

## China Biotics (CHBT.NASDAQ)

March 9, 2011

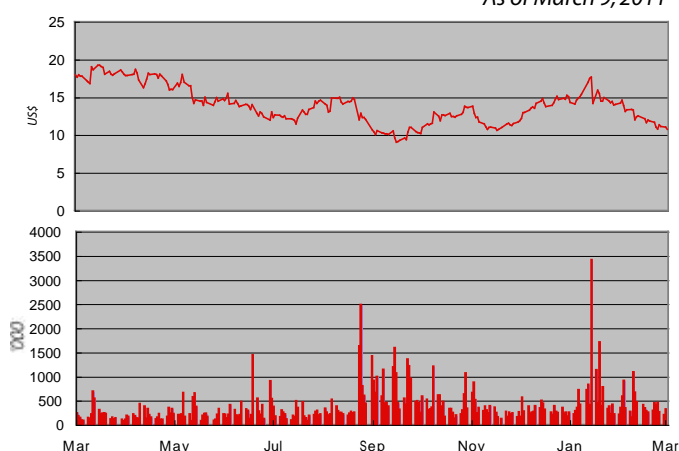
### Stock Snapshot

As of March 9, 2011

One Year Performance	As of Mar 9, 2011
Stock Price	US\$10.75
52-week Range	US\$8.75-US\$19.74
Outstanding Shares	22.15 m
Avg.Daily Volume ('000)	469
Dividend Yield	0%
Market Cap	US\$238.11 m
Enterprise Value	US\$112.47 m
Current Ratio	4.12
D/E Ratio	0.21

### One Year Performance

As of March 9, 2011



### Company Description

China-Biotics, founded in 1999 and headquartered in Shanghai, is engaged in the research, development, production, and distribution of probiotics products in China. Its products contain live microbial food supplements intended to improve intestinal health and digestion. The company serves individual customers and institutional clients in the dairy, animal feed, pharmaceuticals and food industries. It sells retail products through 11 distributors in the greater Shanghai area under the Shining brand.

### Key Issues

- Distribution channels for retail products are wildly overstated, and the products themselves are not popular enough to justify reported revenue figures
- The firm's Shanghai production facility isn't large enough to generate the implied output of retail products
- Published lists of bulk additives customers are false
- Revenue generated from the bulk additives business is exaggerated

### Executive Summary

This report focuses on China Biotics' position in the domestic probiotics market. In particular, we carried out due diligence work to examine the company's distribution network, production capacity, customer base, revenue breakdown, and investor relations management. The key findings are that China Biotics has overstated its revenues and exaggerated the size of its customer base. On these grounds, we conclude that it is a junk stock.

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### Section I Corporate Overview

#### Corporate History and Structure

China Biotics (CHBT.NASDAQ) is engaged in the research, development, production, marketing and distribution of probiotics products. These contain live bacteria, which act as dietary supplements and food additives to improve intestinal health and digestion.

China-Biotics' history can be traced back as early as in 1999, when a company called Shining was registered as a domestic limited liability entity in China. In August 2005, Sinosmart Group Inc (SGI), took 100% equity ownership of Shining, and on December 9, 2005 it incorporated a wholly owned subsidiary, Growing State Limited. SGI changed its name to China Biotics on March 21, 2006, just one day before it completed a securities exchange with Otish Resources – a company incorporated in Delaware in February 2003. The securities exchange saw SGI shareholders transfer all of the equity to China Biotics in return for the issuance of shares of China Biotics' common stock. SGI then became a wholly-owned subsidiary of China Biotics. Growing State Limited established a wholly foreign owned enterprise, Shanghai Bio-growing, in China on September 22, 2006.

A corporate evolvement is illustrated in Chart 01. Chart 02 shows a simplified picture of China Biotics' actual business entities and their physical addresses.

