

China-Biotics, Inc. Reports Second Quarter Fiscal 2010 Financial Results

Shanghai, China – November 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 second quarter of its 2010 fiscal year, ended September 30, 2009.

Second Quarter 2010 Highlights

- Net sales increased 49.2% year-over-year to \$17.1 million
- Gross profit rose 51.5% year-over-year to \$12.2 million
- Gross margin was 71.0% up from 69.9% a year ago
- Operating income increased 99.2% to \$7.5 million, with an operating margin of 43.9%
- Excluding a book loss related to the revaluation of convertible notes, adjusted net income was \$5.9 million, or \$0.31 per diluted share, up 131.6% year-over-year
- Signed four new bulk additive customers
- Attended in the 2009 National Exchange Seminar on Probiotics in Shenzhen, China

“We continued to improve margins in the second fiscal quarter and delivered strong year-over-year growth in our top and bottom lines. This was driven by increased sales volumes and pricing of new products, particularly in our bulk additives business where we made significant headway,” said Mr. Jinan Song, Chairman and Chief Executive Officer of China-Biotics. “We made excellent progress in ramping-up our new facility during the quarter to address the growing commercial market for our high quality, customized bulk additive products.”

Second Quarter 2010 Results

During the second quarter of the 2010 fiscal year, net sales increased 49.2% to \$17.1 million from \$11.5 million a year ago. The increase resulted from an increase in sales volume from all products, particularly for Shining Probiotics Protein Powder and significant growth in bulk additive sales and price increases on bulk additives products. Sales of retail products were \$11.7 million, or 68.0% of total sales, up 15.5% from the same quarter of fiscal 2009. Sales of bulk additives were \$5.5 million, or 32.0% of total sales, an increase of 292% from \$1.4 million, or 12.2% of total sales, a year ago. On a sequential basis, sales of bulk additives increased 53.9% from the first quarter of fiscal 2010.

Gross profit for the quarter increased 51.5% to \$12.2 million from \$8.0 million in the same period the prior year. Gross margin was 71.0% in the second quarter, up from 69.9% in the year-ago period, primarily due to increases in selling prices during the quarter.

Operating expenses were \$4.6 million, compared to \$4.2 million a year ago. The increase in operating expenses during the second quarter of fiscal 2010 was primarily due to an increase in legal and professional fees associated with preparation for public offerings. Selling expenses for the second quarter of 2010 were \$2.7 million, or 15.9% of sales, down from \$2.8 million, or 24.5% of sales, in the year ago period. The decline in selling expenses was the result of the

closure of three Shining retail outlets in early 2009 calendar year due to local community redevelopment.

Operating income increased 97.1% to \$7.5 million from \$3.8 million in the second quarter of fiscal 2009. Operating margin was 43.9%, compared to 33.2% a year ago.

Other expense in the second quarter of 2010 consisted of a \$9.4 million non-cash fair value loss related to the Company's convertible notes issued in December 2007. This compares with \$1.9 million non-cash fair value gain in the year ago period.

For the second quarter of the 2010 fiscal year, the Company recorded a net loss of \$3.5 million. Excluding the \$9.4 million loss on the revaluation of the convertible notes, net income was \$5.9 million, up 131.6% from adjusted net income of \$2.6 million in the same quarter of the prior year.

Diluted earnings per share were \$0.31, calculated on a weighted average basis, compared with \$0.13 per diluted share in the second quarter of fiscal 2009. The calculation of diluted earnings per share for both periods assumes full conversion of the convertible notes and thus excludes the loss of \$9.4 million, and the gain of \$1.9 million, respectively, from the change in fair value of the notes.

Six Month Results

Net sales for the first six months of the 2010 fiscal year were \$32.6 million, up 42.4% from \$22.9 million in the same period the prior year. Gross profit was \$23.1 million, or 70.9% of sales, up 43.0% from gross profit of \$16.1 million, or 70.6% of sales, in the first six months of fiscal 2009. Operating income was \$14.4 million, or 44.2% of sales, an increase of 50.2% from \$9.6 million, or 41.9% of sales, the prior year. Net income for the first six months of fiscal 2010 was \$2.3 million, compared to \$7.7 million in the same period of fiscal 2009. Adjusted net income, excluding loss on the revaluation of the convertible notes was \$11.2 million for the first six months of fiscal 2010, up 59.0% from \$7.0 million during the same period last year. Diluted earnings per share were \$0.58 compared with \$0.37 per diluted share in the second quarter of fiscal 2009. The calculation of diluted earnings per share for both periods assumes full conversion of the convertible notes and thus excludes gains and losses related to the change in fair value of the notes.

Financial Condition

As of September 30, 2009, the Company had cash and cash equivalents of \$79.4 million and working capital of \$64.7 million. In the first six months of fiscal 2010, China-Biotics generated \$10.3 million in cash flow from operations and recorded \$2.0 million in capital expenditures, primarily for the construction of the new plant. Approximately 78% of the projected \$27.5 million in capital expenditures related to the phase 1 of new facility had been made as of September 30, 2009. Accounts receivable were \$17.1 million, and days' sales outstanding were 87. At September 30, 2009, the Company had stockholders' equity of \$67.9 million.

