

## **China-Biotics, Inc. Reports First Quarter Fiscal 2010 Financial Results**

**Shanghai, China – August 17, 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 first quarter of its 2010 fiscal year, ended June 30, 2009.

### **First Quarter 2010 Highlights**

- Net sales increased 35.5% year-over-year to \$15.4 million
- Gross profit rose 34.5% to \$10.9 million, with a gross margin of 70.8%
- Net income was \$5.8 million, or \$0.34 per basic and diluted share, up 78.2% year-over-year
- Excluding changes in the fair value of convertible notes, non-GAAP net income was \$5.3 million, or \$0.31 per diluted share, up 17.4% year-over-year
- Signed agreement with Dabeinong Group to supply probiotics as bulk additives for poultry feed products
- Senior officials from SFDA visited China-Biotics
- Joined the Russell 3000<sup>®</sup> Index and Russell Global<sup>®</sup> Index

### **First Quarter 2010 Results**

During the first quarter of the 2010 fiscal year, net sales increased 35.5% to \$15.4 million from \$11.4 million a year ago. The increase resulted from an increase in sales volume from new products, most of which were sold in the Company’s Shining-branded retail outlets, significant growth in the bulk additive business and sales price increases on bulk additives products. Sales of retail products were \$11.8 million, or 76.8% of total sales, up 14.2% from the same quarter of fiscal 2009. Sales of bulk additives were \$3.6 million, or 23.2% of total sales, an increase of 255% from \$1 million, or 8.8% of total sales, a year ago.

“We continued to deliver solid year-over-year growth in the top and bottom lines during the first quarter, while improving operating margin significantly as we concentrated on expanding the bulk additives business,” said Mr. Jinan Song, Chairman and Chief Executive Officer of China-Biotics. “As we prepared for the fiscal third quarter launch of commercial production in our new manufacturing facility, we continued to balance capacity toward commercial customers, temporarily slowing our Shining retail outlet expansion. The addition of Dabeinong Group, a large poultry feed producer, further strengthened our pipeline of bulk additives customers, which will aid in the ramp-up of the new facility this quarter.”

Gross profit for the quarter increased 34.5% to \$10.9 million from \$8.1 million in the same period the prior year. Gross margin was 70.8% in the first quarter, compared to 71.3% in the year-ago period.

Operating expenses were \$4.0 million, compared to \$2.3 million a year ago. The increase in operating expenses during the first quarter of fiscal 2010 was primarily due to an increase in

legal and professional fees. During the first quarter of fiscal 2009, operating expenses included other income of \$1.5 million. Selling expenses for the first quarter of 2010 were \$2.3 million, or 15.2% of sales, compared to \$2.4 million, or 20.8% of sales, in the year ago period. The decline in selling expenses as a percentage of sales was the result of the Company's limited rollout of new Shining retail outlets during the first quarter of fiscal 2010.

Operating income increased 19.1% to \$6.9 million from \$5.8 million in the first quarter of fiscal 2009. Operating margin was 44.3%.

Net income for the first quarter of the 2010 fiscal year was \$5.8 million, or \$0.34 per basic and diluted share, an increase of 78.2% from \$3.2 million, or \$0.19 per basic and diluted share, in the same quarter of fiscal 2009. The calculation of diluted earnings per share for the first quarters of fiscal 2010 and 2009 exclude the potential common stock of 2,083,000 shares related to the Company's convertible notes at the conversion price of \$12 per share, as the conversion price was higher than the average market price during those periods.

Excluding the book gain associated with the fair value of the convertible notes, non-GAAP net income for the first quarter of fiscal 2010 was \$5.3 million, or \$0.31 per diluted share. Excluding the book loss associated with the convertible notes, non-GAAP net income for the first quarter of fiscal 2009 was \$4.5 million, or \$0.26 per basic and diluted share.

## **Financial Condition**

As of June 30, 2009, the Company had cash and cash equivalents of \$77.4 million and working capital of \$59.7 million. In the first quarter of fiscal 2010, China-Biotics generated \$7.3 million in cash flow from operations and recorded \$0.9 million in capital expenditures, primarily for the construction of the new manufacturing facility. Approximately 70% of the projected \$27.5 million in capital expenditures related to the new facility had been made as of June 30, 2009. Accounts receivable were \$16.0 million, and days' sales outstanding were 89. At June 30, 2009, the Company had stockholders' equity of \$71.3 million.