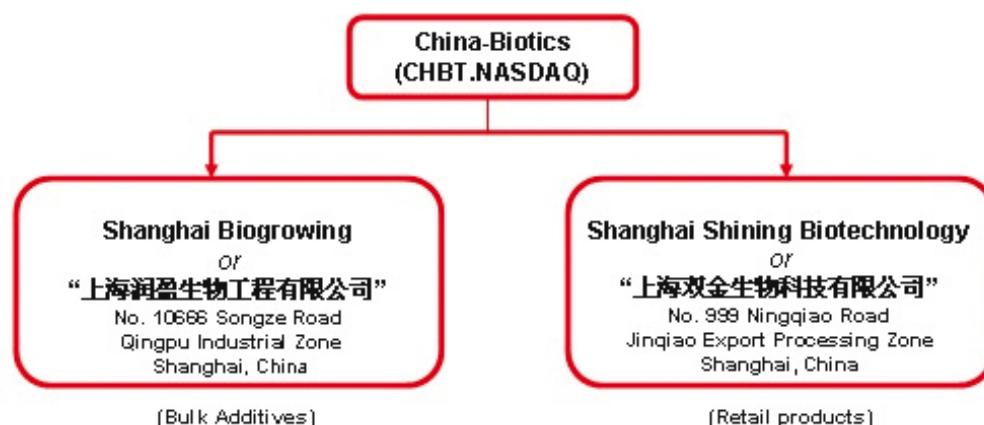
Chart 01: China-Biotics Corporate Evolution



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Chart 02: China-Biotics Actual Business Entities



### Business Model

China Biotics' business can be divided into two categories: retail probiotics products and bulk probiotics additives. The retail probiotics products are made and packaged by Shanghai Shining Biotechnology, or “上海双金生物科技有限公司” (see Chart 02) which is located in Jinqiao, Shanghai. The bulk probiotics additives are made by Shanghai Biogrowing, or “上海润盈生物工程有限公司” which is located in Qingpu, Shanghai.

The retail products are sold under the “Shining” brand, or “双金” in Chinese. This product line has existed since Shining's inception in 2000. All the retail products are functional health supplements aiming at improving intestinal microbial balance. According to China Biotics' 2010 annual report, Shining Essence “双金爱生胶囊”, Shining Signal “双金三康乐”, Shining Golden Shield “双金金盾” and Shining Energy “双金健力” are the major sellers in a retail portfolio totaling 11 products. These products are sold primarily in the greater Shanghai area, mainly to large distributors who then sell them through their networks to supermarkets and hypermarkets, including Wal-Mart and Lianhua. As of December 31, 2010, China Biotics had 34 distributors located in Shanghai, Jiangsu, Zhejiang, and the pan-Beijing area. In addition to large distributors, the company also sells retail products through its own stores. However, management has cut the number of outstanding stores from 111 to 15 in the last six months.

The bulk additives are sold under the Runying brand, “润盈” in Chinese. Bulk additives production commenced in February 2010 when China Biotics finished opening its new production facility in Qingpu. The facility has an annual capacity of 150 tons, and output reached 75

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metric tons per year as of the end of 2010.

The bulk additives are sold to domestic institutional customers focusing on two fast growing industries: dairy and animal feed. China Biotics had 51 bulk customers as of December 31, 2010, including 22 additives customers in animal feed, functional foods and pharmaceuticals, as well as 29 in dairy.

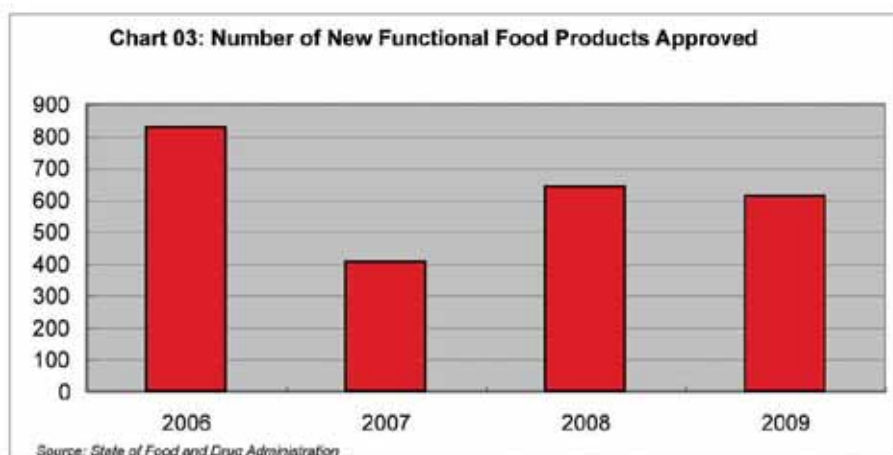
### Business Strategy

As China Biotics has two different product lines produced by two separate companies, naturally there are two business strategies.

