eakan Investing Corp. is one of the shareholders of Guizhou Eakan, one of the Qianfeng's minority shareholders. The Company borrowed this non-interest bearing amount for working capital purposes. The balance is due on demand in the form of cash.



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<sup>(4)</sup> Qianfeng has payables to Guizhou Jie an, a holder of noncontrolling interest, in amount of approximately \$968,109 (RMB 6,569,840). In 2007, Qianfeng received additional contributions from Guizhou Jie an in the amount of \$962,853 to maintain Jie an ownership interest in the Company at 9%. However, due to legal dispute among Shareholders over Raising Additional Capital as stated in the legal proceeding section, commitment and contingent liabilities, the money may be returned to Jie an. During the second quarter of 2010, Jie an requested Qianfeng to register its 1.8 million shares of additional capital infusion as per Equity Purchase Agreement and was approved by the majority shareholders of Qianfeng in a shareholders meeting held in the second quarter of 2010. However, the request is still waiting for the Company's Board to ratify the validity and the completion of the registration with PRC's local AIC. If such request is granted, Dalin's ownership in Qianfeng will be diluted from 54% to 52.54%.

**Note 4 Accounts receivable**

Trade accounts receivable consist of the following:

	June 30, 2010 (unaudited)	December 31, 2009
Trade accounts receivable	\$ 6,912,404	\$ 3,022,031
Less: Allowance for doubtful accounts	(1,253,975)	(1,254,955)
Total	\$ 5,658,429	\$ 1,767,076

The activity in the allowance for doubtful accounts for trade accounts receivable for the six months ended June 30, 2010 and the year ended December 31, 2009 is as follows:

	June 30, 2010 (unaudited)	December 31, 2009
Beginning allowance for doubtful accounts	\$ 1,254,955	\$ 1,268,052
Additional charged to bad debt expense	2,885	18,737
Recovery of amount previously reserved	(8,973)	(31,826)
Write-off charged against the allowance	-	-
Foreign currency translation adjustment	5,108	(8)
Ending allowance for doubtful accounts	\$ 1,253,975	\$ 1,254,955

**Note 5 Inventories**

Inventories consisted of the following:

	June 30, 2010 (unaudited)	December 31, 2009
Raw materials	\$ 23,419,802	\$ 19,720,420
Work-in-process	10,097,740	8,407,319
Finished goods	8,659,513	7,524,318
Total	42,177,055	35,652,057
Less: Allowance for obsolete inventories	(742,269)	(519,333)
Inventories, net	\$ 41,434,786	\$ 35,132,724





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**Note 6 Other receivables, prepayments and deferred expense**

Other receivables represent deposits the Company paid to suppliers or service providers, as well as receivables from employees amounting to \$2,291,010 and \$2,186,441 as of June 30, 2010 and December 31, 2009, respectively. In 2009, the Shandong Taibang sponsored two separate housing projects with local developers to assist 107 of its employees to purchase apartments to be constructed. Developers required deposits of at least 80% of the total purchase price before the commencement of the project. Employees are required to deposit at least 30% and up to 80% of the total purchase prices and Shandong Taibang advanced \$1,512,583 in total, which represents the difference between the required deposits by the developer and the actual deposits made by the employees, on behalf of the employees to the developer. The advances to the employees are expected to be re-paid within one year.

Prepayments and deferred expense represent partial payments for deposits on material purchases, prepaid leases and prepayment for insurance expenses and amounted to \$1,848,327 and \$1,299,125 as of June 30, 2010 and December 31, 2009, respectively.

Long term prepayments represent partial payments or deposits on plant and equipment and intangible assets purchases and amounted to \$2,637,092 and \$3,223,960 as of June 30, 2010 and December 31, 2009, respectively.

**Note 7 Plant and equipment, net**

Plant and equipment consist of the following:

	June 30, 2010 (unaudited)	December 31, 2009
Buildings and improvements	\$ 20,569,915	\$ 12,901,205
Machinery and equipment	24,582,872	23,428,848
Furniture, fixtures, office equipment and vehicle	4,643,988	3,862,385
Total depreciable assets	49,796,775	40,192,438
Accumulated depreciation	(15,672,645)	(13,953,793)
Plant and equipment, net	34,124,130	26,238,645
Construction in progress	1,474,123	2,634,768
Total	\$ 35,598,253	\$ 28,873,413

Depreciation expense for the three months ended June 30, 2010 and 2009 amounted to \$876,664 and \$830,553, respectively. Depreciation expense for the six months ended June 30, 2010 and 2009 amounted to \$1,670,321 and \$1,589,625, respectively. No interest was capitalized into construction in progress in the six months ended June 30, 2010 and 2009.

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**Note 8 Investment in unconsolidated affiliate**

On October 10, 2008, Shandong Taibang entered into an Equity Transfer Agreement (the "Huitian Agreement") with Mr. Fan Qingchun (the "Transferor"), a PRC citizen holding 35% of the equity interest in Huitian, a PRC limited liability company. Pursuant to the Huitian Agreement, the Transferor agrees to sell to Shandong Taibang, and Shandong Taibang agrees to purchase from the Transferor, 35% equity interest in Huitian for an aggregate purchase price of \$6,502,901 (or RMB 44,327,890) including interest of \$48,101 (RMB 327,890).

Logic Express also entered into an investment entrustment agreement (the "Investment Agreement") with the minority shareholder in Shandong Taibang, Shandong Institute, pursuant to which Logic Express agrees to provide the investment amount for the acquisition and the Shandong Institute agree to entrust Shandong Taibang to acquire the 35% equity interest of Huitian in its name. In exchange Logic Express is also obligated to pay Shandong Taibang approximately \$17,604 (or RMB120,000) per year as consideration for Shandong Taibang's performance under this agreement. Under the Investment Agreement, after the acquisition, Logic Express will be in charge of Huitian's daily operation and management, will bear the costs, expenses, liabilities and losses incurred in its operation, and will enjoy its profits. Shandong Taibang will perform relevant tasks according to Logic Express's instruction, and will not exercise any management right over Huitian or derive any financial return from Huitian. Logic Express agreed to indemnify Shandong Taibang for any loss in connection with the investment and pledged its equity interest in Shandong Taibang as collateral against such losses.

Summarized unaudited financial information of Huitian is as follows:

	June 30, 2010	December 31, 2009
Current assets	\$ 10,031,538	\$ 9,912,775
Non-current assets	10,156,189	10,195,357
Total assets	20,187,727	20,108,132
Current liabilities	3,053,180	4,031,033
Non-current liabilities	309,330	308,070
Shareholders' equity	16,825,217	15,769,029
Total liabilities and shareholders' equity	\$ 20,187,727	\$ 20,108,132

The portion of the difference between the cost of an investment and the amount of underlying equity in net assets of Huitian that is recognized as goodwill shall not be amortized, but instead should continue to be reviewed for impairment in accordance with FASB's accounting standard.

Summarized unaudited financial information of Huitian is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net sales	\$ 2,751,345	\$ 1,812,071	\$ 5,154,096	\$ 2,971,356
Gross profit	1,446,279	659,211	2,781,598	1,048,741
Income before taxes	537,599	(200,080)	1,185,019	(64,799)
Net income (loss)	448,896	(258,255)	987,585	(143,266)
Company's share of net income (loss)	\$ 157,114	\$ (90,390)	\$ 345,655	\$ (50,143)



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The rollforward of investment in Huitian in the balance sheet is shown below:

	Huitian - 35% Ownership
December 31, 2008	\$ -
Investment made	6,533,977
Net income from the year ended December, 2009	566,984
Dividend declared	(473,952)
Foreign currency translation gain	346
December 31, 2009	6,627,355
Net income from the six months ended June 30, 2010	345,655
Dividend declared	-
Foreign currency translation gain	28,543
June 30, 2010 (unaudited)	\$ 7,001,553

**Note 9 Intangible assets, net**

Intangible assets consisted of the following:

	June 30, 2010 (unaudited)	December 31, 2009
Land use rights	\$ 4,649,456	\$ 4,163,140
Permits and licenses	11,272,405	11,261,611
Blood donor network	2,357	2,347
Software	206,828	145,897
GMP certificate	2,327,885	2,327,885
Long-term customer-relationship	6,941,170	6,941,170
Totals	25,400,101	24,842,050
Accumulated amortization	(5,412,020)	(3,661,728)
Intangible assets, net	\$ 19,988,081	\$ 21,180,322

Total amortization expense for the three months ended June 30, 2010 and 2009 amounted to \$871,408 and \$865,789 respectively. Amortization expense for the six months ended June 30, 2010 and 2009 amounted to \$1,740,659 and \$1,704,248, respectively.

The amortization expense related to purchased and other intangible assets due to the consolidation of Dalin is \$793,819 and \$793,278 for the three months ended June 30, 2010 and 2009, respectively. The amortization expense related to purchased and other intangible assets due to the consolidation of Dalin is \$1,587,205 and \$1,585,907 for the six months ended June 30, 2010 and 2009, respectively.

Amortization expense for intangible assets for the next five fiscal years is as follows:

	2011	2012	2013	2014	2015	Thereafter
Amortization expense \$	3,367,396	\$ 3,360,845	\$ 1,596,974	\$ 1,499,243	\$ 1,177,739	\$ 8,985,884

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**Note 10 Debt**

Short term loans and current maturities of long term loan

Short term loans represent renewable loans due to various banks which are normally due within one year.

The Company's bank loans consisted of the following:

Loans	Due by	Annual interest rates	June 30, 2010 (Unaudited)	December 31, 2009
Short term loans:				
Short term bank loan, secured <sup>(1)</sup>	June 1, 2010	5.40%	\$ -	\$ 1,467,000
Short term bank loan, un-secured	January 28, 2011	5.31%	2,946,000	2,934,000
Short term loan, un-secured	On demand	0.00%	73,650	73,350
Short term bank loan, secured <sup>(2)</sup>	March 21, 2011	5.84%	2,946,000	-
Total			\$ 5,965,650	\$ 4,474,350

Interest expense related to the bank loans totaling \$99,398 and \$921,187 were incurred during the three months ended June 30, 2010 and 2009, respectively. Interest expense totaling \$161,684 and \$1,543,636 was incurred during the six months ended June 30, 2010 and 2009, respectively.

<sup>(1)</sup> The loan in the amount of \$1,467,000 as of December 31, 2009 is secured by Shandong Taibang's land use rights and buildings located in Taian, Shandong Province, PRC with the carrying net value as follows:

	December 31, 2009
Buildings in Taian, Shandong	\$ 1,238,010
Land use rights in Taian, Shandong	433,793
Total	\$ 1,671,803

<sup>(2)</sup> The loan in the amount of \$2,946,000 is secured by Qianfeng's buildings located in Guiyang, Guizhou Province, PRC, with carrying net values of RMB 28,933,927 as of June 30, 2010.

Other payables and accruals

Other payables and accruals consist of the following:

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	June 30, 2010 (unaudited)	December 31, 2009
Other payables <sup>(1)</sup>	\$ 8,859,086	\$ 7,465,640
Accruals for promotion costs and others <sup>(2)</sup>	4,573,108	5,281,843
Accruals for salaries and welfare	1,265,973	2,341,874
Accruals for RTO expenses	-	245,657
Accruals for selling commission and promotion fee	2,022,181	691,858
Other Payable - government grant	95,466	143,488
Other payable - deposit received	294,185	160,683
Other payable - funds <sup>(3)</sup>	3,410,812	2,383,501
Accrued interest	71,250	81,264
Others <sup>(4)</sup>	-	451,006
Total	\$ 20,592,061	\$ 19,246,814

- (1) The other payables mainly comprise of deposits by potential strategic investors with the amount of \$7,506,408 (or RMB 50,960,000). As of June 30, 2010, Qianfeng has received in an aggregate amount of \$7,506,408 from potential private strategic investors in connection with subscribing shares from Qianfeng pursuant to Equity Purchase Agreement. The registration of the new investors as Qianfeng's shareholders and the related increase in registered capital of Qianfeng with the Administration for Industry and Commerce (AIC) is incomplete due to shareholders dispute as disclosed in the legal proceedings section below (Note 14). Additional interest of \$1.35 millions was accrued for the year from 2007 to current quarter based on average market interest rate around 5.9%.
- (2) Accruals for promotions and others mainly represent the payables for donors promoting expenses, payables to employees and payables to vendors or subcontractors for construction in plasma stations in Qianfeng.
- (3) Other payable-funds represents bonus accrual for all employees based on the policy approved by the Board, as well as the best estimated from the management.
- (4) Others mainly comprise of the contingent liability due to the pending, outcome of the preceding of Qianfeng's Guarantee to a Third Party as disclosed in below legal proceedings section below, Qianfeng provisioned a loss contingency reserve during its third quarter of 2009 for approximately \$451,006 (RMB 3,074,342) to cover its share of the enforcement of this judgment. Qianfeng has paid the contingent liability off in full amount on May 21, 2010.

