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*For Immediate Release*

## **China-Biotics, Inc. Reports Fourth Quarter and Full Year Fiscal 2008 Financial Results**

***Full year revenues increased 38% to \$42.3 million***  
***Full year non-GAAP net income rose 30% to \$14.2 million***

**Shanghai, China – July 10, 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 fourth quarter and fiscal year ended March 31, 2008.

### **Fourth Quarter 2008 Highlights**

- Net sales increased 51.5% year-over-year to \$12.7 million
- Gross profit increased 40.7% year-over-year to \$8.4 million
- Operating income increased 26.3% year-over-year to \$4.9 million
- Net income increased 180.7% year-over-year to \$8.0 million
- Excluding a \$3.4 million gain related to the change in fair value of convertible notes, net income increased 62.4% year-over-year to \$4.6 million
- Basic earnings per share increased to \$0.47 from \$0.17 a year ago
- Diluted earnings per share increased to \$0.26 from \$0.17 a year ago

### **Fiscal Year 2008 Highlights**

- Net sales increased 38.3% to \$42.3 million

- Gross profit rose 38.3% to \$30.0 million
- Gross margin was 70.9%
- Operating income increased 22.7% to \$18.3 million
- Net income increased 60.9% to \$17.5 million
- Excluding a \$3.4 million gain related to the change in fair value of convertible notes, net income increased 30.0% to \$14.2 million
- Basic earnings per share increased to \$1.03 from \$0.64 the prior year
- Diluted earnings per share increased to \$0.80 from \$0.64 the prior year
- Received government approval and began construction of a 150-metric-ton-per-year bulk additives manufacturing facility
- Completed \$25 million financing
- Opened 51 new Shining-branded retail outlets, bringing the total number of stores to 60 in Shanghai and five other cities in China
- Joined International Probiotics Association
- Launched new products such as Shining Probiotics Protein Powder
- Signed contracts to supply probiotics to dairy and food manufacturers as additives
- Launched new corporate and investor relations Web site

#### **Fourth Quarter 2008 Results**

During the fourth quarter of the 2008 fiscal year, net sales increased 51.5% to \$12.7 million from \$8.4 million a year ago. The increase primarily resulted from significant growth in the sales of new products, most of which were sold in the Company's Shining-branded retail outlets. The sales of new products accounted for 19% of total sales in the fourth quarter of 2008, compared to 3% in the same quarter the prior year.

“We concluded the 2008 fiscal year with a strong finish, continuing to achieve high growth in revenues and net income, as our combined strategy of company-owned retail stores and traditional sales through distributors was a great success,” said Mr. Jinan Song, Chairman and Chief Executive Officer of China-Biotics. “We look forward to another promising fiscal year in 2009, as we remain on schedule to complete construction and begin production at our new bulk additives facility in the latter part of the 2008 calendar year. By then, we expect to become the dominant supplier of naturally occurring probiotic bacteria in China.”

Gross profit for the quarter increased 40.7% to \$8.4 million from \$6.0 million a year ago. Gross margin was 66.4% in the fourth quarter, compared to 71.5% in the same period of fiscal 2007, as a 30% increase in pulp and paper costs resulted in greater packaging costs. The Company is working with suppliers of its packaging materials to bring down such costs in the future.

Operating expenses were \$3.5 million, compared to \$2.1 million in the fourth quarter of fiscal 2007. The increase was primarily due to setup and operations costs for new retail stores and increased salary expense stemming from new hires to support the Company's expansion.

Operating income increased 26.3% to \$4.9 million from \$3.9 million the prior year, while operating margin declined to 38.4% from 46.1% a year ago.

Other income was \$4.4 million, up from other expense of \$0.3 million a year ago. The increase largely resulted from a \$3.4 million book gain recorded in the fourth quarter of 2008 related to the change in the fair value of the Company's convertible bonds.

Net income for the fourth quarter of the 2008 fiscal year was \$8.0 million. Excluding the book gain associated with the revaluation of the convertible bonds, net income was \$4.6 million, up 62.4% from \$2.8 million a year ago.

Diluted earnings per share were \$0.26 calculated on a weighted average basis, compared with \$0.17 per diluted share in the fourth quarter of fiscal 2007. The calculation of diluted earnings per share for the fourth quarter of 2008 assumes full conversion of the convertible bonds and thus excludes the gain from the change in fair value of the bonds.