Retail:

- *Continue to develop and introduce new products to the market*

Currently, China Biotics has 11 active products with only four main products in the market. According to State of Food and Drug Administration (Chart 03), there were 613 new products approved nationwide in 2009 and 642 approved in 2008. This suggests that China Biotics has a limited market presence in the retail segment. It is therefore wise for management to advocate expanding the retail portfolio.



- *Consolidate existing directly operated outlets in major cities while strengthening and broadening the distribution network by partnering with large distributors*

China Biotics owned 111 retail outlets as of March, 2010, three quarters of them located in Shanghai where leasing and labor costs are relatively high. The shift from focusing on retail outlets to large distributors has the potential to significantly reduce selling costs while ensuring that products reach end users more effectively (most cus-

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tomers prefer one-stop shops at big supermarkets rather than going a company's outlet store).

- *Expand production capacity*

According to China Biotics' 2010 annual report, the maximum current production capacity at the Pudong plant is approximately 3.5 million capsules per month. With the introduction of the new production facility in Qingpu in February 2010, overall capacity should rise.

- *Continue to improve brand name and recognition*

The functional food product market in China is so large and fragmented that there is no accurate measure of the number of brands present or their cumulative value. However, the China Healthcare Association estimates there are around 5,000 participating companies. A few of these are large and well known – Amway, Shanghai Jiada Only (600350.SH), and so on – with the remainder being small- to medium-sized players. There is much room for China Biotics to improve its brand name and market recognition.

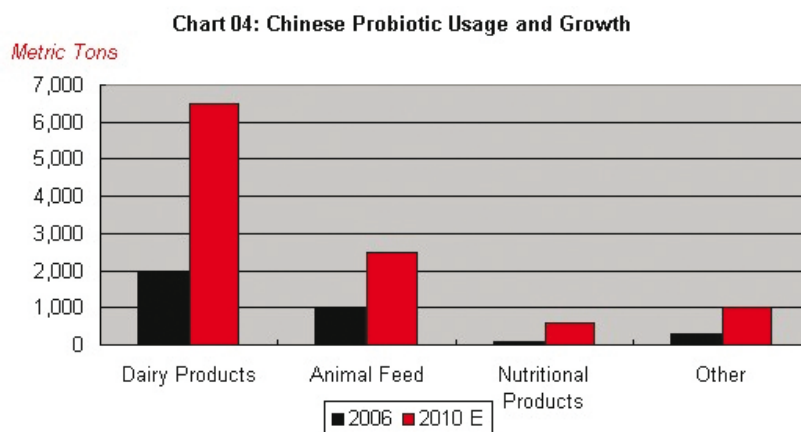
Bulk additives:

- *Focus on the core industries*

The bulk probiotics additives industry focuses on dairy, animal feed and nutritional pharmaceuticals. Dairy and animal feed are the largest business areas (Chart 04), so it makes sense to concentrate on these areas in the long run.

- *Leverage proprietary fermentation technology to offer high quality bulk powder*

The quality of domestic bulk powder is generally lower than that of



Source: Beijing Leadership Management Consulting

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imported products in terms of the volume of probiotics and their survival rate. Domestic manufacturers have still to make the technological breakthroughs required to produce better quality products. A stronger focus on R&D would help China Biotics in this respect.

### • *Extend business to international markets*

As the domestic bulk additives market is dominated by imported products, China Biotics' plans to expand overseas are misguided. The company's priority should be on expanding domestic market share. If China Biotics can't compete with overseas manufacturers in its home market (due to technological inferiority), does it really expect to fare better overseas?

## Section II Revenue Breakdown

To get a clearer picture of China Biotics' business scale, we conducted a revenue analysis, breaking down its balance sheet into the retail and bulk additives segments (Chart 05).

China Biotics reported total sales revenue of US\$81 million in the 2010 fiscal year, up more than 50% year-on-year. Bulk products contributed US\$21.8 million (26.8% of the total), up from US\$4.5 million (8.3%) the previous year. The remainder came from the retail side – US\$59.6 million (73.2% of the total) in 2010 up from US\$49.7 million (91.7%) in 2009.

Chart 05: Revenue Breakdown				
US\$ million	2010*		2009*	
Total revenue	100.0%	81.4	100.0%	54.2
Retail	73.2%	59.6	91.7%	49.7
Bulk additives	26.8%	21.8	8.3%	4.5

\* fiscal year ended in Mar 31

## Section III Main Issues

China Biotics' financials look great on the surface, with revenue growth of 50% and gross margin of 70% in 2010. However, some investors are very negative about the company and its revenue accountability. We have gone through China Biotics' historical financial reports and agree



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that the company is too good to be true. Therefore, we investigated China's Biotics' actual business to establish whether it corresponds to the reported figures. We conclude that China Biotics's financial statements are indeed inflated.