Other payable - land use rights

In July 2003, Shandong Taibang obtained certain land use rights from the Tai'an municipal government. Shandong Taibang is required to make payments totaling approximately \$20,369 (RMB 138,848) per year to the local state-owned entity, for the 50-year life of the rights or until Biological Institute completes its privatization process. The Company recorded land use rights equal to other payable land use rights totaling \$ 324,265 and \$323,687 as of June 30, 2010 and December 31, 2009, respectively, determined using present value of annual payments over 50 years.



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**Note 11    Convertible Notes**

	June 30, 2010 (unaudited)	December 31, 2009
\$9,554,140, 3.8% Senior Secured Convertible Notes, due June 5, 2011	\$ 9,554,140	\$ 9,554,140
Less: converted	(2,054,140)	(1,000,000)
Total convertible notes outstanding	7,500,000	8,554,140
Less: unamortized discount	(7,112,409)	(8,464,380)
Notes payables, net	\$ 387,591	\$ 89,760

On June 5, 2009, the Company entered into a securities purchase agreement (the "Purchase Agreement") with certain accredited investors (collectively, the "Investors"), pursuant to which the Company agreed to issue to the Investors, 3.8% Senior Secured Convertible Notes in the aggregate principal amount of \$9,554,140 (the "Notes") and warrants (the "Warrants" and together with the Notes, the "Subscribed Securities") to purchase up to 1,194,268 shares of common stock of the Company (the "Warrant Shares" and together with the Conversion Shares, the "Underlying Securities"). The transaction closed on June 10, 2009. Other than with respect to this transaction, none of the Investors have had a material relationship with the Company or any of the Company's officers, directors or affiliates or any associate of any such officer or director.

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

The Company's obligations under the Notes are secured by the pledge by Siu Ling Chan, our board chair and a principal shareholder, of 3,000,000 shares of common stock held by her, pursuant to the terms of a Guarantee and Pledge Agreement among the Company, the investors and Ms. Chan. To induce Ms. Chan to enter into the Guarantee and Pledge Agreement with the Investors, the Company has agreed to indemnify her for all damages, liabilities, losses and expenses of any kind ("losses"), which may be sustained or suffered by her, arising out of or in connection with any enforcement action instituted by the Investors pursuant to the Guarantee and Pledge Agreement. The Company's indemnification obligation is limited to losses that arise as the result of any negligent or unlawful conduct of the Company that is caused unilaterally by the Company and is beyond Ms. Chan's control in her capacity as a director of the Company, and will not exceed the fair market value of the pledged shares as of the closing of the transaction.



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

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

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

Because the Notes and Warrants are denominated in U.S. Dollars but the Company's functional currency is the Chinese Renminbi, in accordance with ASC 815-40-15-71, the Warrants and the conversion option embedded in the Notes are not indexed only to the Company's common stock and therefore they do not meet the requirements of ASC 815-10-15-74. As a result, the embedded conversion option and the Warrants are accounted for as derivative instrument liabilities, at fair value.

On December 22, 2009, two of the Company's Note holders exercised their rights to convert \$1,000,000 of their Notes into an aggregate of 250,000 shares of the Company's common stock. On January 13, 2010, two Note holders continued to exercise their rights to convert \$1,054,140 of their remaining Notes into an aggregate of 263,535 shares of the Company's common stock. The fair value market of conversion options of \$2,627,558, carrying value of \$14,428, accrued interest of \$8,550 and deferred fees of \$134,479 were included in additional paid-in-capital upon conversion of the convertible notes. As a result, Notes in the principal amount of \$7,500,000 is outstanding as of June 30, 2010.

Interest is being recognized on the carrying value of the Notes at an effective annual interest rate of approximately 365%. Interest expense is expected to be approximately \$2,412,000 and \$6,516,000 for the years ended December 31, 2010 and 2011, respectively.

#### **Note 12 - Earnings (loss) per share**

Basic earnings/(loss) per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings/(loss) per share is calculated by dividing net income by the weighted average number of common shares outstanding and dilutive potential common shares outstanding during the period.

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Earnings (loss) per share is as follows for the three months ended June 30,

**Basic earnings per share**

	2010 (unaudited)	2009 (unaudited)
Net income attributable to controlling interest for basic earnings per share	\$ 12,877,543	\$ 6,970,745
Weighted average shares used in basic computation	23,511,435	21,442,909
Earnings per share - Basic	\$ 0.55	\$ 0.33

**Diluted earnings per share**

	2010 (unaudited)	2009 (unaudited)
Net income attributable to controlling interest for basic earnings per share	\$ 12,877,543	\$ 6,970,745
Add: interest of convertible notes	284,190	41,534
Net income attributable to controlling interest for diluted earnings per share	\$ 13,161,733	\$ 7,012,279
Weighted average shares used in basic computation	23,511,435	21,442,909
Diluted effect of convertible debentures, warrants and options	3,087,820	368,564
Weighted average shares used in diluted computation	26,599,255	21,811,473
Earnings per share - Diluted	\$ 0.49	\$ 0.32

For the three months ended June 30, 2010, 50,000 shares of stock option were excluded from the calculation because of anti-diluted nature. All other warrants, stock options and conversion options were included in the calculation of diluted earnings per share because of their dilutive nature.

For the three months ended June 30, 2009, the average stock price was greater than the exercise prices of the 1,244,000 warrants which resulted in additional weighted average common stock equivalents of 368,564. However, 4,644,053 warrants, stock options and conversion options were excluded in the calculation of diluted earnings per share because of their anti-dilutive nature.

Earnings (loss) per share is as follows for the six months ended June 30,

**Basic earnings per share**

	2010 (unaudited)	2009 (unaudited)
Net income attributable to controlling interest for basic earnings per share	\$ 23,483,183	\$ 11,229,063
Weighted average shares used in basic computation	23,449,508	21,438,948
Earnings per share - Basic	\$ 1.00	\$ 0.52



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**Diluted earnings per share**

	2010 (unaudited)	2009 (unaudited)
Net income attributable to controlling interest for basic earnings per share	\$ 23,483,183	\$ 11,229,063
Add: interest of convertible notes	456,311	41,534
Net income attributable to controlling interest for diluted earnings per share	\$ 23,939,494	\$ 11,270,597
Weighted average shares used in basic computation	23,449,508	21,438,948
Diluted effect of convertible debentures, warrants and options	3,092,177	88,561
Weighted average shares used in diluted computation	26,541,685	21,527,509
Earnings per share - Diluted	\$ 0.90	\$ 0.52

For the six months ended June 30, 2010, 50,000 shares of stock option were excluded from the calculation because of anti-diluted nature. All other warrants, stock options and conversion options were included in the calculation of diluted earnings per share because of their dilutive nature.

For the six months ended June 30, 2009, the average stock price was greater than the exercise prices of the 1,244,000 warrants which resulted in additional weighted average common stock equivalents of 88,561. However, 4,644,053 warrants, stock options and conversion options were excluded in the calculation of diluted earnings per share because of their anti-dilutive nature.

**Note 13 Taxes**

Income taxes

Starting from January 1, 2008, all of the Company's Chinese subsidiaries, except plasma companies, became subject to 25% income tax rate according to the newly issued Income Tax Laws of PRC. According to PRC's central government policy, certain new technology or high technology companies will enjoy preferential tax treatment of 15%, instead of 25%.

On February 12, 2009, Shandong Taibang received the new technology or high technology certification from Shandong provincial government. The Certification allows the Company to receive the 15% preferential income tax rate, for a period of three years starting from January 1, 2008.

Qianfeng is currently enjoying the preferential income tax rate of 15% also under the 10-year Western Development Tax Concession, which started on January 2001 and ends on December 2010. The PRC tax authority is studying the possibility of extending the concession, especially for those industries that encouraged by the PRC government, such as ours. In the event that PRC tax authorities discontinue the concession, Qianfeng will apply for the new or high technology preferential tax treatment of 15% like Shandong Taibang.

All of the Company's plasma companies are qualified as small scale taxpayers and are subject to a tax rate of 6% in 2010.



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Starting from January 1, 2008, all dividends paid to foreign parents are subject to a 10% income tax. As a result, Logic Express recorded \$ 1,835,583 and \$334,877 income tax expense during the six months ended June 30, 2010 and 2009, respectively, for dividends Taibang distributed to its foreign parent, Logic Express.

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the three and six months ended June 30, 2010 and 2009:

	For the three months ended June 30, (unaudited)		For the six months ended June 30, (unaudited)	
	2010	2009	2010	2009
U.S. Statutory rates	34.0%	34.0%	34.0%	34.0%
Foreign Income	(34.0)	(34.0)	(34.0)	(34.0)
China Tax rates	25.0	25.0	25.0	25.0
China income tax exemption	(10.0)	(10.0)	(10.0)	(10.0)
Temporary differences (China) <sup>(1)</sup>	(1.4)	-	(0.2)	-
Other items <sup>(2)</sup>	7.0	5.9	4.7	6.3
Effective income tax rates	20.6%	20.9%	19.5%	21.3%

<sup>(1)</sup> The 1.4% represents the effect of realization of temporary difference of \$334,827 for the three months ended June 30, 2010. The 0.2% represents the effect of realization of temporary difference of \$66,137 for the six months ended June 30, 2010.

<sup>(2)</sup> The other items represent \$1.2 million of income tax expense for dividends that Shandong Taibang distributed to Logic Express, its foreign parent and \$4.3 million of expense incurred by CBP, Logic Express and Logic Holding that are not deductible in PRC offset by \$2.3 million gains (not taxable) from fair value changes of derivative liabilities for the three months ended June 30, 2010. The 5.9% represents the \$0.3 million income tax expense for dividends Shandong Taibang paid to Logic Express, its foreign parent and \$2.2 million expenses incurred by CBP, Logic Express and Logic Holding that are not deductible in PRC for the three months ended June 30, 2009.

The other items represent \$1.8 million of income tax expense for dividends that Shandong Taibang distributed to Logic Express, its foreign parent and \$7.7 million of expense incurred by CBP, Logic Express and Logic Holding that are not deductible in PRC offset by \$6.1 million gains (not taxable) from fair value changes of derivative liabilities for the six months ended June 30, 2010. The 6.3% represents the \$4.1 million expenses incurred by CBP, Logic Express and Logic Holding that are not deductible in PRC for the six months ended June 30, 2009.

The estimated tax savings due to the tax exemption for the three months ending June 30, 2010 and 2009 amounted to \$2,527,486 and \$1,702,681, respectively. The net effect on earnings per share if the income tax had been applied would decrease basic earnings per share for the three months ended June 30, 2010 and 2009 by \$0.11 and \$0.08, respectively. The net effect on earnings per share if the income tax had been applied would decrease diluted earnings per share for the three months ended June 30, 2010 and 2009 by \$0.10 and \$0.08, respectively. The estimated tax savings due to the tax exemption for the six months ending June 30, 2010 and 2009 amounted to \$4,269,777 and \$2,466,012, respectively. The net effect on earnings per share if the income tax had been applied would decrease basic earnings per share for the six months ended June 30, 2010 and 2009 by \$0.18 and \$0.12, respectively. The net effect on earnings per share if the income tax had been applied would decrease diluted earnings per share for the six months ended June 30, 2010 and 2009 by \$0.16 and \$0.11, respectively.



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The provision for income taxes consists of the following for the unaudited three months and six months ended June 30, 2010 and 2009:

	Three months ended,		Six months ended,	
	2010	2009	2010	2009
Current				
U.S.	\$ -	\$ -	\$ -	\$ -
Foreign (China)	5,421,708	2,982,101	8,349,084	5,012,295
	5,421,708	2,982,101	8,349,084	5,012,295
Deferred				
U.S.	-	-	-	-
Foreign (China)	(334,827)	-	(66,137)	-
	(334,827)	-	(66,137)	-
Provision for income taxes	\$ 5,086,881	\$ 2,982,101	\$ 8,282,947	\$ 5,012,295

Deferred taxes

In assessing the realizability of deferred tax assets, the Company 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 future operation during the periods in which those temporary differences are utilized. Based upon an assessment of the historical operations and factors, the Company believes that it will be able to realize the deferred tax assets.