### **Fiscal Year 2008 Results**

For the 2008 fiscal year, net sales were \$42.3 million, up 38.3% from \$30.6 million in fiscal 2007. The sales increase was attributed to increased sales volume and increases in average selling prices because of a change in the sales mix. Shining Essence, the Company's best-selling product, accounted for 48.6% of sales during the year, compared with 61.6% during the prior year. Newly launched products, including Shining Essence Stomach Protection Capsules, Shining Probiotics Protein Powder and other products, accounted for 13.6% of total sales during the year ended March 31, 2008, compared to 1.9% during the prior year. The Company's Shining-branded retail stores helped to promote new products by precisely targeting existing regular customers who had benefited from taking probiotics products.

Gross profit during the year was \$30.0 million, an increase of 38.3% from \$21.7 million the prior year. Gross margin was 70.9% in fiscal 2008, unchanged from fiscal 2007. The Company continues to expect gross margin of around 70% during the 2009 fiscal year.

Operating expenses were \$11.7 million in fiscal 2008, compared to \$6.8 million a year ago. The increase primarily resulted from the rapid expansion of the Shining retail network and additional administrative and research expenses, including costs associated with new product development and construction of the new bulk additives facility.

Full-year operating income increased 22.7% to \$18.3 million from \$14.9 million in fiscal 2007. Operating margin was 43.3% in fiscal 2008, compared to 48.8% the prior year.

Other income was \$4.2 million, up from \$0.2 million in fiscal 2007. The increase largely resulted from a \$3.4 million book gain recorded in the fourth quarter of 2008 related to the change in the fair value of the Company's convertible notes.

Net income for the 2008 fiscal year was \$17.5 million. Excluding the book gain associated with the change in the fair value of convertible notes, net income was \$14.2 million, an increase of 30.0% from a year ago.

Diluted earnings per share were \$0.80 calculated on a weighted average basis, compared with \$0.64 per diluted share during the 2007 fiscal year. The calculation of diluted earnings per share for 2008 assumes full conversion of the convertible bonds and thus excludes the gain from the change in fair value of the bonds.

### **Financial Condition**

As of March 31, 2008, the Company had cash and cash equivalents of \$64.3 million and working capital of \$53.1 million. The increase in cash resulted in part from the private placement of \$25 million of the Company's convertible notes in December 2007. In fiscal 2008, China-Biotics generated \$19.4 million in cash flow from operations and recorded \$10.3 million in capital expenditures for the purchase of fixed assets. Accounts receivable were \$13.2 million, and days' sales outstanding improved to 119 for the year from 151 in 2007. At March 31, 2008, the Company had stockholders' equity of \$44.4 million.

### **Business Outlook**

The Company's new bulk additives production facility is scheduled to commence production in the fourth quarter of the 2008 calendar year. As of June 30, 2008, China-Biotics had signed contracts with four business customers to supply those customers with bulk probiotics in powder form that can be added to products such as milk, ice cream, yogurt, baked breads and nutritional supplements

“With the expansion of our retail sales and bulk additives businesses, we continue to expect significant new business opportunities during the 2009 fiscal year,” Mr. Song said. “Same-store sales for Shining retail stores that have been in operation at least one year are expected to grow significantly year-over-year, and we hope to increase the number of Shining retail outlets to 300 by the end of March 2009.

“We are pleased to have initiated relationships with China's leading food and supplement manufacturers, which will provide us with sufficient bulk additives prospects prior to the commencement of production at our new manufacturing plant,” Mr. Song continued. “Leveraging our technical competence, cost efficiencies and widely recognized Shining brand, we look forward to becoming China's dominant domestic supplier of probiotics and related products in coming years.”

“With three board committees established in May 2008, we have improved our corporate governance and oversight in order to meet requirements to be listed on the Nasdaq Stock Market during the new fiscal year.”

### **Recent Events**

In April 2008, China-Biotics completed the foundation work for its new, 150-metric-ton-per-year bulk additives plant at Qing Pu, Shanghai and placed orders for all of the plant's major equipment. Management expects to complete construction of the factory's infrastructure by the end of the third quarter of the 2009 fiscal year

In May 2008, the Company signed a one-year contract with a subsidiary of Holiland Enterprise Investment Management Co., Ltd. ("Holiland") to supply probiotics for Holiland's bakery products. Holiland is China-Biotics' third bulk additive customer, following previously announced agreements with Bright Dairy & Food Co., Ltd. and Shanghai Relax Xinqiao Food Co., Ltd.