**Distribution channels are wildly overstated and the products not popular enough to justify reported revenue figures**

In its 2010 annual report, China Biotics says: "...We sell our retail products primarily in the greater Shanghai area, mainly to large distributors who then sell them through their networks to supermarkets, hypermarkets, such as Wal-Mart, and drug stores. As of March 31, 2010, we had 27 distributors located in Shanghai Jiangsu, Zhejiang, and Hong Kong..."

Moreover, from the company's 2011 third quarter report:

"...During the quarter ended December 31, 2010, we added 5 more distributors. We now have a total of 34 distributors for retail products..."

This implies that China Biotics has two channels for selling its retail products: large distributors and its own retail outlets. But the reality appears to be somewhat different. We made direct phone calls to the sales staff at Shanghai Shining Biotechnology in Pudong and were told that the company doesn't use any distributors; rather, it approaches large supermarkets directly. The sales staff told us that purchases in Beijing could be made through Shining's Beijing office. We contacted the office and received confirmation that it is indeed a Shining sales outlet, not a third-party distributor. Sales staff in the Beijing office also confirmed that sales are not made through distributors.

We then visited 12 outlets of four supermarket chains (Lotus, Lianhua, Wal-Mart and Lian Hua Quik Convenience Store) at which Shining claims its products are available. Of the 12, only six stocked Shining products – and then only two to four of the 11 products Shining claims are active in the market. At each supermarket, the individual responsible for functional healthcare foods said that products are purchased directly from Shining Biotechnology, not from a distributor.

On further questioning, the individuals responsible for functional healthcare foods all said that Shining is not a popular brand, and that they had never sold out of Shining products. Sales are, on average, one or two units a month at each outlet.

At this point, it is very clear to everyone that the Shining Biotechnol-

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ogy sells directly to supermarkets instead of going through a third party distributor. And Shining retail products are not popular among the customers. Shining products are mostly priced around US\$13-26 (RMB83-175) per unit. During its 2010 fiscal year (April 2009-March 2010), China Biotics reported retail sales revenue of US\$60 million (RMB392 million). Based on an average selling price of US\$20 (RMB130) per unit, Shining sold 3,015,385 units during the period, or 251,282 boxes per month. In Shanghai, there are 21 Lotus outlets, eight Wal-Mart outlets and 494 Lianhua outlets. Not all 523 supermarkets stock Shining products, but if they did, each one would have to sell 480 boxes per month for China Biotics to reach US\$60 million in retail sales revenue. This doesn't tally with the feedback we received from the supermarkets themselves.

See Appendix for a detailed list of supermarkets that we visited and the products we saw, as well as information relating to Shining's sales activities.

**The Shanghai production facility isn't large enough to generate implied output**

The scale of output required to produce the 3 million-plus units implied by China Biotics' reported 2010 fiscal year retail-business revenue of US\$60 million appears beyond the capacity of the company's Shanghai production facility.

In its 2010 annual report, China Biotics says:

*"...this facility, which includes a level 100,000 clean room and a level 10,000 clean room, houses our office space manufacturing facilities and warehouse. The maximum current production capacity in Pudong plant is approximately 3.5 million capsules per month..."*

The minimum specification per package is 18 capsules and in most cases the company sells several packages (usually 2-8) as one box – that equates to a maximum of 144 capsules per unit. With an annual capacity of 3.5 million capsules, China Biotics could produce no more than 24,305 units per month, well short of the 251,282 units we calculated would need to have been sold if the company did generate revenue of US\$60 million from its retail business.

Consequently, we paid a visit to the production facility at No. 999 Ningqiao Road, Jinqiao Export Processing Zone, Pudong, Shanghai. As with the statements about distributors, China Bioitics' annual report seems



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somewhat at odds with reality. No. 999 Ningqiao Road is a condensed zone packed with many different companies – Shanghai Shining Biotechnology shares the six-floor building No.15 with four other firms (see Appendix for photographic evidence). Shanghai Shining Biotechnology's administrative offices and production facilities are all on the fifth floor. We entered the premises and announced ourselves to the individual in charge; on learning the purpose of our visit, she refused to let us tour the facility and also refused to disclose her name and title. However, we checked out other companies in the same building and established that the size of the production facility could be no more than 1,980 square meters (2\*22m\*45m).