The Company's deferred taxes reflect the tax effect of temporary differences recorded as assets for financial reporting purposes and the comparable amounts recorded for income tax purpose. The deferred tax assets are measured using the enacted tax rates and law. Significant components of the deferred tax assets as of June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010 (unaudited)	December 31, 2009
Current		
Accrued salary and bonus expenses	\$ 410,332	\$ 512,586
Accrued selling and marketing expenses	288,414	108,112
Accrued interest and penalty payable to Qianfeng strategic investors	200,351	172,145
Accrued cost of raw material	220,811	260,928
Total deferred tax assets in Chinese entities	1,119,908	1,053,771
U.S. loss carry forwards	317,969	599,689
Total current deferred tax assets	1,437,877	1,653,460
Non-Current		
U.S. loss carry forwards	1,618,630	1,018,941
Total deferred tax assets	3,056,507	2,672,401
Valuation allowance	(1,936,599)	(1,618,630)
Net deferred tax assets	\$ 1,119,908	\$ 1,053,771





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CBP was incorporated in the United States and has incurred net operating losses for income tax purposes for the period ended June 30, 2010. The estimated net operating loss carry forwards for United States income taxes amounted to \$5,695,880 and \$4,760,677 as of June 30, 2010 and December 31, 2009, respectively, which may be available to reduce future years taxable income. These carry forwards will expire, if not utilized, from 2026 through 2029. Management believes that the realization of the benefits from these losses appears uncertain due to the Company's limited operating history and continuing losses for United States income tax purposes. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset benefit from CBP to reduce the asset to zero. Management reviews this valuation allowance periodically and makes adjustments as warranted. The following table represents the rollforward of the deferred tax valuation allowance:

	For the three months ended June 30, 2010 (unaudited)	For the year ended December 31, 2009
Balance of January 1,	\$ 1,618,630	\$ 1,018,941
Increase	317,969	599,689
Deferred tax valuation allowance	\$ 1,936,599	\$ 1,618,630

The Company has cumulative undistributed earnings of foreign subsidiaries of approximately \$67 million as of June 30, 2010, which is included in consolidated retained earnings and will continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings, nor is it practicable to estimate the amount of income taxes that would have to be provided if we concluded that such earnings will be remitted in the future.

Value added tax

VAT on sales amounted to \$3,009,906 and \$2,274,958 for the three months ended June 30, 2010 and 2009, respectively. VAT on sales amounted to \$4,938,854 and \$3,853,361 for the six months ended June 30, 2010 and 2009, respectively. Sales are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not impacted by the income tax holiday.

Taxes payable consisted of the following:

	June 30, 2010 (unaudited)	December 31, 2009
VAT tax payable	\$ 1,058,943	\$ 1,110,216
Income tax payable	6,284,072	7,479,279
Other miscellaneous tax payable	166,556	184,584
	\$ 7,509,571	\$ 8,774,079

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**Note 14 Commitments and contingent liabilities**

Capital and lease commitments

The Company's 82.76% owned subsidiary, He Ze Plasma Company, entered into a lease agreement on January 13, 2005, with the Yun Cheng Lan Tian Transportation Company in Yun Cheng County, Shandong Province, to lease land use rights for a period of 10 years. The annual lease amount is approximately \$1,751 (RMB 12,000) with no early termination penalty. The Company has the right of first refusal to renew the lease after the ten year lease term.

The Company's 82.76% owned subsidiary, Qi He Plasma Company, entered into a lease agreement on April 26, 2007, with the Zhang Bo Shi Village in Qi He County, Shandong Province, to lease land use rights for a period of 50 years. The annual lease amount is approximately \$4,566 (RMB 31,144) with no early termination penalty.

The Company's 82.76% owned subsidiary, Zhang Qiu Plasma Company, leased land use right and the use of building and equipment for a period of 10 year from January 1, 2007 with annual lease payment of \$43,977 (RMB300,000). The lease was terminated in March 2008. The Company entered into a lease agreement on April 1, 2008, with the Zhang Qiu Red Cross Blood Center, to lease land use rights and the use building and equipment for a period of 10 years. The annual lease payment is approximately \$1,466 (RMB 10,000) with no early termination penalty.

The Company's 48.6% indirectly owned subsidiary, Qianfeng, entered into a lease agreement on June 1, 2006 with a group of individuals in an area located next to its production facility, to lease and use the space for processing industrial waste for 10 years. The annual lease amount is approximately \$1,530 (RMB 10,438).

On January 28, 2010, the Company's wholly owned subsidiary, Logic Management and Consulting (China) Co., Ltd, entered into a thirty six (36) months, starting March 2010, lease agreement with Beijing Jialong Real Estate Company for an office space for its Beijing office. The annual lease payment is approximately \$190,187 (RMB 1,291,152).

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The Company recognizes lease expense on a straight line basis over the term of the lease in accordance to FASB's accounting standard related to leases. Total contractual commitments for construction in progress and operating lease commitments outstanding as of June 30, 2010 (unaudited):

	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	Thereafter
Property and equipment, not yet	\$ 334,593	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Lease	224,724	240,848	199,552	9,366	8,547	191,411
Total	\$ 559,317	\$ 240,848	\$ 199,552	\$ 9,366	\$ 8,547	\$ 191,411

For the three months ended June 30, 2010 and 2009, total rent expense amounted to \$37,823 and \$25,192, respectively. For the six months ended June 30, 2010 and 2009, total rent expense amounted to \$58,171 and \$58,326, respectively.

#### Legal proceedings

##### ***Bobai County Collection Station***

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

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

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

***Dispute among Qianfeng Shareholders over Raising Additional Capital***

On May 28, 2007, a 91% majority of Qianfeng's shareholders approved a plan to raise additional capital from private strategic investors through the issuance of an additional 20,000,000 shares of Qianfeng equity interests at RMB 2.80 per share. The plan required all existing Qianfeng shareholders to waive their rights of first refusal to subscribe for the additional shares. The remaining 9% minority holder of Qianfeng's shares, the Guizhou Jie'an Company, or Jie'an, did not support the plan and did not agree to waive its right of first refusal. On May 29, 2007, the majority shareholders caused Qianfeng to sign an Equity Purchase Agreement with certain investors, pursuant to which the investors agreed to invest an aggregate of RMB 50,960,000 (approximately \$7,475,832) in exchange for 18,200,000 shares, or 21.4%, of Qianfeng's equity interests. At the same time, Jie'an also subscribed for 1,800,000 shares, representing its 9% pro rata share of the 20,000,000 shares being offered. The proceeds from all parties were received by Qianfeng in accordance with the agreement.

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In June 2007, Jie'an brought suit in the High Court of Guizhou province, China, against Qianfeng and the three other original Qianfeng shareholders, alleging the illegality of the Equity Purchase Agreement. In its complaint, Jie'an alleged that it had a right to acquire the shares waived by the original Qianfeng shareholders and offered to the investors in connection with the Equity Purchase Agreement. On September 12, 2008, the Guizhou High Court ruled against Jie'an and sustained the Equity Purchase Agreement, but on November 2008, Jie'an appealed the Guizhou High Court judgment to the People's Supreme Court in Beijing. On May 13, 2009, the People's Supreme Court sustained the original ruling and denied the rights of first refusal of Jie'an over the additional shares waived by the original Qianfeng's shareholders. The registration of the new investors as Qianfeng's shareholders and the related increase in registered capital of Qianfeng with the Administration for Industry and Commerce are still pending. On January 27, 2010, the strategic investors brought suit in the High Court of Guizhou Province against Qianfeng alleging Qianfeng's failure to register their equity interest in Qianfeng with the local AIC and requesting the distribution of their share of Qianfeng's dividends. Dalin was also joined as a co-defendant as it is the majority shareholder and exercises control over Qianfeng's day-to-day operations. The Company does not expect the strategic investors to prevail because, upon evaluation of the Equity Purchase Agreement, the Company believes that the Equity Purchase Agreement is void due to certain invalid pre-conditions and the absence of shareholder authorization of the initial investment. In the event that Qianfeng is required to return their original investment amount to the strategic investors, as of June 30, 2010, Qianfeng has set aside the strategic investors' fund along with RMB 8,673,542 (approximately \$1,277,613) in accrued interests, and RMB 519,600 (approximately \$74,712) for the 1% penalty imposed by the agreement for any breach. If strategic investors prevail in their suit, Dalin's interests in Qianfeng may be reduced to approximately 41.3%. The High Court of Guizhou heard the case on April 8, 2010 and encouraged, and accepted by both parties, to settle the dispute outside the court. As of the date of this report, the Company is still negotiating with the strategic investors for a term that is acceptable to the Company. During the second quarter of 2010, Jie'an requested Qianfeng to register its 1.8 million shares of additional capital infusion as per Equity Purchase Agreement and it was approved by the majority shareholders in a shareholders meeting held in the second quarter of 2010. However, the request is still waiting the Company's Board to ratify the validity and the completion of the registration with PRC's local AIC. If such request is granted, Dalin's ownership in Qianfeng will be diluted from 54% to 52.54%.

***Dispute over Qianfeng Technical Consulting Agreement***

In 1997, Qianfeng entered into a Technical Cooperation Agreement with Sin Kyung Ye, or Sin, a Korean individual, to provide certain fractionation equipment and transfer processing know-how to Qianfeng. In August 2004, Sin filed a law suit against Qianfeng with the Intermediate Court in Guiyang City, China, alleging non-payment of RMB 100,000 (approximately, \$14,670) for his fractionation equipment and RMB 5,000,000 (approximately, \$733,500) for the transfer of his technological know-how. The Intermediate Court ruled in favor of Sin and found that Qianfeng owed Sin RMB 10,376,160 (approximately, \$1,522,183), but Qianfeng appealed the Intermediate Court ruling to the Guizhou High Court. The Guizhou High Court agreed in part with Qianfeng's grounds for appeal and reduced the amount of know-how transfer fee to RMB 1,970,413 (approximately, \$289,060). In May 2007, Sin appealed the Guizhou High Court's decision to the People's Supreme Court in Beijing. The People's Supreme Court heard in April 2008 and ruled on December 29, 2009 for Qianfeng pay RMB 4,700,000 (approximately, \$689,490) as compensation to Sin for technology transfer and RMB 100,000 (approximately, \$14,670) for unpaid equipment purchase. Qianfeng has accrued and accounted for all these expenses as of December 31, 2009 and recorded a receivable \$431,799 (RMB 2,931,423) for the 54% of the total liability due from the old shareholders of Dalin as agreed in equity transfer agreement. During the second quarter of 2010, the Company wrote off the receivable of its share of the judgment, which was anticipated to be recovered from the previous shareholders of Qianfeng and recorded as an offset with the investment payable previously, as the bad debt expense. Due to several changes of the Qianfeng's ownership prior the

Company's acquisition, the management believes it is more than likely that the Company will not be able to recover such amount from the existing shareholders of Qianfeng.

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***Administration Interference***

Qianfeng is party to an administrative proceeding against the government of the Qiandongnan Autonomous Region, or the Qiandongnan Authorities, in Guizhou Province, China, in connection with the ownership of three of Qianfeng's entitled eight plasma stations in Guizhou Province. Qianfeng was authorized to acquire a total of eight plasma stations in Guizhou Province based on several national and provincial administrative authorizations issued by the PRC State Council and the Guizhou Ministry of Health between 2006 and 2007, but to date, the governmental authorizations have not been fully implemented by the Qiandongnan Authorities. In early 2007, Qianfeng submitted RMB 8,010,000 (approximately \$1,173,465) to the local finance department of Sansui County, Qiandongnan, for acquiring the Sansui Plasma Collection Station ( Sansui ), but the local finance department refused to honor the purchase and returned the full consideration to Qianfeng. Furthermore, subsequent local rulings published by the Qiandongnan Authorities February 28, 2008 appear to authorize another private company to acquire the Sansui and two other stations, the Zhengyuan Plasma Collection Station and the Shibing Plasma Collection Station. In December 2008 Qianfeng filed an administrative review application with the People's Government of Guizhou Province, or the Guizhou Provincial Government, but the Guizhou Provincial Government has delayed making a final decision pending further review of regulations regarding administrative authorizations. Qianfeng has received verbal notification from staff in the Guizhou Provincial Government that the Qiandongnan Authorities have withdrawn the local rulings. As a result, Qianfeng has withdrawn its application with the Guizhou Provincial Government to facilitate further negotiation with Qiandongnan Authorities on its right to acquire all eight plasma stations in Guizhou Province. In addition, Qianfeng has set aside the funds necessary to purchase Sansui pending the outcome of the administrative review. There have been no further developments on this case as of the date of this report.