## **Business Outlook**

"We look forward with anticipation to the remainder of fiscal 2010. Our new manufacturing facility remains on track to begin trial production in the second quarter of fiscal 2010, as previously announced, and our pipeline of potential new bulk additives customers continues to be strong," Mr. Song said. "As the new capacity comes online, we will be able to resume our Shining retail outlet expansion later in the fiscal year. We are already directing our attention to the second phase of the capacity expansion, which we expect to begin by December 31, 2009. Although global economic growth remains suppressed, demand for our bulk additive products has been significant. This should result in revenue growth of at least 50% during the 2010 fiscal year."

## **Recent Events**

In August 2009, China-Biotics announced that the Company's wholly-owned subsidiary, Shanghai Shining Biotechnology Co., Ltd., has been awarded the High-Technology Enterprise Certificate (the "Certificate") by the municipal government in Shanghai. The Certificate allows the Company to receive a preferential income tax rate of 15% on substantially all of its operating income, versus the statutory tax rate of 25%. The 15% rate will be in effect for the three-year period that began on Jan. 1, 2009.

In July 2009, China-Biotics announced that it has submitted applications for four patents to the State Intellectual Property Office of the People's Republic of China. These applications are patents for a protein powder formulation; home yogurt fermentation, a retail powder that enables customers to make yogurt at home; a yogurt powder; and a health-enhancing yogurt. All of these applications are for probiotics-based products. Currently, the Intellectual Property Office is conducting an official review of these applications. It takes about two years to obtain patent certificates under normal circumstances.

### **Conference Call**

The company will host a conference call at 10:00 a.m. EDT on, Monday, August 17, 2009, to discuss its financial results for the first quarter ended June 30, 2009. To participate in the event by telephone, please dial 877-485-3104 five to 10 minutes prior to the start time (to allow time for registration) and reference passcode 330544. International callers should dial 201-689-8579. 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 Monday, August 17, at approximately 11:00 a.m. EDT through Monday, August 31, at midnight EDT. Dial 877-660-6853 and enter the conference ID number 330544. International callers should dial 201-612-7415 and enter the same conference ID number.

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

GAAP results for the first quarter ended June 30, 2009 and 2008, include non-cash gains and losses 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 these items in this release, which are non-GAAP net income and non-GAAP diluted earnings per share. 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:* The information in this release contains forward-looking statements which involve risks and uncertainties, including statements regarding the Company’s capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements, which may be identified by terminology such as “may,” “should,” “will,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “forecast,” “project,” or “continue,” the negative of such terms or other comparable terminology. Readers should not rely on forward-looking statements as predictions of future events or results. Any or all of the Company’s forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions, risks and uncertainties and other factors which could cause actual events or results to be materially different from those expressed or implied in the forward-looking statements. In evaluating these statements, readers should consider various factors, including the risks described in “Item 1A. Risk Factors” beginning on page 15 and elsewhere in the Company’s 2009 Annual Report on Form 10-K. These factors may cause the Company’s actual results to differ materially from any forward-looking statement. In addition, new factors emerge from time to time and it is not possible for the Company to predict all factors that may cause actual results to differ materially from those contained in any forward-looking statements. The Company disclaims any obligation to publicly update any forward-looking statements to reflect events or circumstances after the date of this document, except as required by applicable law.

– FINANCIAL TABLES FOLLOW –

CHINA-BIOTICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Amounts expressed in US Dollars)

	Three months ended	
	June 30,	
	2009	2008
<b>Net sales</b>	\$ 15,412,462	\$ 11,370,657
Cost of sales	(4,498,673)	(3,258,669)
<b>Gross profit</b>	<u>\$ 10,913,789</u>	<u>\$ 8,111,988</u>
Operating expenses:		
General and administrative expenses	(1,734,665)	(1,426,797)
Selling expenses	(2,347,592)	(2,369,859)
Other income	36,448	1,452,503
Total operating expenses	<u>\$ (4,045,809)</u>	<u>\$ (2,344,153)</u>
<b>Income from operations</b>	<u>\$ 6,867,980</u>	<u>\$ 5,767,835</u>
Other income and expenses:		
Changes in the fair value of embedded derivatives	\$ 514,000	\$ (1,239,000)
Interest income	67,088	86,386
Total other income	<u>\$ 581,088</u>	<u>\$ (1,152,614)</u>
<b>Income before taxes</b>	<u>\$ 7,449,068</u>	<u>\$ 4,615,221</u>
Provision for income taxes	(1,681,319)	(1,378,471)
<b>Net income</b>	<u>\$ 5,767,749</u>	<u>\$ 3,236,750</u>
<b>Earnings per share:</b>		
Basic and Diluted	<u>\$ 0.34</u>	<u>\$ 0.19</u>
<b>Weighted average shares outstanding</b>		
Basic and Diluted	<u>17,080,000</u>	<u>17,080,000</u>

