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*For Immediate Release*

## **China-Biotics, Inc. Reports Third Quarter 2009 Financial Results**

**Shanghai, China – February 16, 2009** – China-Biotics, Inc. (NASDAQ: CHBT) (“China-Biotics”, “the Company”), a leading Chinese firm specializing in the manufacture, research, development, marketing and distribution of probiotics products, today announced its financial results for the third quarter of its 2009 fiscal year, ended December 31, 2008.

### **Third Quarter 2009 Highlights**

- Net sales increased 32.5% year-over-year to \$15.8 million
- Gross profit increased 28.3% year-over-year to \$11.2 million, with gross margin of 71%
- Net income increased 40.2% year-over-year \$5.7 million
- Excluding a \$1.4 million gain related to the change in fair value of convertible notes, net income increased 5.4% year-over-year to \$4.3 million
- Diluted earnings per share were \$0.22, compared to \$0.23 the prior year
- Signed agreements with six additional business customers to supply probiotics as bulk additives for dairy products

### **Third Quarter 2009 Results**

During the third quarter of the 2009 fiscal year, net sales increased 32.5% to \$15.8 million from \$11.9 million the prior year. Growth in revenues stemmed from increased sales volume of new products and changes in the Company’s sales mix, as China-Biotics reaped the benefits of ongoing, targeted price increases on selected products. Compared to the prior year, sales also benefitted from an increase in the number of the Company’s Shining retail outlets to 107 from 27 in the fiscal third quarter a year ago. Newer products, including Shining Essence Stomach Protection Capsules and Shining Probiotics Protein Powder, accounted for 19.6% of total sales during the quarter, up from a combined 13.1% of sales a year ago. Sales of bulk additives to commercial customers totaled \$1.1 million, or 7.1% of sales, during the third quarter of 2009, up from \$0.1 million, or 1.2% of sales, during the third quarter of 2008, as the Company continued to generate orders from agreements with new customers and expand production to fill orders from existing customers.

“We again achieved solid sales and profit growth during the third quarter, as our bulk additives and retail expansion strategies continued to generate strong results,” said Mr. Jinan Song, Chairman and

Chief Executive Officer of China-Biotics. “During the quarter, we continued to balance current demand against future sales growth, adjusting our product pricing to maximize production capacity. We focused on fine-tuning our Shining retail outlet operations, closing one unproductive location and two sites where the Shanghai government is engaged in urban redevelopment. On the bulk additives side of the business, we added six additional food customers during the quarter, and we remain in negotiations with more than 100 potential business clients.”

Gross profit increased 28.3% to \$11.2 million from \$8.7 million in the same quarter the prior year. Gross margin was 71.0%, compared to 73.3% a year ago. This was primarily caused by an increase in the cost of packaging materials, including pulp and paper costs.

Selling expenses increased to \$3.3 million, or 21.1% of sales, from \$1.8 million, or 14.7% of sales, a year ago, as a result of the increased number of retail outlets. General and administrative expenses increased to \$1.4 million, or 8.6% of sales, from \$1.3 million, or 10.6% of sales, in the third quarter the prior year. The slight increase was primarily related to \$0.1 million of additional research costs to develop and launch new products.

Operating expenses during the quarter were \$4.7 million, or 29.6% of sales, compared to \$3.0 million, or 25.2% of sales, a year ago.

Operating income for the quarter was \$6.5 million, an increase of 14.1% from \$5.7 million a year ago.

Other income of \$1.4 million in the third quarter of 2009 consisted of a book gain related to the change in the fair value of the \$25 million in convertible notes the Company issued in December 2007.

Net income during the third quarter was \$5.7 million. Excluding the \$1.4 million gain on the revaluation of the convertible notes, net income was \$4.3 million, up 5.4% from \$4.0 million during the same quarter the prior year.

Diluted earnings per share were \$0.22, compared with \$0.23 per diluted share in the third quarter of fiscal 2008. The calculation of diluted earnings per share for the third quarter of 2009 assumes full conversion of the convertible notes and thus excludes the gain from the change in fair value of the notes.