***Qianfeng's Guarantee to a Third Party***

In 2007, as a condition to purchase Huang Ping Plasma Station, Qianfeng entered into an agreement with Guizhou Zhongxin Investment Company ( Zhongxin ) in which Qianfeng agreed to repay Zhongxin's debt out of Qianfeng's payables to Zhongxin arising from plasma purchased from Zhongxin. In the same agreement, Qianfeng also guaranteed to the Huang Ping County Hospital ( Huang Ping Hospital ), which was the co-owner with Zhongxin of the Huang Ping Plasma Station, for the amount of RMB3,074,342 (approximately, \$451,006) of debt that Zhongxin owed to Huang Ping Hospital. On June 1, 2009, Huang Ping Hospital brought suit, in Huang Ping County People's Court of Guizhou Province, against Zhongxin for non-payment of its payables and debt due to Huang Ping Hospital and Qianfeng as the guarantor. On November 2, 2009, the court ruled in favor of the plaintiff and Qianfeng will need to repay the Zhongxin's debt to Huang Ping Hospital on behalf of Zhongxin as the guarantor. In October 2009, Qianfeng appealed to the Middle Court of Kaili District in Guizhou Province and was accepted by the court in January 2010. On April 8, 2010, the Middle Court of Kaili District ruled to sustain the original judgment. As a result, Qianfeng is in the process of filing suit against Zhongxin in the attempt to recover the RMB 3,074,342 debt that was under the guarantee. The Equity Transfer Agreement pursuant to which we acquired a 90% interest in Dalin, Qianfeng's majority shareholder, provides that the sellers will be responsible, in accordance with their equity proportion in Qianfeng, for damages incurred by Qianfeng from Zhongxin's debt and shall repay Dalin the sellers' proportionate share of payments made by Qianfeng to creditors in connection with Zhongxin's debt within 10 days after payment by Qianfeng. The RMB 3,074,342 contingent liability and proportionate share of the liability to be recovered from the sellers were properly reflected in the financials as of June 30, 2010. The liability has been paid in full amount by Qianfeng on May 22, 2010. On June 30, 2010, Qianfeng brought suit, to the Middle Court of Guiyang City, against Zhongxin in attempt to recover for the full judgment amount of RMB 3,074,342 plus court fee of RMB 32,340 that Qianfeng already paid on behalf of Zhongxin.





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**Note 15 Warrants and options**

Warrants

On June 5, 2009, the Company entered into a securities purchase agreement with certain accredited investors pursuant to which the Company issued 3.8% Senior Secured Convertible Notes in the aggregate principal amount of \$9,554,140 and Warrants to purchase up to 1,194,268 shares of common stock of the Company. The Warrants have a term of 3 years, an exercise price of \$4.80 per share, as adjusted from time to time pursuant to anti-dilution and other customary provisions, and are exercisable by the Investors at any time after the date on which their related Notes are converted, except that if any of the Notes is converted in part, the Investors may only exercise a corresponding portion of the related Warrant. The Company also issued to the placement agents 93,750 Warrants to purchase common stock at an exercise price of \$6.00 per share, expiring after 3 years. During the first quarter of 2010, 143,575 shares of the Investor's Warrants and all of the placement agents Warrants were converted into the Company's common stock and the related derivative liabilities amounted to \$2,436,907 were transferred to additional paid-in capital accordingly.

These common stock purchase warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. The warrants do not qualify for hedge accounting, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expire.

The summary of warrant activity is as follows:

	Warrants Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Life
December 31, 2008	1,284,000	\$ 2.84	2.55
Granted	1,288,018	4.89	3.00
Forfeited			
Exercised	(40,000)	2.84	2.10
June 30, 2009 (unaudited)	2,532,018	\$ 3.88	2.63
Granted			
Forfeited			
Exercised	(1,244,000)	2.84	2.10
December 31, 2009	1,288,018	\$ 4.89	2.44
Granted			
Forfeited			
Exercised	(237,325)	4.80	3.95
June 30, 2010 (unaudited)	1,050,693	\$ 4.80	1.95

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Options

On May 9, 2008, the Company adopted the 2008 Equity Incentive Plan, which provides up to 5,000,000 shares of Company's Common Stock to be made available to employees and directors at various prices as established by the Board of Directors of the Company. On January 7, 2010, our board of directors granted to one of the employee options to purchase 50,000 shares of our common stock, with an exercise price of \$12.60 and vested immediately with the expiration date of January 7, 2020, under the 2008 plan, in accordance with his employment agreement with the company. On February 4, 2010, the board of directors granted to a newly appointed director options to purchase 20,000 shares of our common stock, with an exercise price of \$10.66; 10,000 shares of which will be vested on August 4, 2010 and the remaining 10,000 shares will be vested on February 4, 2011. As of June 30, 2010, there were 3,932,500 shares available under the plan.

The fair value of each option granted on May 9, 2008, July 24, 2008, January 7, 2010 and February 4, 2010 are estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Granted on	May 9, 2008	July 24, 2008	January 7, 2010	February 4, 2010
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	3.56%	3.56%	2.62%	2.29%
Expected life (in years)	5	5	5	5
Weighted average expected volatility	59.4%	81.2%	130.0%	130.0%

The volatility of the Company's common stock was estimated by management based on the historical volatility of the Company's common stock, the risk free interest rate was based on Treasury Constant Maturity Rates published by the U.S. Federal Reserve for periods applicable to the estimated life of the options, and the expected dividend yield was based on the Company's current and expected dividend policy. The value of the options was based on the Company's common stock price on the date the options were granted. Because the Company does not have a history of employee stock options, the Company utilized the simplified method to estimate the life of the options which is the same as assuming that the options are exercised at the mid-point between the vesting date and expiration date. For the three months ended June 30, 2010 and 2009, the Company expensed \$45,948 and \$27,594 in compensation expense. For the six months ended June 30, 2010 and 2009, the Company expensed \$617,841 and \$54,967 in compensation expense. As of June 30, 2010, approximately \$109,759 of estimated expense with respect to non-vested stock-based awards has yet to be recognized and will be recognized as an expense over the employee's remaining weighted average service period of approximately 0.61 years. The options are accounted for as equity under FASB's accounting standard related to derivative instruments and hedging activities. The options activity is as follows:

	Options Outstanding	Options Exercisable	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value
December 31, 2008	997,500	937,500	\$ 4.00	9.43	\$ -
Granted	-	30,000	4.00	9.31	-
Forfeited	-	-	-	-	-
Exercised	-	-	-	-	-
June 30, 2009 (unaudited)	997,500	967,500	\$ 4.00	8.93	\$ -
Granted	-	30,000	4.00	9.06	-

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Forfeited	-	-	-	-	-
Exercised	(87,500)	(87,500)	4.00	8.42	-
December 31, 2009	910,000	910,000	\$ 4.00	8.43	\$ 7,352,800
Granted	70,000	50,000	12.05	9.52	-
Forfeited	-	-	-	-	-
Exercised	(20,000)	(20,000)	4.00	8.07	-
June 30, 2010 (unaudited)	960,000	940,000	\$ 4.59	8.05	\$ 6,019,133
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**Note 16 Change in fair value of derivative liabilities**

Loss (gain) on change in fair value of derivative liabilities for the six months ended June 30, 2010 comprised as following:

	Fair value at January 1, 2010 or issuance date	Fair value at dates of warrants exercised	Fair value at date of notes conversion	Fair value at June 30, 2010	Change in fair value at June 30, 2010
Change in fair value of derivative liabilities of:					
Conversion option of convertible notes ( note 11)	\$ 19,960,145	\$ -	\$ 2,627,558	\$ 13,522,842	\$ (3,809,745)
Warrants attached to convertible notes (note 15)	11,804,253	1,078,788	-	8,658,837	(2,066,628)
Warrants issued to placement agent (note 15)	897,010	668,977	-	-	(228,033)
Total	\$ 32,661,408	\$ 1,747,765	\$ 2,627,558	\$ 22,181,679	\$ (6,104,406)

**Note 17 Interest expense (income), net**

Interest expense (income), net for the three months ended June 30, 2010 and 2009 comprised as following:

	2010 (unaudited)	2009 (unaudited)
Interest expense bank and other loans	\$ 99,398	\$ 900,831
Interest expense due to strategic investors	100,339	-
Interest expense convertible notes	284,190	41,534
Interest expense other	135,542	-
Interest income	(180,464)	(58,451)
Total	\$ 439,005	\$ 883,914

Interest expense (income), net for the six months ended June 30, 2010 and 2009 comprised as following:

	2010 (unaudited)	2009 (unaudited)
Interest expense bank and other loans	\$ 161,684	\$ 1,523,280
Interest expense due to strategic investors	199,521	-
Interest expense convertible notes	456,311	41,534
Interest expense other	135,542	-
Interest income	(333,000)	(310,047)
Total	\$ 620,058	\$ 1,254,767

**Note 18 Statutory reserves**

In accordance with the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment and the Company's Articles of Association, appropriations from net profit should be made to the Reserve Fund and the Enterprise Expansion Fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors. The percentages to be appropriated to the Reserve Fund and the Enterprise Expansion Fund are determined by the Board of Directors of the Company.



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Reserve fund

10% of the net income determined in accordance with PRC accounting rules and regulations are transferred to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital. As of June 30, 2010, approximately \$23.2 million was reserved. Though Shandong Taibang has met 50% of its registered capital, its Board decided to continue to make such reserve. The transfer to this reserve must be made before distribution of any dividend to shareholders. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing stockholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

Enterprise expansion fund

The enterprise fund may be used to acquire plant and equipment or to increase the working capital to expend on production and operation of the business. The Company's policy is to transfer 5% of the Shandong Taibang's net income to this fund determined in accordance with the Company's policy.

**Note 19 Retirement benefit plans**

Regulations in the PRC require the Company to contribute to a defined contribution retirement plan for the benefit of all permanent employees. All permanent employees are entitled to an annual pension equal to their basic salaries at retirement. The PRC government is responsible for the benefit liability to these retired employees. The Company is required to make contributions to the state retirement plan at 20% of the monthly base salaries of the current employees. For the three months ended June 30, 2010 and 2009, the Company made pension contributions in the amount of \$100,324 and \$124,600, respectively. For the six months ended June 30, 2010 and 2009, the Company made pension contributions in the amount of \$209,357 and \$233,476, respectively.

**Note 20 - Noncontrolling interest and distribution**

The roll forward of noncontrolling interest in the balance sheet is shown below (other comprehensive income-translation gain was allocated to the noncontrolling interest):

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	Fang Cheng Plasma Co. Minority Owner (20%)	Shandong Taibang Minority Owner (17.24%)	Guizhou Renyuan Minority Owners (75%)	Guiyang Qianfeng Minority Owners (46%)	Guiyang Dalin Minority Owner (10%)	Total Noncontrolling interest
December 31, 2008	\$ -	\$ 4,805,381	\$ -	\$ -	\$ -	\$ 4,805,381
Dalin acquisition	-	-	2,444,203	17,317,241	1,763,615	21,525,059
Net income(loss)	(12,670)	5,321,062	(111,753)	9,884,220	1,267,631	16,348,490
Foreign currency translation gain/(loss)	-	(187)	115,238	330,316	10,256	455,623
Dividend declared	-	(1,212,834)	-	(7,327,205)	(415,353)	(8,955,392)
December 31, 2009	\$ (12,670)	\$ 8,913,422	\$ 2,447,688	\$ 20,204,572	\$ 2,626,149	\$ 34,179,161
Net income(loss)	-	3,511,946	(76,681)	6,618,884	722,208	10,776,357
Reverse for 20% acquisition	12,670	-	-	-	-	12,670
Foreign currency translation gain/(loss)	-	144,325	34,931	(1,555)	(38,933)	138,768
Dividend declared	-	-	-	(4,048,920)	(815,652)	(4,864,572)
June 30, 2010 (unaudited)	\$ -	\$ 12,569,693	\$ 2,405,938	\$ 22,772,981	\$ 2,493,772	\$ 40,242,384

Dividends declared are split pro rata between the shareholders according to their ownership interest. The payment of the dividends may occur at different times to the shareholders resulting in distributions which do not appear to be reflective of the minority ownership percentages. As of June 30, 2010, minority shareholders owned 17.24% of the Shandong Taibang, 10% of Dalin and 46% of Qianfeng. The table below shows the minority shareholder and dividends outstanding.