We asked Chen Gong, board secretary at Shanghai Jiaoda Only, which also produces probiotics products, about the size of facility typically required for large-scale production. He observed that 1,980 sq m seemed too small, given China Biotics' stated revenues and the output scale this implies. Jiaoda Only's production facility is 20,000-30,000 sq m and its total revenue for April 2009-March 2010 came to US\$50 million – US\$31 million lower than that of China Biotics yet the facility is 12.5 times larger. Please note that we are referring to 2009 revenues; China Biotics' new production facility in Qingpu – which is supposed to be devoted to the bulk additives business anyway – was not in use at the time.

During our visit to Shanghai Shining Biotechnology's facility, we saw no evidence of inventory leaving the premises or clients coming for inquiries. A security guard, a member of the building's cleaning staff, and employees from other companies in the same building concurred that Shanghai Shining rarely seemed busy.

The company has used this address since its inception in 1999. Prior to the introduction of the Qingpu bulk production facility in February 2010, all production activities were carried out at No. 999 Ningqiao Road. Based on the information gathered, it is hard to believe that this facility is capable of generating US\$60 million in annual revenue.

**False bulk additives customers**

In its 2010 annual report, China Biotics says:

*"...For the fiscal year ended March 31, 2010, we had one customer, **Beijing DBN Technology Group Co. Ltd**, that accounted for **13.0% of our sales revenue**. For the fiscal year ended March 31, 2009, we had one customer, **Shanghai Lian Hua Quik Convenience Store Limited**, which*

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*accounted for **11.5% of our sales revenue**...These two customers are independent third parties..."*

Total sales revenue in the 2009 and 2010 fiscal years were US\$54,197,082 and US\$81,363,973 respectively, which means Beijing DBN Technology Group made purchases worth US\$10,577,316 in 2010. With the bulk additives business accounting for US\$21,805,545 of China Biotics' total sales revenue for the year, Beijing DBN Group therefore contributed almost half (48.5%) of revenue in this area.

Beijing DBN Technology Group is engaged in animal feed development and production. It adds probiotics bulk additives to animal feed, but it does not have any interest in food additives or retail functional health food products. We contacted Kong Xiaoyan, the probiotics purchase manager at Beijing DBN Technology Group, to find out whether the company purchased any probiotics products from Shanghai Biogrowing, the bulk additives subsidiary of China Biotics. Kong told us that Shanghai Biogrowing had approached Beijing DBN Technology Group, but no supply agreement was in place. She said the company might consider Shanghai Biogrowing as a back-up in case of any future raw material shortages.

On this basis, we challenge the veracity of China Biotics' claim in its annual report that Beijing DBN Technology Group accounted for 13%



of revenue in 2010. The suspect claim extends to a corporate presentation given by the company in June 2010. It listed its bulk business customers list as follows:

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Of the seven major customers listed, Beijing DBN Technology and Bright Dairy & Food (600597.SH) are the largest in terms of scale and brand recognition. Bright Dairy & Food is one of the largest dairy companies in China, alongside China Mengniu Dairy (2319.HK) and Inner Mongolia Yili Industrial Group (600887.SH) – and all of them use probiotics additives in some of their products. Mengniu adapts probiotics produced by Danish firm Chr Hansen while Yili buys from Finland's Valio. We contacted Zhu Jianyi, board secretary at Bright Dairy & Food, by email to inquire whether the company had purchased bulk additives from Shanghai Biogrowing. His reply (see Appendix – Zhu put the question to the company's R&D department, so the email is its response to him) clearly indicates that Bright Dairy & Food, though aware of Shanghai Biogrowing, does not and has not used any of its products. Instead, the company imports probiotics additives from overseas because the quality is much higher. Once again, we challenge China Biotics' claims regarding its customer base.

In addition, we approached four smaller firms featured in China Biotics' customer list. The first, Jiangxi Lijia Pharmaceutica, a small-scale pharmaceutical company that produces functional health food products. A Ms Yi, a member of the purchasing staff at Jiangxi Lijia, speaking to us by telephone, said that the company terminated its contract with Shanghai Biogrowing a long time ago and no longer has any business relations with the company. When asked about the deal size, she stressed that Jiangxi Lijia is relatively small and only purchased a small amount of probiotics products from Shanghai Biogrowing.