## **Nine Month Results**

Net sales for the first nine months of the 2009 fiscal year were \$38.7 million, up 32.2% from \$29.3 million in the same period the prior year. Gross profit was \$27.4 million, or 70.8% of sales, up 28.9% from gross profit of \$21.2 million, or 72.0% of sales, in the first nine months of fiscal 2008. Operating income was \$14.6 million, or 37.9% of sales, an increase of 8.9% from \$13.4 million, or 45.9% of sales, the prior year. Net income for the first nine months of fiscal 2009 was \$13.4 million, or \$0.59 per diluted share, up from \$9.6 million, or \$0.55 per diluted share, in the same period of fiscal 2008. Excluding the \$2.1 million gain on the revaluation of the convertible notes, net income was \$11.3 million, up 18.3% from \$9.6 million during the same period the prior year.

## **Financial Condition**

As of December 31, 2008, the Company had cash and cash equivalents of \$66.4 million and working capital of \$50.8 million. Days’ sales outstanding for the third quarter of the 2009 fiscal year was 72 days, compared to 85 days in the second quarter. At December 31, 2008, the Company had stockholders’ equity of \$58.9 million.

In the first nine months of fiscal 2009, China-Biotics generated \$17.1 million in cash flow from operations and recorded \$15.1 million in capital expenditures, mainly related to the construction of its new \$27.5 million manufacturing facility. The Company expects to spend another \$11 million in capital expenditures on the new facility during the fourth quarter of fiscal 2009. The remaining \$2.5 million is expected to be paid during fiscal 2010. The Company believes its current cash balance, combined with cash flow from operations, will be sufficient to fund its planned expenditures during the next 12 months.

## **Business Outlook**

The Company's new bulk additives production facility is expected to begin trial production in April 2009. To date, China-Biotics has signed agreements with eleven business customers to supply those customers with bulk probiotics in powder form that can be added to products such as milk, ice cream, yogurt, beverages, baked goods and nutritional supplements.

Management continues to balance current capacity against future sales growth and expects to resume the expansion of its Shining retail outlets at a moderate pace. This should enable the Company to concentrate on the completion of the new manufacturing facility and the addition of new bulk additives customers to fill production capacity once the facility begins operations. The Company remains confident in its plan to open a total of 300 Shining outlets during the 2010 fiscal year.

"We continue to make progress in both the retail and commercial aspects of our business, with 107 Shining retail centers and eleven bulk additives customers. We look forward to finishing the 2009 fiscal year in strong fashion, as the third and fourth fiscal quarter are typically our seasonally strongest, producing 60% of retail sales," Mr. Song said. "We also resumed construction of our new manufacturing facility following the Chinese New Year holiday, and we remain on track to complete the project in April."

## **Recent Events**

Also in January, the Company announced the State Food and Drug Administration has approved manufacturing certificates for the production of several new products, including Synbiotics Capsules, Probiotics Gegen Capsules, Probiotics Tremella Polysaccharide Capsules and Probiotics Chewable Tablets. The new probiotics-based products were developed during an eight-month process and are currently in production at the Company's existing manufacturing facility. The products are intended to offer several different health solutions to consumers, enhancing adolescents' immune systems and gastrointestinal ("GI") health, improving women's GI health, relieving menopausal symptoms, enhancing the GI health and immune systems of seniors, reducing the creation of enteric pathogenic bacteria and increasing consumers' energy levels.

## **Conference Call**

The company will host a conference call at 10:00 a.m. EST on, Tuesday, February 17, 2009, to discuss its financial results for the fiscal third quarter ended December 31, 2008. To participate in the event by telephone, please dial 888-241-0558 five to 10 minutes prior to the start time (to allow time for registration) and reference passcode 85103904. International callers should dial 647-427-3417. The conference call will be webcast live over the Internet and can be accessed by all interested parties at the Company's Web site, [www.chn-biotics.com](http://www.chn-biotics.com). To listen to the call, please visit the site at least 15 minutes prior to the start of the call to register, download, and install any necessary audio software. For those unable to participate during the live webcast, it will be archived using the same link for 90 days. A digital replay of the call will also be available on Tuesday, February 17, at approximately 12:00 p.m. EST through Tuesday, February 24, at midnight EST. Dial 888-562-2825 and enter the conference ID

number 85103904. International callers should dial 402-220-7740 and enter the same conference ID number.

### **Use of Non-GAAP Financial Information**

GAAP results for the third quarter and nine months ended December 31, 2008, include a non-cash gain related to the change in fair value of the Company's convertible notes. To supplement the Company's condensed consolidated financial statements presented on a GAAP basis, the Company has provided non-GAAP financial information excluding the impact of this item, which is non-GAAP net income, in this release. The Company's management believes that this non-GAAP measure provides investors with a better understanding of how the results relate to the Company's historical performance. A reconciliation of adjustments to GAAP results appears in the table accompanying this press release. This additional non-GAAP information is not meant to be considered in isolation or as a substitute for GAAP financials. The non-GAAP financial information that the Company provides also may differ from the non-GAAP information provided by other companies.

