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*For Immediate Release*

## **China-Biotics, Inc. Reports Third Quarter 2008 Financial Results**

**Shanghai, China** – February 13, 2008 – China-Biotics, Inc. (OTC BB: 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 ended December 31, 2007, of its 2008 fiscal year.

### **Third Quarter 2008 Highlights**

- Net sales increased 36.2% year-over-year and 45.8% quarter-over-quarter to \$11.9 million
- Gross profit increased 39.9% year-over-year and 46.3% quarter-over-quarter to \$8.7 million
- Gross profit margin increased to 73.3% from 71.4% the prior year
- Operating income increased 24.1% year-over-year and 93.4% quarter-over-quarter to \$5.7 million
- Net income increased 12.3% year-over-year and 105.3% quarter-over-quarter to \$4.0 million, or \$0.23 per diluted share, on a weighted-average basis
- Sales from Shining retail stores accounted for 8% of revenues, up from 4% a year ago
- Opened five new Shining retail outlets during the quarter, bringing the total number of stores to 27
- Obtained government approval for the construction of a 150-metric-ton-per-year probiotics production facility in Shanghai
- Completed the private placement of \$25 million in senior convertible notes
- Signed two-year agreement with Shanghai Relax Xinqiao Food Co., Ltd. to supply probiotics for Relax Xinqiao’s baked products

### **Third Quarter 2008 Results**

For the third quarter of the 2008 fiscal year, net revenues increased 36.2% to \$11.9 million from \$8.8 million in the same quarter a year ago. The growth was caused by increased sales volume and higher average sales price due to changes in the Company's sales mix. The Company's top-selling product, Shining Essence, accounted for 48% of total sales compared with 64% a year ago, as the Company continued to diversify its product mix. Sales of Shining Signal, Shining Golden Shield and Shining Energy accounted for 13%, 13% and 11% of revenues, respectively, while sales of newer products accounted for 15% of sales, compared to a nominal percentage a year ago. These products included Shining Stomach Protection, Shining Beauty Essence, Shining Sicanel and Shining Bifidus Factor. Sales from the Company's retail stores accounted for 8% of revenues during the third quarter, compared to 4% a year ago.

“We again achieved strong growth during the third quarter and saw strong improvement in gross margin, as we continued to increase our base of retail stores,” said Mr. Jinan Song, Chairman and Chief Executive Officer of China-Biotics. “We also began to see increased sales in our newer product offerings, which should help us to further diversify our revenues in the future. Meanwhile, we began construction of our new 150-ton-per-year bulk additives facility, which we expect to come online by September of this year.”

Gross profit increased 39.9% to \$8.7 million from \$6.3 million a year ago. Gross margin improved to 73.3%, up from 71.4% in the third quarter of fiscal 2007, as the company generated more sales through its Shining retail stores, which enjoy a higher gross margin than sales through distributors. Gross margin also increased sequentially from 73.1% during the second quarter of fiscal 2008.

Total operating expenses during the third quarter increased to \$3.0 million from \$1.6 million during the same period a year ago. General and administrative expenses were \$1.3 million, or 10.6% of sales, up from \$0.6 million, or 6.7% of sales, a year ago. The increase was primarily the result of additional research costs related to the development and launch of new products. Selling expenses increased 67.8% to \$1.8 million, or 14.7% of sales, due to the gradual rollout of new retail stores. As of December 31, 2007, the Company had 27 retail outlets in operation, compared to nine stores during the year-ago period.

Operating income increased 24.1% to \$5.7 million from \$4.6 million a year ago. Operating margin was 48.1%, compared to 52.8% during the same quarter of fiscal 2007. During the quarter, the Company incurred a foreign currency conversion loss of \$0.4 million, which was included in other expenses. The loss arose on the conversion of dollars into Renminbi for the capitalization of the Company's subsidiary. This is not expected to recur.

For the third quarter of fiscal 2008, net income was \$4.0 million, or \$0.23 per diluted share, an increase of 12.3% from \$3.6 million, or \$0.21 per diluted share, in the same period the prior year. Diluted earnings per share for fiscal 2008 include shares that may

be issued on conversion of the \$25 million in convertible notes issued in December 2007.

### **Nine-Month Results**

Net sales for the first nine months of fiscal 2008 were \$29.3 million, up 31.6% from sales of \$22.2 million a year ago. Gross profit was \$21.2 million, or 72.5% of sales, up 35.1% from \$15.7 million, or 70.7% of sales, in the first nine months of fiscal 2007. Operating income was \$13.4 million, or 45.9% of sales, up 21.4% from operating income of \$11.1 million, or 49.8% of sales, in the same period of the prior year. For the first nine months of the 2008 fiscal year, net income was \$9.6 million, or \$0.55 per diluted share, up 18.5% from \$8.1 million, or \$0.47 per diluted share, in the same period of fiscal 2007. Diluted earnings per share for fiscal 2008 include shares that may be issued on conversion of the \$25 million in convertible notes issued in December 2007.