	Shandong Taibang Noncontrolling shareholder	Guiyang Qianfeng Noncontrolling shareholder	Guiyang Dalin Noncontrolling shareholder	Total Noncontrolling shareholder
Distribution payable, December 31, 2008	\$ 3,252,354	\$ -	\$ -	\$ 3,252,354
Dividend declared	1,212,834	7,327,205	415,353	8,955,392
Dividend paid	(4,479,381)	(7,330,671)	(415,353)	(12,225,405)
Foreign currency translation adjustments	14,780	3,466	-	18,246
Distribution payable, December 31, 2009	\$ 587	\$ -	\$ -	\$ 587
Dividend declared	-	4,048,920	815,652	4,864,572
Dividend paid	-	(4,048,920)	(815,652)	(4,864,572)
Foreign currency translation adjustments	2	-	-	2
Distribution payable, June 30, 2010 (unaudited)	\$ 589	\$ -	\$ -	\$ 589

**Note 21 Business combinations**

Acquisition of Ziguang Bio-Technology Co.

On January 22, 2010, Shandong Taibang entered into an Equity Transfer Agreement with Yuncheng Ziguang Biotechnology Co., Ltd. which is located in Yuncheng, Shandong Province. Under the terms of the Equity Transfer Agreement, Shandong Taibang agreed to purchase 100% of Yuncheng Ziguang's equity interest at a purchase price of RMB 10,066,672 (approximately \$1,476,781), which was paid on February 24, 2010. Yuncheng Ziguang's main business is manufacturing, packing and selling of health drinks and foods. Among its assets, Yuncheng Ziguang owns six buildings and a right to acquire a land use right with approximately 323,000 square feet in size. The purpose of this



acquisition is mainly for relocation of Shandong Taibang's Yang Gu plasma station, which is adjacent to Yuncheng Ziguang, into the existing building and the land that Yuncheng Ziguang currently owns or entitled to own. Yun Cheng plasma station is the oldest and smallest among the Company's five stations in Shandong. Shandong Taibang expects that the relocation of the plasma station into the new facility will increase its plasma collection capacity with a low investment cost.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010  
(Unaudited)

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition, which represents the purchase price allocation at the date of the acquisition of Ziguang based on an independent third party appraiser. The appraiser conducted an on-site visit, inspected each item, conducted market research and investigation, followed some asset evaluation policies and regulations issued by the Chinese government, and provided an evaluation report.

	Fair Value
Current assets	\$ 334
Property, plant and equipment, net	1,613,370
Total assets	1,613,704
Total liabilities	(136,924)
Net assets	\$ 1,476,780

No material acquisition-related costs were incurred and recognized in the Company's income statement for the three and six months ended June 30, 2010.

No supplemental pro forma information was disclosed as Ziguang had not commenced operations for the period ended June 30, 2010 due to that it is under construction in preparation for the relocation of Yang Gu Plasma Company.

## **Note 22 Subsequent Events**

### Option plan

On July 11, 2010, the Company's Board of Directors authorized the grant to Mr. Sean Shao, Dr. Tong Jun Lin, Dr. Xiangmin Cui and Mr. Chaoming Zhao (the Chief Executive Officers and Directors), of options to purchase 40,000 shares each of the Company's common stock, and to Mr. Y. Tristan Kuo of options to purchase 35,000 shares of the Company's common stocks, and to Mr. Tung Lam, the Chief Executive Officer of Shandong Taibang and certain other employees of the Company of options to purchase 776,000 shares of the Company's common stocks, all pursuant to the 2008 Equity Incentive Plan. These options shall be exercisable at \$12.26, the fair market price as of the grant date, and to be vested in 12 equally quarters with the first vesting date of October 11, 2010.

### Formation of two new plasma stations in Shandong

On July 7, 2010 and July 20, 2010, Shandong Taibang established Ning Yang Taibang Plasma Company and Yi Shui Taibang Plasma Company, both 100% owned by Shandong Taibang for the purpose of constructing and operating the two recently approved plasma stations in Shandong Province, PRC.

### Distributions declaration by Guiyang Qianfeng

On August 6, 2010, the Board of Directors of Guiyang Qianfeng declared a RMB 50,000,000 (approximately \$7,365,000) distribution to its 54% shareholder Guiyang Dalin, the 19% shareholder Guizhou Eakan, the 18% shareholder Shenzhen Yigongshengda, and the 9% shareholder Guizhou Jie'an. The funds will be transferred to their separate accounts as instructed before August 12, 2010.



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

### Special Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q, including the following Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results of the Company to differ materially from those anticipated, expressed or implied in the forward-looking statements. The words believe, expect, anticipate, project, targets, optimistic, aim, will or similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Risks and uncertainties that could cause actual results to differ materially from those anticipated include risks related to, among others: our potential inability to raise additional capital that is necessary to fund our operations and our expansion, including our intended acquisitions; the possibility that third parties hold proprietary rights that preclude us from marketing our products; the emergence of additional competing technologies; changes in domestic and foreign laws, regulations and taxes; changes in economic conditions; uncertainties related to China's legal system and economic, political and social events in China; a general economic downturn; a downturn in the securities markets. Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this Report are discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 at Item 1A. Risk Factors.

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

### Use of Terms

Except as otherwise indicated by the context, all references in this report to:

- BVI are to the British Virgin Islands;
- China Biologic, the Company, we, us, or our, are to the combined business of China Biologic Products, Delaware corporation, and its direct and indirect subsidiaries;
- Dalin are to our majority owned subsidiary, Guiyang Dalin Biologic Technologies Co., Ltd., a PRC limited company;
- Exchange Act are to the Securities Exchange Act of 1934, as amended;
- Hong Kong are to the Hong Kong Special Administrative Region of the People's Republic of China;
- China or PRC are to the People's Republic of China;
- Huitian are to Xi'an Huitian Blood Products Co., Ltd., our minority owned PRC operating subsidiary;
- "Logic China" are to our wholly owned indirect PRC subsidiary Logic Management and Consulting (China) Co., Ltd.
- Logic Express are to our wholly owned subsidiary Logic Express Limited, a BVI company;
- Logic Holdings are to Logic Holdings (Hong Kong) Limited, our wholly-owned Hong Kong subsidiary;
- Qianfeng are to Qianfeng Biological Products Co., Ltd., Dalin's majority owned PRC operating subsidiary;
- RMB are to Renminbi, the legal currency of China;

- Securities Act are to the Securities Act of 1933, as amended;
- Taibang Medical are to Shandong Taibang's wholly owned PRC subsidiary, Shandong Taibang Medical Company;

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- Shandong Taibang are to our subsidiary Shandong Taibang Biological Products Co. Ltd., a sino-foreign joint venture incorporated in China; and
- U.S. dollar, \$, USD and US\$ are to the legal currency of the United States.

Throughout this report, we have converted RMB to USD as follows:

June 30, 2010

Balance sheet	RMB 6.79 to US\$1.00
Statement of income and comprehensive income	RMB 6.82 to US\$1.00

June 30, 2009

Balance sheet	RMB 6.83 to US\$1.00
Statement of income and comprehensive income	RMB 6.82 to US\$1.00

### Overview of Our Business

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

We are approved to sell human albumin 20%/10ml, 20%/25ml, 20%/50m, 10%/10ml, 10%/25ml, 10%/50ml and 25%/50ml. Human albumin is our top-selling product. Sales of these human albumin products represented approximately 46.4% and 47.4% of our total revenues, respectively, for the three months ended June 30, 2010 and 2009, respectively. Human albumin is principally used to increase blood volume while immunoglobulin, one of our other major products, is used for certain disease preventions and cures. The Company's approved human albumin and immunoglobulin products use human plasma as the basic raw material. Albumin has been used for almost 50 years to treat critically ill patients by replacing lost fluid and maintaining adequate blood volume and pressure. All of our products are prescription medicines administered in the form of injections.

We sell our products to customers in the PRC, mainly hospitals and inoculation centers. Our sales have historically been made on the basis of short-term arrangements and our largest customers have changed over the years. For the three months ended June 30, 2010 and 2009, our top 5 customers accounted for approximately 11.1% and 17.5%, respectively, of our total revenue. For the three months ended June 30, 2010 and 2009, our largest customer accounted for approximately 2.7% and 4.2% of our revenue, respectively. As we continue to diversify our geographic presence, customer base and product mix, we expect that our largest customers will continue to change from year to year.

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

All of our business has been conducted in Renminbi, the official currency of China. Renminbi is still not a free floating currency. The value of Renminbi is subject to changes in the Chinese government's policies and depends to a large extent on China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to U.S. dollars has generally been stable, and Renminbi has appreciated against the U.S. dollar since July 2005.

On November 25, 2009, we received approval to list our securities on The NASDAQ Global Market. The symbol for our common stock is CBPO. We began trading on NASDAQ under this symbol on December 2, 2009.

During the quarter ended June 30, 2010, our revenues were derived primarily from the sale of our approved human albumin and immunoglobulin products. Our revenue during the fiscal quarter ended June 30, 2010 increased 23.3%, or \$7,726,771, to \$40,908,316 compared with \$33,181,545 over the same period in 2009. All of our approved products recorded price increases ranging from 0.1% to 433.5%.

The following chart reflects our corporate organizational structure:





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

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## Second Quarter of 2010 Financial Performance Highlights

We continued to experience strong demand for our products and services during the three months ended June 30, 2010, which resulted in growth in our revenue and net income. The following are some financial highlights for the three months ended June 30, 2010:

- **Revenue:** Revenue increased \$7,726,771, or 23.3%, to \$40,908,316 for the three months ended June 30, 2010, from \$33,181,545 for the same period in 2009.
- **Gross Profit:** Gross profit increased \$7,829,630, or 32.6%, to \$31,849,410 for the three months ended June 30, 2010, from \$24,019,780 for the same period in 2009.
- **Income from operations:** Income from operations increased \$6,236,588, or 37.7%, to \$22,769,096 for the three months ended June 30, 2010, from \$16,532,508 for the same period in 2009.
- **Net income:** Net income increased \$5,906,798, or 84.7%, to \$12,877,543 for the three months ended June 30, 2010, from \$6,970,745 for the same period in 2009.
- **Fully diluted net income per share:** Fully diluted net income per share was \$0.49 for the three months ended June 30, 2010, as compared to \$0.32 for the same period in 2009.

Our net income, as reported in our result of operations for the three months ended June 30, 2010 and 2009, was \$12,877,543 and \$6,970,745, respectively. Our results of operations in the second quarter of 2010, as compared to the same period in 2009, was materially impacted by unit price increases and sales volume increases of our products, as well as the reduction of change in derivative liabilities.

## Results of Operations

The following tables set forth key components of our results of operations for the periods indicated, both in dollars and as a percentage of sales revenue and key components of our revenue for the periods indicated in dollars. The financial data for the three months ended June 30, 2010 reflect the operating results of the Company and its subsidiaries, including Yuncheng Ziguang, while the financial data for the same period in 2009 reflect the operating results of the Company and its subsidiaries excluding Yuncheng Ziguang, which was acquired January 21, 2010 and still under construction for the purpose of relocation of the Company's Yang Gu Plasma Company.

### For the Three-Month Periods Ended June 30, 2010 and 2009 (Unaudited)

	Three Months Ended June 30,		\$	%
	2010	2009	Increase (Decrease)	Increase (Decrease)
Revenue	\$ 40,908,316	\$ 33,181,545	\$ 7,726,771	23.3%
Cost of revenue	9,058,906	9,161,765	(102,859)	(1.1%)
Gross profit	31,849,410	24,019,780	7,829,630	32.6%
Gross profit as a percentage of revenue	77.9%	72.4%	5.5%	
Operating expenses	9,080,314	7,487,272	1,593,042	21.3%
Other (income) expense	(1,886,473)	2,254,031	(4,140,504)	(183.7%)
Income before taxes and noncontrolling interest	24,655,569	14,278,477	10,377,092	72.7%
Income taxes	5,086,881	2,982,101	2,104,780	70.6%
Net income before noncontrolling interests	\$ 19,568,688	\$ 11,296,376	\$ 8,272,312	73.2%

**Revenues.** Our revenues are derived primarily from the sales of our human albumin and immunoglobulin products. Our revenues increased 23.3%, or \$7,726,771, to \$40,908,316 for the three months ended June 30, 2010, compared to revenues of \$33,181,545 for the three months ended June 30, 2009. The growth in revenue is mainly due to the general price increase of our products, as well as the 0.1% increase in foreign exchange translation. All of our approved products recorded price increases ranging from 0.1% to 433.5%. For the quarter ended June 30, 2010, the

average price for our approved human albumin products, which contributed 46.4% to our total revenues, increased 0.1%, the average price for our approved human hepatitis B immunoglobulin products, which contributed 6.9% to our total revenues, increased 433.5%, the average price for our approved human immunoglobulin for intravenous injection products, which contributed 39.3% to our revenues, increased 26.9%, the average price for our approved human rabies immunoglobulin products, which contributed 3.2% to our revenues, increased 21.6%, the average price for our approved human tetanus immunoglobulin products, which contributed 2.9% to our revenue, increased 2.3%, and the average price for our approved human immunoglobulin products, which contributed 0.5% to our revenue, increased 130.3%, as compared to the same period in 2009.