Recent Events

In October, China-Biotics completed an underwritten public offering of 5,290,000 shares of its common stock at a price of \$15.00 per share, including the exercise of the underwriters' over-allotment option, generating net proceeds of approximately \$75.4 million. The Company expects to use the net proceeds from the offering for general corporate purposes, including expanding its retail operations, expanding its products, acquiring additional retail outlets and for general working capital purposes.

On October 23, China-Biotics announced that Lewis Fan, Chief Financial Officer, resigned to pursue other professional interests and had no disagreements with the Company in regard to its financial statements or accounting matters. Eva Yan, Chief Administration Officer and Director of Shanghai Shining Biotechnology Ltd., a subsidiary of China-Biotics, will serve as interim Chief Financial Officer until a successor is named.

In October, China-Biotics signed four new bulk additive customers, mainly engaged in manufacture of dairy, nutritional supplement and animal feed products, bringing its total number of its bulk additive customers to 24.

In October, China Biotics strengthened its senior management team with the additions of Mr. Bin Li as vice president general manager of manufacturing, and Dr. Xiaoping Zhang as deputy director of the Company's R&D center. The Company also appointed Dr. Tom Gu as vice president to oversee the research and development of its probiotics products.

Business Outlook

"We look forward with anticipation to the remainder of fiscal 2010 and are excited about the traction we are gaining in our bulk additives business. Our new manufacturing facility is expected to begin commercial production in the first quarter of calendar year 2010, 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. Demand for our bulk additive products has been significant, which should result in revenue growth of at least 50% during the 2010 fiscal year."

Conference Call

The company will host a conference call at 11:00 a.m. EST on, Tuesday, November 17, 2009, to discuss its financial results for the second quarter ended September 30, 2009. To participate in the event by telephone, please dial 1-877-407-4134 five to 10 minutes prior to the start time (to allow time for registration) and reference pass code **337783**. International callers should dial +1-201-689-8430. 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. 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, November 17, at approximately 1:00 p.m. EST through Friday, December 1, at midnight EST. Dial **1-877-660-6853** and enter the conference ID number **337783**. International callers should dial **+1-201-612-7415** and enter the same conference ID number.

Use of Adjusted Financial Information

GAAP results for the three and six month periods ended September 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 adjusted financial information excluding the impact of these items in this release, which are adjusted net income and adjusted diluted earnings per share. The Company's management believes that these adjusted 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 adjusted information is not meant to be considered in isolation or as a substitute for GAAP financials. The adjusted financial information that the Company provides also may differ from the adjusted information provided by other companies.

About China-Biotics, Inc.

China-Biotics, Inc., 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. 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 September 30,		Six months ended September 30,	
	2009	2008	2009	2008
Net sales	\$ 17,148,659	\$ 11,495,249	\$ 32,561,121	\$ 22,865,906
Cost of sales	(4,980,623)	(3,462,853)	(9,479,296)	(6,721,522)
Gross profit	<u>\$ 12,168,036</u>	<u>\$ 8,032,396</u>	<u>\$ 23,081,825</u>	<u>\$ 16,144,384</u>
Operating expenses:				
Selling expenses	\$ (2,733,234)	\$ (2,813,563)	\$ (5,080,826)	\$ (5,183,422)
General and administrative expenses	(1,937,218)	(1,438,137)	(3,671,883)	(2,864,933)
Other income	32,483	39,859	68,931	1,492,362
Total operating expenses	<u>\$ (4,637,969)</u>	<u>\$ (4,211,841)</u>	<u>\$ (8,683,778)</u>	<u>\$ (6,555,994)</u>
Income from operations	<u>\$ 7,530,067</u>	<u>\$ 3,820,555</u>	<u>\$ 14,398,047</u>	<u>\$ 9,588,390</u>
Other income and expenses:				
Changes in the fair value of embedded derivatives	\$ (9,430,000)	\$ 1,904,000	\$ (8,916,000)	\$ 665,000
Interest income	72,781	66,662	139,869	153,048
Total other (expenses)/ income	<u>\$ (9,357,219)</u>	<u>\$ 1,970,662</u>	<u>\$ (8,776,131)</u>	<u>\$ 818,048</u>
(Loss)/Income before taxes	<u>\$ (1,827,152)</u>	<u>\$ 5,791,217</u>	<u>\$ 5,621,916</u>	<u>\$ 10,406,438</u>
Provision for income taxes	(1,655,914)	(1,319,097)	(3,337,233)	(2,697,568)
Net (loss) / income	<u>\$ (3,483,066)</u>	<u>\$ 4,472,120</u>	<u>\$ 2,284,683</u>	<u>\$ 7,708,870</u>
(Loss)/ earnings per share:				
Basic	<u>\$ (0.20)</u>	<u>\$ 0.26</u>	<u>\$ 0.13</u>	<u>\$ 0.45</u>
Diluted	<u>\$ 0.31</u>	<u>\$ 0.13</u>	<u>\$ 0.58</u>	<u>\$ 0.37</u>
Weighted average shares outstanding				
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>19,163,333</u>	<u>19,163,333</u>	<u>19,163,333</u>