### **Financial Condition**

As of December 31, 2007, the Company had cash and cash equivalents of \$59.1 million and working capital of \$49.6 million. The increase in cash resulted from the private placement of \$25 million of the Company's convertible notes. Cash generated from operations during the first nine months of fiscal 2008 of \$13.3 million was offset by capital expenditures, primarily for the new bulk additives facility, of \$8.4 million. Days' sales outstanding (DSO) during the quarter was 81, down from 113 for the second quarter of fiscal 2008 and 124 for the first quarter of fiscal 2008. The Company had shareholders' equity of \$35.4 million, up from \$23.9 million on March 31, 2007.

### **Business Outlook**

The Company plans to grow its market share by expanding its retail stores and hopes to form a network of more than 300 Shining retail stores by the end the 2009 fiscal year. Most of the China-Biotics' newer retail products will be launched through the Shining stores, which will enable the Company to develop its customer loyalty strategy. China-Biotics is also focused on selling its probiotics to the bulk additive market. In November the Company received government approval to begin construction of a new, large-scale bulk additives manufacturing facility that will focus on this growing market.

"We are excited by the progress we have made in both our retail and bulk additives strategies," said Mr. Song. "We have commenced construction of our new bulk additives facility, which should be completed by September of this year. In anticipation of that additional capacity, we are in discussion with many potential customers to ensure that we have plenty of orders when the facility is up and running."

### **Recent Events**

In November 2007, China-Biotics received local government approval to begin construction on a proposed 150-metric-ton-per-year manufacturing facility, in order to meet expanding demand for probiotics in the bulk additive market. Phase 1 of the project,

which will cost an estimated \$18 million, is expected to be completed near the end of the second quarter of the 2009 fiscal year.

In December 2007, China-Biotics issued \$25 million senior convertible notes. The proceeds will be used to fund the construction of the bulk additives manufacturing facility and for other capital expenditures.

During the third quarter of fiscal 2008, China-Biotics opened five Shining retail stores, bringing the total number of Company-owned retail outlets to 27. Of these, 23 are in Shanghai, while the remaining outlets are in Changchun.

In January 2008, China-Biotics launched its newly developed corporate Web site in both English and Mandarin. The Web site may be found at [www.chn-biotics.com](http://www.chn-biotics.com).

### **Conference Call**

The company will host a conference call at 9:00 a.m. EST on, Wednesday, February 13, 2008, to discuss its financial results for the third quarter ended December 31, 2007. 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 33078994. International callers should dial 647-427-3417. The conference call will be broadcast 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 Wednesday, February 13, at approximately 11:00 a.m. EST through Wednesday, February 20, at midnight EST. Dial 800-839-4177 and enter the conference ID number 33078994. International callers should dial 402-220-2901 and enter the same conference ID number.

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

Headquartered in Shanghai, China-Biotics, Inc. ("China-Biotics", "the Company") was founded in 1999 and is one of China's largest suppliers of probiotics. Probiotics are beneficial live bacteria used as dietary supplements and food additives to improve intestinal health and digestion. The Company's product portfolio contains live microbials made with proprietary technology. Currently, these products are sold over-the-counter under the "Shining" brand through large distributors to more than 1,000 pharmacies and 100 supermarkets in Shanghai, Jiangsu and Zhejiang. Shining is one of the most recognized brands in Shanghai. China-Biotics plans to expand its retail sales to other major cities in China and will launch 300 Shining brand logistic centers in these cities during the next two years. The Company's flagship product, "Shining Essence", has been a profit driver since its launch in April 2001. There is a significant demand for probiotics for use in the bulk additive market, which is currently met by imports. China-Biotics is building a new plant which will increase its production capacity manifolds to capture this market. For more information, please visit [www.chn-biotics.com](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, 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  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited; Amounts expressed in US Dollars)