Two other purported customers we spoke to were bakery firms, Beijing Holiland and Relax Xinqiao, which operate in the pan-Beijing area and pan-Shanghai area respectively. Sales staff at both companies said that they no longer produced probiotics bakery products because they are unpopular. Neither company is purchasing probiotics bulk additives from Shanghai Biogrowing.

Last but not least, a Ms Chen from the supply chain department at Square Pharma Group told us that the company has not purchased anything from Shanghai Biogrowing. She added that, given Square Pharma Group's current product mix, it doesn't need any probiotics bulk additives.

### **Overstated reported bulk revenues**

Based on our inquiries, it is clear that China Biotics is faking, or at least

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exaggerating its bulk additives customer base. There are therefore grounds to doubt the reported US\$21.8 million bulk revenues in the domestic market in 2010. Statistics on probiotics bulk additives production and revenues are not available in China, so we sought out industry experts and competitors of China Biotics.

Mr Ma, a manager at Henan Shen Zhong Biotechnology, a domestic biotech company that produces animal feed bulk additives, said the largest annual sales revenue for a single company in this segment of the market is no more than US\$0.7 million (RMB5 million). He thought revenue of US\$22 million (RMB145 million) would be impossible to reach, and claimed not to have come across Shanghai Biogrowing in his business dealings.

Mr Hu, a Shanghai-based sales manager at Chr Hansen, the company that supplies probiotics additives to China Mengniu, said in a telephone interview that he was aware of Shanghai Biogrowing and had heard that its production capacity was high, but he was skeptical about the company's reported revenue.

Mr Luo, a sales manager in the Shanghai office of Valio, the Finnish company that supplies Yili, claimed that 90% of China's probiotics bulk additives are imported, with remaining 10% shared by domestic producers. When asked how China Biotics' bulk revenues of US\$22 million fits into the domestic market position, Luo said it seemed well above average. He had also expressed skepticism about the revenue figure.

Cheng Xiang, president of Lallemand Greater China, a local subsidiary of the French probiotics products manufacturer, confirmed that imports account for 80-90% of the domestic probiotics bulk additives market. He said a revenue figure of US\$22 million is hard to believe given the current market conditions. Cheng added that he knew of Shanghai Biogrowing and had heard it possessed some advanced technologies, yet he claimed to have rarely seen its products..

Chen Gong, board secretary of Shanghai Jiaoda Onlly, a competitor to China Biotics, said it was unusual for a probiotics company to generate sales revenue of US\$60 million (from retail and bulk additives business) in the domestic market. Jiaoda Onlly's revenue was around US\$15.2 million in 2010. Speaking about the probiotics market in general, Chen noted that some companies – usually pre-listed or newly

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listed firms – have in the past inflated their sales figures in order to promote their stocks.

**Passive investor relations**

We attempted to make contact with China Biotics' management, sending emails to CFO Travis Cai as well as the investor relations department. There was no reply. We also made repeated telephone calls to the company's Shanghai headquarters, but no one picked up.

In the end, we visited China Biotics' Pudong production facility without invitation and announced ourselves to the individual in charge; on learning the purpose of our visit, she refused to let us tour the facility and also refused to give any further information.

Subsequently, we received telephone calls from Dixon Chen of China Biotics' investor relations department. He asked why we were interested in the company, and explained that tours were organized for groups of investors, with only major investment banks permitted to make impromptu visits. Chen said a special tour for CHINA ECONOMIC REVIEW would not be possible, arguing that China Biotics is in the middle of its financial reporting black-out period. (Other investor relations professionals we have spoken to say that blanket bans on analyst and investor visits during black-out periods is not the norm.). After further debate, he promised to try and fit us into the next company group tour, but stressed there were no guarantees. Chen refused to answer any questions about the company and its business.

**Section IV  
Conclusion**

Based on the above analysis, we conclude that China Biotics is overstating its operating activities and revenues for both its divisions, retail probiotics products and bulk probiotics additives. On the retail front, the products appear to be unpopular and not widely available in supermarkets. Furthermore, the capacity of the retail production site in Pudong is too small to handle US\$60 million annual sales revenue. On the bulk additives front, none of China Biotics' stated customers has confirmed purchasing products from the company and most industry experts suspect that bulk revenues are inflated. Therefore, it is highly likely that China Biotics is defrauding investors.