*Cost of Revenues.* Our cost of sales decreased \$102,859, or 1.1%, to \$9,058,906 for the quarter ended June 30, 2010, from \$9,161,765 during the same period in 2009. This decrease was mainly due to a 1.2% actual decrease in cost of revenues as a result of the mix of the product sold. Cost of revenues as a percentage of sales was 22.1% for the quarter ended June 30, 2010, as compared to 27.6% during the same period in 2009.

*Gross Profit.* Gross profit increased by \$7,829,630, or 32.6%, to \$31,849,410 for the quarter ended June 30, 2010, from \$24,019,780 for the same period in 2009. As a percentage of sales revenue, our gross profit margin increased by 5.5% to 77.9% for the quarter ended June 30, 2010, from 72.4% for the same period in 2009. The increase in gross profit is due mainly to the unit price increases in our products, as well as some sales volume increase, along with slight decrease in cost of revenues during the second quarter of 2010.

*Operating Expenses.* Our total operating expenses increased by \$1,593,042, or 21.3%, to \$9,080,314 for the quarter ended June 30, 2010, from \$7,487,272 for the same period in 2009. The increase was primarily attributable to the 258.2% increase in our research and development expenses during the 2010 period, as well as the 66.6% increase in selling expense, which was offset by the 1.6% decrease in our general and administrative expenses. As a percentage of sales revenue, total operating expenses decreased by 0.4% to 22.2% for the quarter ended June 30, 2010, from 22.6% for the same period in 2009.

*Selling Expenses.* For the quarter ended June 30, 2010, our selling expenses increased to \$1,856,881, from \$1,114,614 for the quarter ended June 30, 2009, an increase of \$742,267, or 66.6%. As a percentage of sales, our selling expenses for the quarter ended June 30, 2010 increased by 1.1%, to 4.5%, from 3.4% for second quarter 2009. The increase in selling expenses is mainly due to an increase in promotional and conference activities as the Company continues its efforts in expanding its penetration into hospital and inoculation centers.

*General and Administrative Expenses.* For the three months ended June 30, 2010, our general and administrative expenses decreased \$98,852, or 1.6%, to \$5,905,950, from \$6,004,802 for the quarter ended June 30, 2009. General and administrative expenses as a percentage of sales decreased by 3.7% to 14.4% for the second quarter of 2010, from 18.1% for the same period in 2009. Non-cash employee compensation for the three months ended June 30, 2010 increased by \$18,354 to \$45,948, from \$27,594 for the same period in 2009. The slightly decrease in general and administrative expenses is due mainly to the decreases in general payroll and employee benefits and outside services, as well as decreases in legal expenses and office supplies, which was offset by the increases in insurance expenses.

*Research and Development Expenses.* For the quarter ended June 30, 2010 and 2009, our research and development expenses were \$1,317,483 and \$367,856, respectively, an increase of \$949,627 or 258.2%. As a percentage of revenues, our research and development expenses for the quarter ended June 30, 2010 and 2009 were 3.2% and 1.1%, respectively. The increase in research and development expenses is due primarily to the allocation of cost associated with the development of two new products that are at the end of developing stages. We expect to receive approval from SFDA for these two new products in late 2010 or early 2011.

*Change in Fair Value of Derivative Liabilities.* The embedded derivatives (including the conversion option) in our senior secured convertible notes and warrants that were issued in June 2009 are classified as derivative liabilities carried at fair value. For the three months ended June 30, 2010 and 2009, the Company recognized an income from the change in fair value of derivative liabilities in the amounts of \$2,270,829 and a loss of \$1,295,732, respectively. The recognized income from the change in the fair value of derivative liabilities in the second quarter of 2010 is mainly due to the Company's stock price decrease from \$11.04 to \$10.99 as of March 31, 2010 and June 30, 2010, respectively. Future changes in the market price of our common stock could cause the fair value of these derivative financial instruments to change significantly in future periods.

*Interest Expense (Income), net.* Our net of interest expense (income) decreased by \$444,909, or 50.3%, to an expense of \$439,005 for the quarter ended June 30, 2010, from an interest expense, net of \$883,914 for the same period in 2009. The decrease in interest expenses is primarily due to having less average amount of bank loans outstanding during the current quarter as the Company had paid off a significant portion of the short term loans with banks in China during the end of prior year and current quarters, and the increase in interest income of \$0.12 million from the Company's short term deposits with financial institutions..

*Income Tax Expense.* Our provision for income taxes increased \$2,104,780, or 70.6%, to \$5,086,881 for the quarter ended June 30, 2010, from \$2,982,101 for the same period in 2009. Our effective tax rate for the quarter ended June 30, 2010 and 2009 was 20.6% and 20.9%, respectively. Among the increase of \$2.1 million in income taxes, \$1.3 million is due to the dividend tax imposed by PRC tax authorities on dividends distributed by the Company's two main operating entities to their parent company, Logic Express.

*Net Income before Non-Controlling Interest.* Our net income before non-controlling interest increased \$8,272,312, or 73.2%, to \$19,568,688 for the quarter ended June 30, 2010, from \$11,296,376 for the same period in 2009. Income before non-controlling interest as a percentage of revenues was 47.8% and 34% for the quarter ended June 30, 2010 and 2009, respectively. The increase in net income before non-controlling interest is mainly due to the increases in selling price and volume, as well as the decrease in change in fair value of derivative liabilities.

***For the Six-Month Periods Ended June 30, 2010 and 2009 (Unaudited)***

	<b>Six Months Ended June 30,</b>		<b>\$</b>	<b>%</b>
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>Increase (Decrease)</b>
Revenue	\$ 68,006,869	\$ 54,330,143	\$ 13,676,726	25.2%
Cost of revenue	15,857,760	15,376,695	481,065	3.1%
Gross profit	52,149,109	38,953,448	13,195,661	33.9%
Gross profit as a percentage of revenue	76.7%	71.7%	5.0%	
Operating expenses	16,154,129	12,357,402	3,796,727	30.7%
Other (income) expense	(6,547,507)	3,028,975	(9,576,482)	(316.2%)
Income before taxes and noncontrolling interest	42,542,487	23,567,071	18,975,416	80.5%
Income taxes	8,282,947	5,012,295	3,270,652	65.3%
Net income before noncontrolling interests	\$ 34,259,540	\$ 18,554,776	\$ 15,704,764	84.6%

*Revenues.* Our revenues are derived primarily from the sales of our human albumin and immunoglobulin products. Our revenues increased 25.2%, or \$13,676,726, to \$68,006,869 for the six months ended June 30, 2010, compared to revenues of \$54,330,143 for the six months ended June 30, 2009. The growth in revenue is mainly due to unit price increases of our products, as well as a 0.1% increase in foreign exchange translation. All of our approved products recorded price increases ranging from 1.3% to 375.0%. For the six months ended June 30, 2010, the average price for our approved human albumin products, which contributed 46.5% to our total revenues, increased 1.3%, the average price for our approved human hepatitis B immunoglobulin products, which contributed 9.0% to our total revenues, increased 375.0%, the average price for our approved human immunoglobulin for intravenous injection products, which contributed 31.5% to our revenues, increased 31.6%, the average price for our approved human rabies immunoglobulin products, which contributed 7.5% to our revenues, increased 23.9%, the average price for our approved human tetanus immunoglobulin products, which contributed 2.7% to our revenue, increased 19.9%, and the average price for our approved human immunoglobulin products, which contributed 1.2% to our revenue, increased 119.7%, as compared to the same period in 2009. As the imported human albumin continues to increase, the Company expects the price of human albumin may experience some pressure in the second half of 2010, while price of other products remain stable.

*Cost of Revenues.* Our cost of sales increased \$481,065, or 3.1%, to \$15,857,760 for the six months ended June 30, 2010, from \$15,376,695 during the same period in 2009. This increase was mainly due to a 3.0% actual increase in cost of revenues as a result of the increased sales, as well as a 0.1% increase due to foreign exchange translation. Cost of revenues as a percentage of sales was 23.3% for the six months ended June 30, 2010, as compared to 28.3% during the same period in 2009. The increase in cost of revenues is due to the increase in sales, while the decrease in cost of revenues as a percentage of sales is due to the change of the product mix that were sold.

*Gross Profit.* Gross profit increased by \$13,195,661, or 33.9%, to \$52,149,109 for the six months ended June 30, 2010, from \$38,953,448 for the same period in 2009. As a percentage of sales revenue, our gross profit margin increased by 5.0% to 76.7% for the six months ended June 30, 2010, from 71.7% for the same period in 2009. The increase in gross profit is due mainly to the increases in selling prices of our products, as well as the increase in sales volume, during the first half of 2010, as compared to the same period last year.

*Operating Expenses.* Our total operating expenses increased by \$3,796,727, or 30.7%, to \$16,154,129 for the six months ended June 30, 2010, from \$12,357,402 for the same period in 2009. The increase was primarily attributable to the 197.5% increase in our research and development expenses during the 2010 period, as well as the 65.3% increase in selling expense and the 10.6% increase in our general and administrative expenses. As a percentage of sales revenue, total operating expenses increased by 1.1% to 23.8% for the six months ended June 30, 2010, from 22.7% for the same period in 2009.

*Selling Expenses.* For the six months ended June 30, 2010, our selling expenses increased to \$2,799,789, from \$1,694,110 for the same period in 2009, an increase of \$1,105,679, or 65.3%. As a percentage of sales, our selling expenses for the six months ended June 30, 2010 increased by 1.0%, to 4.1%, from 3.1% for the same period in 2009. The increase in selling expenses for the first half of 2010 is due primarily to increased promotional and conference activities as the Company continues its efforts in expanding its penetration into hospital and inoculation centers.

*General and Administrative Expenses.* For the six months ended June 30, 2010, our general and administrative expenses increased \$1,040,493, or 10.6%, to \$10,868,202, from \$9,827,709 for the same period in 2009. General and administrative expenses as a percentage of sales decreased by 2.1% to 16.0% for the first six months of 2010, from 18.1% for the same period in 2009. Non-cash employee compensation for the six months ended June 30, 2010 increased by \$562,874, from \$54,967 for the same period in 2009, as a result of 617,841. The increase in general and administrative expenses in the first half of 2010, as compared to the same period of 2009, is due primarily to the increases in traveling, insurance and general office expenses as the Company continues to its efforts in integrating two main operating entities. Compensation expenses increased by \$0.6 million as a result of the grant of stock options to its director and executive during the first quarter of 2010.

*Research and Development Expenses.* For the six months ended June 30, 2010 and 2009, our research and development expenses were \$2,486,138 and \$835,583, respectively, an increase of \$1,650,555 or 197.5%. As a percentage of revenues, our research and development expenses for the six months ended June 30, 2010 and 2009 were 3.7% and 1.5%, respectively. The increase in research and development expenses is due primarily to the allocation of cost associated with the development of two new products that are at the end of developing stages. We expect to receive approval from SFDA for these two new products in late 2010 or early 2011.

*Change in Fair Value of Derivative Liabilities.* The embedded derivatives (including the conversion option) in our senior secured convertible notes and warrants that were issued in June 2009 are classified as derivative liabilities carried at fair value. For the six months ended June 30, 2010 and 2009, the Company recognized an income from the change in fair value of derivative liabilities in the amounts of \$6,104,406 and a loss of \$1,688,755, respectively. The recognized income from the change in the fair value of derivative liabilities in the first six months of 2010 is mainly due to the Company's stock price decrease from \$12.08 to \$10.99 as of December 31, 2009 and June 30, 2010, respectively. Future changes in the market price of our common stock could cause the fair value of these derivative financial instruments to change significantly in future periods.

*Interest Expense (Income), net.* Our net of interest expense (income) decreased by \$634,709, or 50.6%, to an expense of \$620,058 for the six months ended June 30, 2010, from an interest expense of \$1,254,767 for the same period in 2009. The decrease in net of interest expense (income) is primarily due to we have less average amount of bank loan outstanding during current quarters as the Company had paid off a significant portion of the short term loans with banks in China during the end of the prior year and current quarters, and the increase in interest income of \$0.16 million from the Company's short term deposits with financial institutions.



*Other income- related party.* The other income from related party was due to the Company was able to finally settle with \$0.9 million less in interest expenses accrued in accordance with the Entrustment Agreement, dated April 6, 2009, among Logic Express, Shandong Taibang and the Shandong Institute of Biological Products, the holder of the minority interests in Shandong Taibang.