	<u>Three months ended December 31,</u>		<u>Nine months ended December 31,</u>	
	2006	2007	2006	2007
<b>Net sales</b>	\$ 8,763,150	\$ 11,931,306	\$ 22,233,151	\$ 29,266,801
Cost of sales	(2,510,544)	(3,183,056)	(6,519,647)	(8,039,651)
<b>Gross profit</b>	\$ 6,252,606	\$ 8,748,250	\$ 15,713,504	\$ 21,227,150
Operating expenses:				
Selling expenses	\$ (1,044,175)	\$ (1,752,637)	\$ (3,266,162)	\$ (4,630,916)
General and administrative expenses	(584,020)	(1,258,927)	(1,374,744)	(3,155,544)
Total operating expenses	\$ (1,628,195)	\$ (3,011,564)	\$ (4,640,906)	\$ (7,786,460)
<b>Income from operations</b>	\$ 4,624,411	\$ 5,736,686	\$ 11,072,598	\$ 13,440,690
Other income and expenses:				
Other income	\$ 37,864	\$ 118,064	\$ 142,242	\$ 190,006
Other expenses	(50,731)	(384,212)	(89,476)	(404,147)
Total other income (expenses)	\$ (12,867)	\$ (266,148)	\$ 52,766	\$ (214,141)
<b>Income before taxes</b>	\$ 4,611,544	\$ 5,470,538	\$ 11,125,364	\$ 13,226,549
Provision for income taxes	(1,009,310)	(1,426,789)	(3,066,112)	(3,672,434)
<b>Net income</b>	\$ 3,602,234	\$ 4,043,749	\$ 8,059,252	\$ 9,554,115
<b>Earnings per share:</b>				
Basic	\$ 0.21	\$ 0.24	\$ 0.47	\$ 0.56
Diluted	\$ 0.21	\$ 0.23	\$ 0.47	\$ 0.55
<b>Weighted average shares outstanding</b>				
Basic	17,080,000	17,080,000	17,080,000	17,080,000
Diluted	17,080,000	17,555,543	17,080,000	17,239,090

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

	March 31, 2007	December 31, 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 26,992,025	\$ 59,081,727
Accounts receivable	14,309,818	12,590,434
Deposit Paid	216,236	228,925
Inventories	203,054	757,451
Prepayment	176,094	1,840,407
<b>Total current assets</b>	<b>\$ 41,897,227</b>	<b>\$ 74,498,944</b>
<b>Plant and equipment, net</b>	<b>2,682,617</b>	<b>10,821,963</b>
<b>Total assets</b>	<b>\$ 44,579,844</b>	<b>\$ 85,320,907</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,523,471	\$ 2,454,718
Tax payables	18,019,721	21,179,720
Other payables and accruals	1,126,645	1,254,370
<b>Total current liabilities</b>	<b>\$ 20,669,837</b>	<b>\$ 24,888,808</b>
<b>Non-current liabilities</b>		
Convertible Note, at fair value	-	25,000,000
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Common stock, par value \$0.0001, 100,000,000 shares authorized, 17,080,000 shares issued and outstanding	1,708	1,708
Additional paid-in capital	7,863,031	7,863,031
Retained earnings	12,284,900	21,839,015
Accumulated other comprehensive income	734,574	2,702,551
Capital and statutory reserves	3,025,794	3,025,794
<b>Total stockholders' equity</b>	<b>\$ 23,910,007</b>	<b>\$ 35,432,099</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 44,579,844</b>	<b>\$ 85,320,907</b>

CHINA-BIOTICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOW  
(Unaudited, amounts expressed in US Dollars)

	Nine months ended December 31,	
	2006	2007
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income	\$ 8,059,252	\$ 9,554,115
Adjustment for:		
Depreciation	354,768	625,357
Gain on disposal of plant and equipment	(14,793)	-
(Increase)/Decrease in restricted cash	131,131	-
(Increase)/Decrease in accounts receivable	(3,392,961)	2,360,417
(Increase)/Decrease in other receivables	2,732	-
(Increase)/Decrease in inventories	(67,922)	(526,663)
(Increase)/Decrease in prepayments	(349,604)	(1,596,989)
Increase/(Decrease) in accounts payable	(89,781)	812,003
Increase/(Decrease) in income tax, surcharge tax and dividends withholding tax	2,056,802	1,754,188
Increase/(Decrease) in other payables and accruals, and value added tax payable	(798,894)	329,998
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 5,890,730</b>	<b>\$ 13,312,426</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales proceeds from disposal of plant and equipment	14,793	-
	-	-
Additions of fixed assets	(1,327,488)	(8,398,701)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (1,312,695)</b>	<b>\$ (8,398,701)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of convertible notes	-	25,000,000
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>\$ -</b>	<b>\$ 25,000,000</b>
Effect of exchange rate changes on cash	\$ 531,950	\$ 2,175,977
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS BALANCES</b>	<b>\$ 5,109,985</b>	<b>\$ 32,089,702</b>
<b>CASH AND CASH EQUIVALENTS BALANCES AT BEGINNING OF PERIOD</b>	<b>19,840,812</b>	<b>26,992,025</b>
<b>CASH AND CASH EQUIVALENTS BALANCES AT END OF PERIOD</b>	<b>\$ 24,950,797</b>	<b>\$ 59,081,727</b>

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