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

	September 30, 2009	March 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 79,444,634	\$ 70,824,041
Accounts receivable	17,111,551	14,428,382
Other receivables	2,352	6,493
Inventories	912,505	563,853
Prepayment	1,615,913	1,547,582
Total current assets	\$ 99,086,955	\$ 87,370,351
Property, plant and equipment and land use right	36,994,021	33,079,839
Deferred tax assets	488,075	354,157
Total assets	\$ 136,569,051	\$ 120,804,347
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 3,142,732	\$ 2,909,898
Tax payables	27,263,898	25,528,447
Other payables and accruals	1,479,406	1,517,753
Amount due to a director	2,534,755	2,380,007
Total current liabilities	\$ 34,420,791	\$ 32,336,105
Non-current liabilities		
Convertible note, net of discount of \$4,510,473 and \$6,000,054 as of September 30, 2009 and March 31, 2009 respectively	\$ 20,489,527	\$ 18,999,946
Embedded derivatives	11,576,000	2,660,000
Interest payable	2,209,460	1,411,942
Total non-current liabilities	\$ 34,274,987	\$ 23,071,888
Commitments and contingencies		
Stockholders' equity:		
Common stock (par value of \$0.0001, 100,000,000 shares authorized, 41,461,004 shares issued and 17,080,000 outstanding as of September 30, 2009 and March 31, 2009)	\$ 4,146	\$ 4,146
Additional paid-in capital	7,863,031	7,863,031
Retained earnings	52,078,716	49,794,033
Treasury stock at cost (24,381,004 shares)	(2,438)	(2,438)
Accumulated other comprehensive income	4,904,024	4,711,788
Capital and statutory reserves	3,025,794	3,025,794
Total stockholders' equity	\$ 67,873,273	\$ 65,396,354
Total liabilities and stockholders' equity	\$ 136,569,051	\$ 120,804,347

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

	Six months ended September 30,	
	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES		7,708,870
Net income	\$ 2,284,683	\$
Adjustment for:		
Changes in the fair value of embedded derivatives	8,916,000	(665,000)
Change in deferred tax	(133,353)	-
Depreciation	937,500	863,740
		3,044,946
(Increase)/Decrease in accounts receivable	(2,632,668)	
(Increase)/Decrease in inventories	(339,362)	(344,093)
		19,822
(Increase)/Decrease in prepayments	(67,851)	
		586,894
Increase/(Decrease) in accounts payable	178,523	
		682,843
Increase/(Decrease) in other payables and accruals	(540,397)	
		205,230
Increase/(Decrease) in tax payables	1,687,907	
		12,103,252
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 10,290,982	\$
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of fixed assets	\$ (1,987,755)	\$ (11,662,222)
NET CASH USED IN INVESTING ACTIVITIES	\$ (1,987,755)	\$ (11,662,222)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash advance from a director	3,113,900	11,661
Repayment on loan from shareholders	(2,999,641)	(1,120)
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 114,259	\$ 10,541
Effect of exchange rate changes on cash	203,107	871,476
		1,323,047
NET INCREASE IN CASH AND CASH EQUIVALENTS BALANCES	\$ 8,620,593	\$
		64,310,448
CASH AND CASH EQUIVALENTS BALANCES AT BEGINNING OF PERIOD	70,824,041	
		65,633,495
CASH AND CASH EQUIVALENTS BALANCES AT END OF PERIOD	\$ 79,444,634	\$

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

	Three Months Ended September 30,			
	2009		2008	
	Net Income	Diluted EPS(1)	Net Income	Diluted EPS
Adjusted Net income				
Adjusted Amount	\$5,946,934	\$0.31	\$2,568,120	\$0.16
Adjustments				
Non-cash gains (losses) from change in fair value of convertible bonds	(9,430,000)	(\$0.49)	1,904,000	\$0.10
Amount per consolidated statement of operations	(3,483,066)	(\$0.18)	4,472,120	\$0.26

	Six Months Ended September 30,			
	2009		2008	
	Net Income	Diluted EPS(1)	Net Income	Diluted EPS
Adjusted Net income				
Adjusted Amount	\$11,200,683	\$0.58	\$7,043,870	\$0.36
Adjustments				
Non-cash gains (losses) from change in fair value of convertible bonds	(8,916,000)	(\$0.47)	665,000	\$0.03
Amount per consolidated statement of operations	2,284,683	\$0.12	7,708,870	\$0.39

(1) Diluted earnings per share based on 19,163,333 weighted average shares

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