### **About China-Biotics, Inc.**

China-Biotics, Inc. (“China-Biotics,” “the Company”), a leading manufacturer of biotechnology products and supplements, engages in the research, development, marketing and distribution of probiotics dietary supplements. Through its wholly owned subsidiary, Shanghai Shining Biotechnology Co., Ltd., the Company has operations in Shanghai. Its proprietary product portfolio contains live microbial nutritional supplements under the “Shining” brand. Currently, the products are sold OTC through large distributors to pharmacies and supermarkets in Shanghai, Jiangsu, and Zhejiang. China-Biotics plans to launch 300 Shining brand retail outlets in major cities in China. Currently, China-Biotics is strategically expanding its production capacity of probiotics to meet growing demand in the bulk additive market. For more information, please visit <http://www.chn-biotics.com>.

*Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: Any statements set forth above that are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such factors include, but are not limited to, the Company's ability to market existing and new products, ability to access to capital for expansion, and changes from anticipated levels of sales, future national or regional economic and competitive conditions, market acceptance of its retail store concept, changes in relationships with customers, dependence on its flagship product profits and other factors detailed from time to time in the Company's filings with the United States Securities and Exchange Commission and other regulatory authorities. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

– FINANCIAL TABLES FOLLOW –

CHINA-BIOTICS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Amounts expressed in US Dollars)

	December 31, 2008	March 31, 2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 66,424,118	\$ 64,310,448
Accounts receivable	14,319,107	13,214,531
Other receivables	246,515	238,835
Inventories	1,265,539	408,358
Prepayment	1,634,695	1,806,605
<b>Total current assets</b>	<b>\$ 83,889,974</b>	<b>\$ 79,978,777</b>
<b>Property, plant and equipment and land use right</b>	<b>31,621,007</b>	<b>13,812,749</b>
<b>Total assets</b>	<b>\$ 115,510,981</b>	<b>\$ 93,791,526</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,799,522	\$ 2,786,180
Tax payables	25,545,893	22,317,982
Other payables and accruals	2,738,682	1,792,156
<b>Total current liabilities</b>	<b>\$ 33,084,097</b>	<b>\$ 26,896,318</b>
<b>Non-current liabilities</b>		
Convertible note, with embedded derivatives of \$3,679,000, net of discount of \$6,688,163 as of December 31, 2008	\$ 21,990,837	\$ 22,197,635
Interest payable	1,058,499	302,306
Deferred tax liabilities	500,167	-
<b>Total non-current liabilities</b>	<b>\$ 23,549,503</b>	<b>\$ 22,499,941</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Common stock (par value of \$0.0001, 100,000,000 shares authorized, 41,461,004 shares issued and outstanding as of December 31, 2008)	\$ 4,146	\$ 4,146
Additional paid-in capital	7,863,031	7,863,031
Retained earnings	43,204,901	29,827,144
Treasury stock at cost (24,381,004 shares)	(2,438)	(2,438)
Accumulated other comprehensive income	4,781,947	3,677,590
Capital and statutory reserves	3,025,794	3,025,794
<b>Total stockholders' equity</b>	<b>\$ 58,877,381</b>	<b>\$ 44,395,267</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 115,510,981</b>	<b>\$ 93,791,526</b>

CHINA-BIOTICS, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Amounts expressed in U.S. Dollars)