*Income Tax Expense.* Our provision for income taxes increased \$3,270,652, or 65.3%, to \$8,282,947 for the six months ended June 30, 2010, from \$5,012,295 for the same period in 2009. Our effective tax rate for the six months ended June 30, 2010 and 2009 was 19.5% and 21.3%, respectively. Among the increase of \$3.3 million in income taxes, \$1.8 million is due to the dividend tax imposed by PRC tax authorities on dividends distributed by the Company's two main operating entities to their parent company, Logic Express, during the first half of 2010.

*Net Income before Non-Controlling Interest.* Our net income before non-controlling interest increased \$15,704,764, or 84.6%, to \$34,259,540 for the six months ended June 30, 2010, from \$18,554,776 for the same period in 2009. Income before non-controlling interest as a percentage of revenues was 50.4% and 34.2% for the six months ended June 30, 2010 and 2009, respectively.

## Liquidity and Capital Resources

To date, we have financed our operations primarily through cash flows from operations, augmented by short-term bank borrowings and equity contributions by our stockholders. As of June 30, 2010, we had \$56,263,131 in cash and cash equivalents, primarily consisting of cash on hand and demand deposits.

The following table provides the statements of net cash flows for the six months ended June 30, 2010 compared to June 30, 2009 (Unaudited):

	Six Months Ended June 30	
	2010	2009
Net Cash Provided by Operating Activities	\$ 19,355,081	\$ 28,429,522
Net Cash Used in Investing Activities	\$ (10,735,936)	\$ (1,901,121)
Net Cash (Used in) Provided by Financing Activities	\$ (6,409,275)	\$ 14,083,254
Effect of Exchange Rate Change on Cash	\$ 209,310	\$ 52,750
Net Increase in Cash and Cash Equivalents	\$ 2,419,180	\$ 40,664,405
Cash and Cash Equivalents, Beginning	\$ 53,843,951	\$ 8,814,616
Cash and Cash Equivalents, Ending	\$ 56,263,131	\$ 49,479,021

### *Operating activities*

Net cash provided by operating activities was \$19.4 million for the six months ended June 30, 2010, as compared to \$28.4 million net cash provided by operating activities for the same period in 2009. The net cash provided by operating activities in the six months ended June 30, 2010 was mainly due to the cash-related consolidated net income of \$32.9 million and offset by cash outflow for inventory, accounts receivable, accrued interest, and taxes payable of \$6.4 million, \$3.9 million, \$2.1 million, and \$1.3 million, respectively. The cash provided by operating activities in the same period in 2009 was mainly from the cash related net income of \$24 million, advanced receipt from customer of \$4 million and other payable increased by \$4.6 million, and offset by the cash paid for inventory of \$4 million resulted in \$28 million cash increase from operating activities.

### *Investing activities*

Net cash used in investing activities for the six months ended June 30, 2010 was \$10.7 million, as compared to \$1.9 million net cash used in investing activities in the same period of 2009. We paid \$1.5 million to acquire a new Company-Ziguang Bio-tech Co. with \$1.5 million net assets, paid the final payment for Dalin acquisition to Dalin's old shareholders with \$2.5million, additional \$1.4million equipments in Taibang and \$4.6 million for plasma companies' buildings and CIP in Dalin, during the six months ended June 30, 2010.

On January 22, 2010, Shandong Taibang entered into an Equity Transfer Agreement with Yuncheng Ziguang Biotechnology Co., Ltd., which is located in Yuncheng, Shandong Province. Under the terms of the Equity Transfer Agreement, Shandong Taibang agreed to purchase 100% of Yuncheng Ziguang's equity interest at a purchase price of RMB 10,066,672 (approximately \$1,476,781), which was subsequently paid as of February 24, 2010. Yuncheng Ziguang's main business is manufacturing, packing and selling of health drinks and foods. Among its assets, Yuncheng Ziguang owns six buildings and a right to acquire a land use right with approximately 323,000 square feet in size. The purpose of this acquisition is mainly for the relocation of Shandong Taibang's Yun Cheng plasma station, which is adjacent to Yuncheng Ziguang, into the existing building and the land that Yuncheng Ziguang currently owns or entitled to own. Yun Cheng plasma station is the oldest and smallest among the Company's five stations in

Shandong. Shandong Taibang expects that the relocation of the plasma station into the new facility will increase its plasma collection capacity with a low investment cost.

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## Financing activities

Net cash used in financing activities for the six months ended June 30, 2010 totaled \$6.4 million as compared to \$14.1 million provided by financing activities in the same period of 2009. The increase of the cash used in financing activities was mainly attributable to the dividend paid to minority shareholder of \$4.9 million, repayment of non-controlling shareholder loan of \$3.7 million, repayment of short term bank loan of \$4.4 million and offset by short-term bank loans and proceeds from warrants conversion provided \$5.9 million and \$0.7 million.

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

## Obligations under Material Contracts

The following table sets forth our material contractual obligations as of June 30, 2010:

Contractual Obligations	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-Term Debt Obligations	\$ 5,965,650	\$ 5,965,650	\$ -	\$ -	\$ -
Current Maturities of Long-Term Debt Obligations (a)	7,500,000	7,500,000	-	-	-
Due to Related Companies (b)	2,131,455	2,131,455	-	-	-
Operating Lease Obligations	874,448	224,724	440,400	17,913	191,411
Capital Lease Obligations	-	-	-	-	-
Purchase and Other Obligations	577,638	378,783	88,380	88,380	22,095
Total	\$ 17,049,191	\$ 16,200,612	\$ 528,780	\$ 106,293	\$ 213,506

Below is a summary of our current obligations under material contracts:

- (a) On June 5, 2009, the Company entered into a securities purchase agreement (the "Purchase Agreement") with certain accredited investors (collectively, the "Investors"), pursuant to which the Company agreed to issue to the Investors, 3.8% Senior Secured Convertible Notes in the aggregate principal amount of \$9,554,140 (the "Notes") and warrants (the "Warrants" and together with the Notes, the "Subscribed Securities") to purchase up to 1,194,268 shares of common stock of the Company (the "Warrant Shares" and together with the Conversion Shares, the "Underlying Securities"). The transaction closed on June 10, 2009. Other than with respect to this transaction, none of the Investors have had a material relationship with the Company or any of the Company's officers, directors or affiliates or any associate of any such officer or director. On December 22, 2009, two of the Company's Note holders exercised their rights to convert \$1,000,000 of their Notes into an aggregate of 250,000 shares of the Company's common stock. On January 13, 2010, two Note holders continued to exercise their rights to convert \$1,054,140 of their remaining Notes into an aggregate of 263,535 shares of the Company's common stock. The fair value market of conversion options of \$2,627,558, carrying value of \$14,428, accrued interest of \$8,550 and deferred fee of \$134,479 were included in additional paid-in-capital upon conversion of the convertible notes. As a result, Notes in the principal amount of \$7,500,000 is outstanding as of June 30, 2010.
- (b) Qianfeng has payables to Guizhou Eakan Investing Corp. in the amount of approximately \$2,131,455 (RMB14,470,160). Guizhou Eakan Investing Corp. is one of the shareholders of Guizhou Eakan, one of the Qianfeng's minority shareholders. The Company borrowed this non-interest bearing amount for working capital purposes.

## Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported, including the notes thereto, and related disclosures of commitments and contingencies, if any. We have identified certain accounting policies that are significant to the preparation of our financial statements. These accounting policies are important for an understanding of our financial condition and results of operation. Critical accounting policies are those that are most important to the portrayal of our financial conditions and results of operations and require management's difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements.

### ***Fair Value of Financial Instruments***

On January 1, 2008, the Company adopted FASB's accounting standard related to fair value measurements and began recording financial assets and liabilities subject to recurring fair value measurement at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. These fair value principles prioritize valuation inputs across three broad levels. The Company considers the carrying amount of cash, receivables, payables including accrued liabilities and short term loans to approximate their fair values because of the short period of time between the origination of such instruments and their expected realization and if applicable, their stated rates of interest are equivalent to interest rates currently available. The fair values are measured pursuant to the three levels defined by the FASB's accounting standard as follow:

- Level 1: inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3: inputs to the valuation methodology are unobservable and significant to the fair value.

### ***Revenue Recognition***

We recognize revenue when products are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable, which are generally considered to be met upon delivery and acceptance of products at the customer site. Sales are presented net of any discounts given to customers. As a policy, we do not accept any product returns and based on our records, product returns, if any, are immaterial. Sales revenue represents the invoiced value of goods, net of a value-added tax, or VAT. All products produced by us and sold in the PRC are subject to a Chinese VAT at a rate of 6% of the gross sales price or at a rate approved by the Chinese local government. Products distributed by Taibang Medical are subjected to a 17% VAT.

### ***Inventories***

Due to its unique nature, our principal raw material, human blood plasma is subject to various quality and safety control issues which include, but are not limited to, contaminations and blood born diseases. In addition, limitations of current technology pose biological hazards inherent in plasma that have yet to be discovered, which could result in a widespread epidemic due to blood infusion. In the event that human plasma is discovered to contain pathogens or infectious agents or other bio-hazards, we would be required to write down our inventory to net realizable value. We determine the net realizable value of our inventories on the basis of anticipated sales proceeds less estimated selling expenses. The cost of major raw materials (plasma) used in the production are being allocated based on the management's estimation of historical yields and market value from the annual production for each different products. With the anticipation of two new products, human coagulation factor VIII and human prothrombin complex concentrate, in late 2010 or early 2011, the Company allocated portion of the raw material costs as R&D expense in the first half of 2010 prior to the approval of the two products. The same allocation method will be applied to the cost of those two products as soon as they are approved for commercial production. At each balance sheet date, we evaluate inventories that may be worth less than current carrying amounts. Total inventories amounted to \$41.4 million as of June 30, 2010. In order to ensure that the growing demand for our products is met, as well as the 90-day quarantine period requirement on plasma raw material implemented by the PRC government, we have been gradually increasing our inventory level of raw materials. We strictly follow the production processes required by government regulations resulting in the relatively high level of work-in-progress customary to our industry.



### ***Impairment of Long-Lived Assets***

We review periodically the carrying amounts of long-lived assets including property, plant and equipment, and intangible assets with finite useful lives, to assess whether they are impaired. We evaluate these assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable such as a change of business plan, technical obsolescence, or a period of continuous losses. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. In determining estimates of future cash flows, significant judgment in terms of projection of future cash flows and assumptions is required.

### ***Use of Estimates***

The preparation of consolidated financial statements in accordance with U.S. GAAP requires us to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure 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. On an ongoing basis, we review our estimates and assumptions, including those related to the fair value of stock based compensation, potential losses on outstanding receivables and slow-moving inventories, the recoverability of the carrying amount and the estimated useful lives of long-lived assets, allocation of plasma production cost as well as bonus accruals for year end management bonus. Changes in facts and circumstances may result in revised estimates.

### ***Contingencies***

In the normal course of business, we are subject to contingencies, including, legal proceedings and claims arising out of the business that relate to a wide range of matters, including among others, product liability. We recognize a liability for such contingency if we determine that it is probable that a loss has occurred and a reasonable estimate of the loss can be made. We may consider many factors in making these assessments, including past history and the specifics of each matter. As we have not become aware of any product liability claim since operations commenced, we have not recognized a liability for any product liability claims.

### ***Recent Accounting Pronouncements***

In January 2010, FASB issued ASU No. 2010-01 Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company adopted this standard and the adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51. If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first



interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The Company adopted this standard and the adoption of this standard did not have material effect on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2010, the FASB issued Accounting Standards Update 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements, or ASU 2010-09. ASU 2010-09 primarily rescinds the requirement that, for listed companies, financial statements clearly disclose the date through which subsequent events have been evaluated. Subsequent events must still be evaluated through the date of financial statement issuance; however, the disclosure requirement has been removed to avoid conflicts with other SEC guidelines. ASU 2010-09 was effective immediately upon issuance and was adopted in February 2010.

In April 2010, the FASB issued Accounting Standards Update 2010-13, Compensation Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades, or ASU 2010-13. This Update provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial porting of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company does not expect the adoption of ASU 2010-17 to have a significant impact on its consolidated financial statements.

In April 2010, the FASB issued Accounting Standard Update 20-10-17, Revenue Recognition Milestone Method (Topic 605): Milestone Method of Revenue Recognition or ASU 2010-17. This Update provides guidance on the recognition of revenue under the milestone method, which allows a vendor to adopt an accounting policy to recognize all of the arrangement consideration that is contingent on the achievement of a substantive milestone (milestone consideration) in the period the milestone is achieved. The pronouncement is effective on a prospective basis for milestones achieved in fiscal years and interim periods within those years, beginning on or after June 15, 2010. The adoption of ASU 2010-17 does not have a significant impact on its consolidated financial statements.