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### Section V Appendix

Supermarket name	Name of Product	Specification	Price (RMB)	Feedback from sales person
Lotus 1	Shinning Gift box		175	'Sales of Shining products is so so'
	Shining Essence	36 capsules/box		'There is no shortage of Shining products ev'
	Shining Sicanel	72 capsules/box		'We purchase directly from factory'
Lotus 2	Shinning Gift box			
	Shining Essence	8 boxes, 18 capsules/box	168	'We had good sales four years ago but it is g
	Shinning Probiotics Protein Powder	660g	159	worse. We sell average one to two boxes pe sometimes even nothing. There is no shortag
Lotus 3	Shinning Gift box		175	'Very poor demand'
	Shining Essence	36 capsules/box		'There is no shortage of Shining products'
	Shining Sicanel	72 capsules/box		'We purchase directly from factory'
	Shinning Probiotics Protein Powder	660g	109	
Century Mart (Dongbao Road)	Shining Essence	18 Capsules/box	27	'Very poor sales'
	Shining Sicanel	18 Capsules/box	27	'We purchase directly from factory'
Century Mart (Tongchuan Road)	Shinning Gift box		172.5	'Very poor sales'
	Shining Essence	36 capsules/box		'We can hardly can sell it'
	Shining Sicanel	72 capsules/box		'We get Shining products dierctly from factor'
	Shinning Group Upgift box		96.5	
	Shining Essence	18 capsules/box		
	Shining Sicanel	36 capsules/box		
	Shinning Probiotics Protein Powder	600g	99	
	Shining Essence	12 capsules/box*6 boxes	159	
	Shining Essence	12 capsule/box*3 boxes	83	
Lianhua Supermarket	Shinning Probiotics Protein Powder	660g	109	'There is always poor demand for Shining pro even during the Chinese New Year'
				'We purchase from factory warehouse'
Wal-mart	No Shining Products			
Lianhua Quik Convenience Store	No Shining Products			



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This was the email response we received from Bright Dairy & Food, having put questions to Zhu Jianyi, the board secretary, about the suppliers used by the company for probiotics products. The email was written by a member of the R&D department, to whom Zhu passed on our questions.

----- Original Message -----

From: wangyinyu@brightdairy.com

To: 600597

Sent: Tuesday, March 01, 2011 9:09 AM

Subject: Re: 匿名调查问题

朱律师好！

光明目前应该的益生菌菌粉都来源于进口，虽然有的益生菌是光明自有知识产权菌株，但考虑到质量保证因素，还是委托国外公司代加工的。

关于润盈生物的益生菌粉，目前光明还没有使用，不过和这个公司有交流，对他们还是有些了解。光明是开放的公司，虽然在益生菌方面也有很好的技术，但不拒绝外面的新技术和创新，也不怕竞争。当润盈生物的益生菌菌粉适合光明的需要时，我们应该会选用，现在还没有好的时机。

朱律师，这样说应该没有问题，这个公司我确实很了解，当时工艺论证时我就参加了。但我们现在也没有用他们的东西，这要考虑益生菌的特点和他们的质量控制能力。因为他们还不能给我们提供和现有市场有差别的益生菌，即有更好的卖点，再者，在益生菌菌粉标准化方面，我们国内的企业确实和外资企业有很大的距离。

我就先写这么多，你看还有什么需要的，在告诉我，我再写。

谢谢！

祝好！

## Translation

Dear Mr. Lawyer Zhu,

As we all know, all the probiotics additives used in our Bright Dairy products are imported from overseas market. Although some of the probiotics additives are manufactured by Bright Dairy itself under its intellectual property, we still contract it out to the overseas companies for further processing because we have to assure the quality of the probiotics bulk additives produced by ourselves.

Concerning the probiotics additives produced by Shanghai Biogrowing, Bright Dairy has not used it yet. However, Bright Dairy has already had communicated with Biogrowing before and we do have some knowledge about Shanghai Biogrowing. Bright Dairy is an open-minded company. Even though we have high technology on probiotics additives ourselves, we will never refuse to purchase from outside suppliers if their technology and innovation is up to our standard. Only when we think the probiotics additives from Shanghai Biogrowing fits Bright Dairy's product, we will then adopt it. But today is not the right time yet.

I do really know Shanghai Biogrowing very much as I was participating in the technology demonstration host by Biogrowing before. However, we are not using their products yet nowadays, considering the characteristics of the probiotics additives and their quality control ability. It is also because Biogrowing so far can not provide us with its products that are better than those in the domestic market. Moreover, in terms of the probiotics bulk additive industry standards, domestic companies are still lagging very much behind foreign manufacturers.