On May 28, 2008, the Company's Board of Directors established three Board committees: the Audit Committee, the Nominating Committee and the Compensation Committee. Dr. Ji Wei Chin, Dr. Wen Min Du and Mr. Simon Yick were appointed as the initial members of the Audit Committee. Mr. Song Jinan, Dr. Chin and Dr. Du were appointed as the initial members of the Nominating Committee. Dr. Chin, Dr. Du and Mr. Yick were appointed as the initial members of the Compensation Committee. The chairmen of the Audit, Nominating and Compensation Committees are Mr. Yick, Mr. Song and Dr. Du, respectively.

In June 2008, China-Biotics announced a supply contract with Jiangxi Lijia Pharmaceutical Co., Ltd., the Company's fourth bulk additives customer. Lijia will use a combination of two Shining Probiotics, Bifidobacterium adolescentis and Bifidobacterium infantis, as additives in its newly developed dietary supplement powders and tablets. These probiotics will help to reduce the symptoms of lactose intolerance, to improve gastrointestinal tract health and to boost immune system health. The agreement runs through May 2009.

### **Conference Call**

The company will host a conference call at 9:00 a.m. EDT on, Friday, July 11, 2008, to discuss its financial results for the fourth quarter and fiscal year ended March 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 52029883. 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 Friday, July 11, at approximately 11:00 a.m. EDT through Friday, July 18, at midnight EDT. Dial (800) 695-3382 and enter the conference ID number 52029883. International callers should dial (402) 220-1756 and enter the same conference ID number.

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

GAAP results for the fourth quarter and fiscal year ended March 31, 2008, include a non-cash gain related to 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 these items in this release, which are non-GAAP net income. The Company's management believes that these non-GAAP measures provide investors with a better understanding of how the results relate to the Company's historical performance. A reconciliation of adjustments to GAAP results appears in the tables 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 stores 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**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Amounts expressed in US Dollars)

	<b>Three months ended March 31,</b>		<b>Years ended March 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	(unaudited)	(unaudited)		
<b>Net sales</b>	12,689,489	\$ 8,376,788	\$ 42,321,111	\$ 30,609,941
Cost of sales	(4,270,441)	(2,390,986)	(12,310,092)	(8,910,633)
<b>Gross profit</b>	<b>8,419,048</b>	<b>5,985,802</b>	<b>30,011,019</b>	<b>21,699,308</b>
Operating expenses:				
Selling expenses	(1,873,372)	(1,236,525)	(6,869,109)	(4,502,687)
General and administrative expenses	(1,670,930)	(890,476)	(4,826,473)	(2,265,220)
Total operating expenses	(3,544,302)	(2,127,001)	(11,695,582)	(6,767,907)
<b>Income from operations</b>	<b>4,874,746</b>	<b>3,858,801</b>	<b>18,315,437</b>	<b>14,931,401</b>
Other income and expenses:				
Other income	3,973,432	81,159	4,163,438	223,401
Other expenses	404,147	26,528	-	(62,948)
Total other income (expenses)	4,377,580	107,688	4,163,438	160,453
<b>Income before taxes</b>	9,252,326	\$ 3,966,489	22,478,875	15,091,854
Provision for income taxes	(1,264,197)	(1,120,756)	(4,936,631)	(4,186,868)
<b>Net income</b>	<b>7,988,129</b>	<b>\$ 2,845,733</b>	<b>17,542,244</b>	<b>\$ 10,904,986</b>
Earnings per share:				
Basic	\$ 0.47	\$ 0.17	\$ 1.03	\$ 0.64
Diluted	\$ 0.26	\$ 0.17	\$ 0.80	\$ 0.64
Weighted average shares outstanding:				
Basic	17,080,000	17,080,000	17,080,000	17,080,000
Diluted	17,719,269	17,080,000	17,719,269	17,080,000

CHINA-BIOTICS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Audited, amounts expressed in US Dollars)  
AS OF MARCH 31, 2008 AND 2007