### **Seasonality of our Sales**

Our operating results and operating cash flows historically have not been subject to seasonal variations. This pattern may change, however, as a result of new market opportunities or new product introductions.

### **Inflation**

Inflation does not materially affect our business or the results of our operations.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our investors.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not Applicable.

## **ITEMS 4 AND 4A(T). CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

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

As required by Rule 13a-15(e), our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer, Mr. Chao Ming Zhao and our Chief Financial Officer, Mr. Y. Tristan Kuo, of the effectiveness of the design and operation of our disclosure controls and procedures, as of June 30, 2010. Based upon, and as of the date of this evaluation, Messrs. Zhao and Kuo, determined that, because of the material weaknesses described in Item 9A. Controls and Procedures on our annual report on Form 10-K for the year ended December 31, 2009, which we are still in the process of remediating, as of June 30, 2010, our disclosure controls and procedures were not effective. Investors are directed to Item 9A of annual report on Form 10-K for the year ended December 31, 2009 for the description of these weaknesses.

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

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

During its evaluation of the effectiveness of internal control over financial reporting as of December 31, 2009, the management concluded that, after adding two qualified accountants, the Company still needs to increase its qualified accounting personnel and enhance the supervision, monitoring and reviewing of financial statements preparation processes. The Company has already taken measures to remediate these material weaknesses by seeking an additional financial reporting and accounting staff member with relevant accounting experience, skills and knowledge in the preparation of financial statements in accordance with U.S. GAAP and financial reporting disclosure requirements under SEC rules. In addition, the Company is working closely with its outside consultant in reinforcing the rigorous process for collecting and reviewing information required for the preparation of the financial statements including footnotes.

Other than the foregoing changes, there were no changes in our internal controls over financial reporting during the second quarter of fiscal 2010 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

From time to time, we may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business. Other than the legal proceedings set forth below, we are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

***Bobai County Collection Station***

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

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

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

#### ***Dispute among Qianfeng Shareholders over Raising Additional Capital***

On May 28, 2007, a 91% majority of Qianfeng's shareholders approved a plan to raise additional capital from private strategic investors through the issuance of an additional 20,000,000 shares of Qianfeng equity interests at RMB 2.80 per share. The plan required all existing Qianfeng shareholders to waive their rights of first refusal to subscribe for the additional shares. The remaining 9% minority holder of Qianfeng's shares, the Guizhou Jie'an Company, or Jie'an, did not support the plan and did not agree to waive its right of first refusal. On May 29, 2007, the majority shareholders caused Qianfeng to sign an Equity Purchase Agreement with certain investors, pursuant to which the investors agreed to invest an aggregate of RMB 50,960,000 (approximately \$7,475,832) in exchange for 18,200,000 shares, or 21.4%, of Qianfeng's equity interests. At the same time, Jie'an also subscribed for 1,800,000 shares, representing its 9% pro rata share of the 20,000,000 shares being offered. The proceeds from all parties were received by Qianfeng in accordance with the agreement.

In June 2007, Jie'an brought suit in the High Court of Guizhou province, China, against Qianfeng and the three other original Qianfeng shareholders, alleging the illegality of the Equity Purchase Agreement. In its complaint, Jie'an alleged that it had a right to acquire the shares waived by the original Qianfeng shareholders and offered to the investors in connection with the Equity Purchase Agreement. On September 12, 2008, the Guizhou High Court ruled against Jie'an and sustained the Equity Purchase Agreement, but on November 2008, Jie'an appealed the Guizhou High Court judgment to the People's Supreme Court in Beijing. On May 13, 2009, the People's Supreme Court sustained the original ruling and denied the rights of first refusal of Jie'an over the additional shares waived by the original Qianfeng's shareholders. The registration of the new investors as Qianfeng's shareholders and the related increase in registered capital of Qianfeng with the Administration for Industry and Commerce are still pending. On January 27, 2010, the strategic investors brought suit in the High Court of Guizhou Province against Qianfeng alleging Qianfeng's failure to register their equity interest in Qianfeng with the local AIC and requesting the distribution of their share of Qianfeng's dividends. Dalin was also joined as a co-defendant as it is the majority shareholder and exercises control over Qianfeng's day-to-day operations. The Company does not expect the strategic investors to prevail because, upon evaluation of the Equity Purchase Agreement, the Company believes that the Equity Purchase Agreement is void due to certain invalid pre-conditions and the absence of shareholder authorization of the initial

investment. In the event that Qianfeng is required to return their original investment amount to the strategic investors, Qianfeng has set aside the strategic investors' fund along with RMB 7,313,387 (approximately \$1,072,216) in accrued interests, and RMB 519,600 (approximately \$74,712) for the 1% penalty imposed by the agreement for any breach. If strategic investors prevail in their suit, Dalin's interests in Qianfeng may be reduced to approximately 41.3%. The High Court of Guizhou heard the case on April 8, 2010 and encouraged, and accepted by both parties, to settle the dispute outside the court. As of the date of this report, the Company is still negotiating with the strategic investors for a term that is acceptable to the Company. During the second quarter of 2010, Jie'an requested Qianfeng to register its 1.8 million shares of additional capital infusion as per Equity Purchase Agreement and was approved by the majority shareholders in a shareholders meeting held in the second quarter of 2010. However, the requested is still await the Company's Board to ratify the validity and the completion of the registration with PRC's local AIC. If such request is granted, Dalin's ownership in Qianfeng will be diluted from 54% to 52.54%.

### ***Dispute over Qianfeng Technical Consulting Agreement***

In 1997, Qianfeng entered into a Technical Cooperation Agreement with Sin Kyung Ye, or Sin, a Korean individual, to provide certain fractionation equipment and transfer processing know-how to Qianfeng. In August 2004, Sin filed a law suit against Qianfeng with the Intermediate Court in Guiyang City, China, alleging non-payment of RMB 100,000 (approximately, \$14,670) for his fractionation equipment and RMB 5,000,000 (approximately, \$733,500) for the transfer of his technological know-how. The Intermediate Court ruled in favor of Sin and found that Qianfeng owed Sin RMB 10,376,160 (approximately, \$ 1,522,183), but Qianfeng appealed the Intermediate Court ruling to the Guizhou High Court. The Guizhou High Court agreed in part with Qianfeng's grounds for appeal and reduced the amount of know-how transfer fee to RMB 1,970,413 (approximately, \$289,060). In May 2007, Sin appealed the Guizhou High Court's decision to the People's Supreme Court in Beijing. The People's Supreme Court heard in April 2008 and ruled on December 29, 2009 for Qianfeng pay RMB 4,700,000 (approximately, \$689,490) as compensation to Sin for technology transfer and RMB 100,000 (approximately, \$14,670) for unpaid equipment purchase. Qianfeng has accrued and accounted for all these expenses as of December 31, 2009 and recorded a receivable \$431,799 (RMB 2,931,423) for the 54% of the total liability due from the old shareholders of Dalin as agreed in equity transfer agreement. During the second quarter of 2010, the Company wrote off the receivable of its share of the judgment, which was anticipated to be recovered from the previous shareholders of Qianfeng and recorded as an offset with the investment payable previously, as the bad debt expense. Due to several changes of the Qianfeng's ownership prior the Company's acquisition, the management believes it is more than likely that the Company will not be able to recover such amount from the existing shareholders of Qianfeng.

### ***Administration Interference***

Qianfeng is party to an administrative proceeding against the government of the Qiandongnan Autonomous Region, or the Qiandongnan Authorities, in Guizhou Province, China, in connection with the ownership of three of Qianfeng's entitled eight plasma stations in Guizhou Province. Qianfeng was authorized to acquire a total of eight plasma stations in Guizhou Province based on several national and provincial administrative authorizations issued by the PRC State Council and the Guizhou Ministry of Health between 2006 and 2007, but to date, the governmental authorizations have not been fully implemented by the Qiandongnan Authorities. In early 2007, Qianfeng submitted RMB 8,010,000 (approximately \$1,173,465) to the local finance department of Sansui County, Qiandongnan, for acquiring the Sansui Plasma Collection Station ( Sansui ), but the local finance department refused to honor the purchase and returned the full consideration to Qianfeng. Furthermore, subsequent local rulings published by the Qiandongnan Authorities February 28, 2008 appear to authorize another private company to acquire the Sansui and two other stations, the Zhengyuan Plasma Collection Station and the Shibing Plasma Collection Station. In December 2008 Qianfeng filed an administrative review application with the People's Government of Guizhou Province, or the Guizhou Provincial Government, but the Guizhou Provincial Government has delayed making a final decision pending further review of regulations regarding administrative authorizations. Qianfeng has received verbal notification from staff in the Guizhou Provincial Government that the Qiandongnan Authorities have withdrawn the local rulings. As a result, Qianfeng has withdrawn its application with the Guizhou Provincial Government to facilitate further negotiation with Qiandongnan Authorities on its right to acquire all eight plasma stations in Guizhou Province. In addition, Qianfeng has set aside the funds necessary to purchase Sansui pending the outcome of the administrative review. There have been no further developments on this case as of the date of this report.

### ***Qianfeng's Guarantee to a Third Party***

In 2007, as a condition to purchase Huang Ping Plasma Station, Qianfeng entered into an agreement with Guizhou Zhongxin Investment Company ( Zhongxin ) in which Qianfeng agreed to repay Zhongxin's debt out of Qianfeng's payables to Zhongxin arising from plasma purchased from Zhongxin. In the same agreement, Qianfeng also guaranteed to the Huang Ping County Hospital ( Huang Ping Hospital ), which was the co-owner with Zhongxin of the Huang Ping Plasma Station, for the amount of RMB3,074,342 (approximately, \$451,006) of debt that Zhongxin owed to Huang Ping Hospital. On June 1, 2009, Huang Ping Hospital brought suit, in Huang Ping County People's Court of

Guizhou Province, against Zhongxin for non-payment of its payables and debt due to Huang Ping Hospital and Qianfeng as the guarantor. On November 2, 2009, the court ruled in favor of the plaintiff and Qianfeng will need to repay the Zhongxin's debt to Huang Ping Hospital on behalf of Zhongxin as the guarantor. In October 2009, Qianfeng appealed to the Middle Court of Kaili District in Guizhou Province and was accepted by the court in January 2010. On April 8, 2010, the Middle Court of Kaili District ruled to sustain the original judgment. As a result, Qianfeng is in the process of filing suit against Zhongxin in the attempt to recover the RMB 3,074,342 debt that was under the guarantee. The Equity Transfer Agreement pursuant to which we acquired a 90% interest in Dalin, Qianfeng's majority shareholder, provides that the sellers will be responsible, in accordance with their equity proportion in Qianfeng, for damages incurred by Qianfeng from Zhongxin's debt and shall repay Dalin the sellers' proportionate share of payments made by Qianfeng to creditors in connection with Zhongxin's debt within 10 days after payment by Qianfeng. The RMB 3,074,342 contingent liability and proportionate share of the liability to be recovered from the sellers were properly reflected in the financials as of December 31, 2009. On June 30, 2010, Qianfeng brought suit, to the Middle Court of Guiyang City, against Zhongxin in attempt to recover for the full judgment amount of RMB 3,074,342 plus court fee of RMB 32,340 that Qianfeng already paid on behalf of Zhongxin.



**ITEM 1A. RISK FACTORS.**

Not applicable.

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

We have not sold any equity securities during the six months ended June 30, 2010 which sale was not previously disclosed in a current report on Form 8-K filed during that period.

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

None.

**ITEM 4. (REMOVED AND RESERVED).**

**ITEM 5. OTHER INFORMATION.**

We have no information to include that was required to be but was not disclosed in a report on Form 8-K during the period covered by this Form 10-Q. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

**ITEM 6. EXHIBITS.**

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

**Exhibit**

**Number Description**

<u>21</u>	<u>Subsidiaries</u>
<u>31.1</u>	<u>Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>32.2</u>	<u>Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

**SIGNATURES**

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

**CHINA BIOLOGIC PRODUCTS, INC.**

Dated: August 13, 2010

/s/ Chao Ming Zhao

Chao Ming Zhao  
Chairman and Chief Executive Officer  
(*Principal Executive Officer*)

Dated: August 13, 2010

/s/ Y. Tristan Kuo

Y. Tristan Kuo  
Chief Financial Officer  
(*Principal Financial Officer and Principal Accounting Officer*)

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**EXHIBIT INDEX**

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