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

	June 30, 2009	March 31, 2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 77,406,721	\$ 70,824,041
Accounts receivable	16,011,086	14,428,382
Other receivables	6,493	6,493
Inventories	1,014,565	563,853
Prepayment	1,231,785	1,547,582
<b>Total current assets</b>	<b>\$ 95,670,650</b>	<b>\$ 87,370,351</b>
<b>Property, plant and equipment and land use right</b>	34,870,707	33,079,839
<b>Deferred tax assets</b>	354,157	354,157
<b>Total assets</b>	<b>130,895,514</b>	<b>120,804,347</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,027,051	\$ 2,909,898
Tax payables	26,160,571	25,528,447
Other payables and accruals	1,251,126	1,517,753
Amount due to a director	4,523,050	2,380,007
<b>Total current liabilities</b>	<b>\$ 35,961,798</b>	<b>\$ 32,336,105</b>
<b>Non-current liabilities</b>		
Convertible note, with embedded derivatives of \$2,146,000, net of discount of \$5,274,945 and \$6,000,054 as of June 30, 2009 and March 31, 2009	19,725,055	18,999,946
Embedded derivatives	2,146,000	2,660,000
Interest payable	1,794,909	1,411,942
<b>Total non-current liabilities</b>	<b>\$ 23,665,964</b>	<b>\$ 23,071,888</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 17,080,000 outstanding as of June 30, 2009 and March 31, 2009)	\$ 4,146	\$ 4,146
Additional paid-in capital	7,863,031	7,863,031
Retained earnings	55,561,782	49,794,033
Treasury stock at cost (24,381,004 shares)	(2,438)	(2,438)
Accumulated other comprehensive income	4,815,437	4,711,788
Capital and statutory reserves	3,025,794	3,025,794
<b>Total stockholders' equity</b>	<b>\$ 71,267,752</b>	<b>\$ 65,396,354</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 130,895,514</b>	<b>\$ 120,804,347</b>

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

	Three months ended June 30,	
	2009	2008
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income	\$ 5,767,749	\$ 3,236,750
Adjustment for:		
Changes in the fair value of embedded derivatives	(514,000)	1,239,000
Depreciation	455,593	298,691
(Increase)/Decrease in accounts receivable	(1,554,722)	2,793,079
(Increase)/Decrease in inventories	(442,744)	(197,308)
(Increase)/Decrease in prepayments	310,213	211,580
Increase/(Decrease) in accounts payable	1,097,403	434,924
Increase/(Decrease) in other payables and accruals	(515,764)	(192,336)
Increase/(Decrease) in tax payables	620,948	511,633
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 5,224,676</b>	<b>\$ 8,336,013</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Purchases of fixed assets	\$ (881,407)	\$ (7,193,855)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (881,407)</b>	<b>\$ (7,193,855)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash advance from a director	\$ 2,106,368	\$ 11,661
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>\$ 2,106,368</b>	<b>\$ 11,661</b>
Effect of exchange rate changes on cash	133,043	740,436
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS BALANCES</b>	<b>\$ 6,582,680</b>	<b>\$ 1,894,255</b>
<b>CASH AND CASH EQUIVALENTS BALANCES AT BEGINNING OF PERIOD</b>	<b>70,824,041</b>	<b>64,310,448</b>
<b>CASH AND CASH EQUIVALENTS BALANCES AT END OF PERIOD</b>	<b>\$ 77,406,721</b>	<b>\$ 66,204,703</b>
<b>Supplemental disclosure cash flow information:</b>		
Interest paid	\$ 505,833	\$ 306,849
Income tax paid	\$ 1,303,396	\$ 789,785

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

	Q1 2010		Q1 2009	
	Net Income	Diluted EPS(1)	Net Income	Diluted EPS(1)
<b>Non-GAAP Net income</b>				
Adjusted Amount	\$5,253,749	\$0.31	\$4,475,750	\$0.26
Adjustments				
Non-cash gains (losses) from change in fair value of convertible bonds	514,000	\$0.03	(1,239,000)	(\$0.07)
Amount per consolidated statement of operations	\$5,767,749	\$0.34	\$3,236,750	\$0.19

(1) Diluted earnings per share based on 17,080,000 weighted average shares

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