**ASSETS**

**Current assets**

	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 64,310,448	\$ 26,992,025
Accounts receivable	13,214,531	14,309,818
Other receivables	238,835	216,236
Inventories	408,358	203,054
Prepayment	1,806,605	176,094
<b>Total current assets</b>	<b>79,978,777</b>	<b>41,897,227</b>
<b>Property, plant and equipment and land use right</b>	<b>13,812,749</b>	<b>2,682,617</b>
<b>Total assets</b>	<b>93,791,526</b>	<b>44,579,844</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Current liabilities:**

Accounts payable	2,786,180	1,523,471
Tax payables	22,317,982	18,019,721
Other payables and accruals	1,792,156	1,126,645
<b>Total current liabilities</b>	<b>\$ 26,896,318</b>	<b>\$ 20,669,837</b>

**Non-current liabilities**

Convertible Note, net of discount of \$8,554,365 as of March 31, 2008	16,445,635	-
Embedded derivatives	5,752,000	-
Interest payable	302,306	-
<b>Total non-current liabilities</b>	<b>\$ 22,499,941</b>	<b>\$ -</b>

**Commitments and contingencies**

**Stockholders' equity:**

Common stock	1,708	1,708
Additional paid-in capital	7,863,031	7,863,031
Retained earnings	29,827,144	12,284,900
Accumulated other comprehensive income	3,677,590	734,574
Capital and statutory reserves	3,025,794	3,025,794
<b>Total stockholders' equity</b>	<b>44,395,267</b>	<b>23,910,007</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 93,791,526</b>	<b>\$ 44,579,844</b>

**CHINA-BIOTICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
(Audited, amounts expressed in US Dollars)  
FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2008</b>	<b>2007</b>
Net income	17,542,244	\$ 10,904,986
Adjustment for:		
Gain on disposal of plant and equipment	-	(14,793)
Depreciation	999,148	493,472
Change in fair value of convertible notes	(3,366,000)	-
(Increase)/Decrease in restricted cash	-	748,742
(Increase)/Decrease in accounts receivable	2,261,918	(2,881,034)
(Increase)/Decrease in inventories	(154,189)	65,303
(Increase)/Decrease in prepayment	(1,418,658)	(352,923)
(Increase)/Decrease in other receivables		2,732
Increase/(Decrease) in accounts payable	1,036,521	(451,305)
Increase in income tax and surcharge tax payable	5,008,143	4,186,868
Income tax paid	(2,969,765)	(2,373,846)
Increase/(Decrease) in other payables and accruals, and value added tax payable	422,113	(321,043)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>19,361,475</b>	<b>10,007,159</b>
 <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Sales proceeds from disposal of plant and equipment	-	14,793
Purchase of fixed assets and payments for leasehold improvements	(10,302,291)	(1,485,789)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(10,302,291)</b>	<b>(1,470,996)</b>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of convertible bond	25,000,000	-
Repayment on loan from shareholders	-	(2,280,687)
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>25,000,000</b>	<b>(2,280,687)</b>
 Effect of exchange rate changes on cash	 3,259,239	 895,737
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS BALANCES</b>	<b>37,318,423</b>	<b>7,151,213</b>
<b>CASH AND CASH EQUIVALENTS BALANCES AT BEGINNING OF PERIOD</b>	<b>26,992,025</b>	<b>19,840,812</b>
<b>CASH AND CASH EQUIVALENTS BALANCES AT END OF PERIOD</b>	<b>64,310,448</b>	<b>26,992,025</b>

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

<b>Non-GAAP Net income</b>	<b>Q4 2008</b>	<b>Q4 2007</b>
Net Income (Loss) and Diluted EPS	Net Income	Net Income
Adjusted Amount	4,622,129	\$2,845,734
Adjustments		
Non-cash gains from change in fair value of convertible bonds	\$3,366,000	-
Amount per consolidated statement of operations	\$7,988,129	\$2,845,734
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<b>Non-GAAP Net income</b>	<b>FY 2008</b>	<b>FY 2007</b>
Net Income (Loss) and Diluted EPS	Net Income	Net Income
Adjusted Amount	\$14,176,244	\$10,904,986
Adjustments		
Non-cash gains from change in fair value of convertible bonds	\$3,366,000	-
Amount per consolidated statement of operations	\$17,542,244	\$10,904,986

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