	Three months ended		Three months ended	
	December 31,		December 31,	
	2008	2007	2008	2007
<b>Net sales</b>	\$ 15,810,111	\$ 11,931,306	\$ 38,676,017	\$ 29,266,801
Cost of sales	(4,583,371)	(3,183,056)	(11,304,893)	(8,039,651)
<b>Gross profit</b>	<u>\$ 11,226,740</u>	<u>\$ 8,748,250</u>	<u>\$ 27,371,124</u>	<u>\$ 21,227,150</u>
Operating expenses:				
Selling expenses	\$ (3,330,668)	\$ (1,752,637)	\$ (8,514,090)	\$ (4,630,916)
General and administrative expenses	(1,353,561)	(1,258,927)	(4,218,494)	(3,155,544)
Total operating expenses	<u>\$ (4,684,229)</u>	<u>\$ (3,011,564)</u>	<u>\$ (12,732,584)</u>	<u>\$ (7,786,460)</u>
<b>Income from operations</b>	<u>\$ 6,542,511</u>	<u>\$ 5,736,686</u>	<u>\$ 14,638,540</u>	<u>\$ 13,440,690</u>
Other income and expenses:				
Changes in the fair value of embedded derivatives	\$ 1,408,000	\$ -	\$ 2,073,000	\$ -
Other income	60,442	118,064	1,923,430	190,006
Other expenses	(42,718)	(384,212)	(260,297)	(404,147)
Total other income (expenses)	<u>\$ 1,425,724</u>	<u>\$ (266,148)</u>	<u>\$ 3,736,133</u>	<u>\$ (214,141)</u>
<b>Income before taxes</b>	<u>\$ 7,968,235</u>	<u>\$ 5,470,538</u>	<u>\$ 18,374,673</u>	<u>\$ 13,226,549</u>
Provision for income taxes	(2,299,348)	(1,426,789)	(4,996,916)	(3,672,434)
<b>Net income</b>	<u><u>\$ 5,668,887</u></u>	<u><u>\$ 4,043,749</u></u>	<u><u>\$ 13,377,757</u></u>	<u><u>\$ 9,554,115</u></u>
<b>Earnings per share:</b>				
Basic	<u>\$ 0.33</u>	<u>\$ 0.24</u>	<u>\$ 0.78</u>	<u>\$ 0.56</u>
Diluted	<u>\$ 0.22</u>	<u>\$ 0.23</u>	<u>\$ 0.59</u>	<u>\$ 0.55</u>
<b>Weighted average shares outstanding</b>				
Basic	<u>17,080,000</u>	<u>17,080,000</u>	<u>17,080,000</u>	<u>17,080,000</u>
Diluted	<u>19,163,333</u>	<u>17,555,543</u>	<u>19,163,333</u>	<u>17,239,090</u>

CHINA-BIOTICS, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW  
 (Amounts expressed in US Dollars)

	Nine months ended	
	December 31,	
	2008	2007
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income	\$ 13,377,757	\$ 9,554,115
Adjustment for:		
Changes in the fair value of embedded derivatives	(2,073,000)	-
Loss on disposal of plant and equipment	30,022	-
Depreciation	1,298,953	625,357
Change in deferred tax	500,000	-
(Increase)/Decrease in accounts receivable	(792,146)	2,360,417
(Increase)/Decrease in inventories	(841,095)	(526,663)
(Increase)/Decrease in prepayments	216,069	(1,596,989)
Increase/(Decrease) in accounts payable	1,926,337	812,003
Increase/(Decrease) in income tax, surcharge tax and dividends withholding tax	2,486,572	1,754,188
Increase/(Decrease) in other payables and accruals, and value added tax payable	957,512	329,998
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 17,086,981</b>	<b>\$ 13,312,426</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Purchases of fixed assets	\$ (15,144,845)	\$ (8,398,701)
Capital expenditure	(808,219)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (15,953,064)</b>	<b>\$ (8,398,701)</b>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		
Issue of convertible notes	-	25,000,000
Effect of exchange rate changes on cash	\$ 979,753	\$ 2,175,977
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS BALANCES</b>	<b>\$ 2,113,670</b>	<b>\$ 32,089,702</b>
<b>PERIOD</b>	<b>64,310,448</b>	<b>26,992,025</b>
<b>CASH AND CASH EQUIVALENTS BALANCES AT END OF PERIOD</b>	<b>\$ 66,424,118</b>	<b>\$ 59,081,727</b>

CHINA-BIOTICS, INC. AND SUBSIDIARIES  
 RECONCILIATION OF NON-GAAP FINANCIAL DATA

	<u>Three months ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Net Income	4,260,887	4,043,749
Adjustments		
Non-cash surplus arising from change in the fair value of embedded derivatives	1,408,000	-
Amount per consolidated statement of operations	<u>5,668,887</u>	<u>4,043,749</u>

	<u>Nine months ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Net Income	11,304,757	9,554,115
Adjustments		
Non-cash surplus arising from change in the fair value of embedded derivatives	2,073,000	-
Amount per consolidated statement of operations	<u>13,377,757</u>	<u>9,554,115</u>

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