That's all. If there something more you want to know, do not hesitate to contact me.

Thank you.

Best wishes.



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Balance Sheets					
US\$, except share data	2006	2007	2008	2009	2010
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	19,840,812	26,992,025	64,310,448	70,824,041	155,579,371
Total cash	19,840,812	26,992,025	64,310,448	70,824,041	155,579,371
Receivables	10,941,595	14,309,818	13,214,531	14,428,382	21,008,664
Inventories	257,584	203,054	408,358	563,853	1,100,707
Prepaid expenses	31,200	176,094	1,806,605	1,547,582	1,104,149
Other current assets	761,750	216,236	238,835	6,493	3,159,799
<b>Total current assets</b>	<b>31,832,941</b>	<b>41,897,227</b>	<b>79,978,777</b>	<b>87,370,351</b>	<b>181,952,690</b>
<b>Non-current assets</b>					
Gross property, plant and equipment	4,223,647	5,885,689	18,398,725	39,540,193	57,210,257
Accumulated Depreciation	(2,629,600)	(3,203,072)	(4,585,976)	(6,460,354)	(8,324,180)
Net property, plant and equipment	1,594,047	2,682,617	13,812,749	33,079,839	48,886,077
Intangible assets	-	-	-	-	1,797,082
Deferred income taxes	-	-	-	354,157	298,833
<b>Total non-current assets</b>	<b>1,594,047</b>	<b>2,682,617</b>	<b>13,812,749</b>	<b>33,433,996</b>	<b>50,981,992</b>
<b>Total assets</b>	<b>33,426,988</b>	<b>44,579,844</b>	<b>93,791,526</b>	<b>120,804,347</b>	<b>232,934,682</b>
<b>Liabilities and stockholders' equity</b>					
<b>Liabilities</b>					
<b>Current liabilities</b>					
Short-term debt	-	-	-	-	22,146,906
Accounts payable	1,826,441	1,523,471	2,786,180	2,909,898	5,850,988
Taxes payable	-	-	-	25,691,681	28,989,337
Accrued liabilities	-	-	-	-	3,156,035
Other current liabilities	19,263,535	19,146,366	24,110,138	3,734,526	16,612,487
<b>Total current liabilities</b>	<b>21,089,976</b>	<b>20,669,837</b>	<b>26,896,318</b>	<b>32,336,105</b>	<b>76,755,753</b>
<b>Non-current liabilities</b>					
Long-term debt	-	-	16,445,635	18,999,946	-
Other long-term liabilities	-	-	6,054,306	4,071,942	-
<b>Total non-current liabilities</b>	<b>-</b>	<b>-</b>	<b>22,499,941</b>	<b>23,071,888</b>	<b>-</b>
<b>Total liabilities</b>	<b>21,089,976</b>	<b>20,669,837</b>	<b>49,396,259</b>	<b>55,407,993</b>	<b>76,755,753</b>

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<b>Stockholders' equity</b>					
Common stock	1,708	1,708	1,708	4,146	4,675
Additional paid-in capital	7,863,031	7,863,031	7,863,031	7,863,031	82,769,074
Retained earnings	1,379,914	12,284,900	29,827,144	49,794,033	65,441,994
Treasury stock	-	-	-	(2,438)	(2,438)
Accumulated other comprehensive income	3,092,359	3,760,368	6,703,384	7,737,582	7,965,624
<b>Total stockholders' equity</b>	<b>12,337,012</b>	<b>23,910,007</b>	<b>44,395,267</b>	<b>65,396,354</b>	<b>156,178,929</b>
<b>Total liabilities and stockholders' equity</b>	<b>33,426,988</b>	<b>44,579,844</b>	<b>93,791,526</b>	<b>120,804,347</b>	<b>232,934,682</b>
<i>*Fiscal year ends in Mar 31</i>					

<b>Income Statements</b>					
<b>US\$, except share data</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Revenue	21,862,385	30,609,941	42,321,111	54,197,082	81,363,973
Cost of revenue	-	-	-	16,197,267	24,070,203
<b>Gross profit</b>	<b>21,862,385</b>	<b>30,609,941</b>	<b>42,321,111</b>	<b>37,999,815</b>	<b>57,293,770</b>
Operating expenses					
Research and development	-	-	-	-	3,665,380
Sales, General and administrative	3,231,680	6,767,907	11,695,582	17,809,494	18,407,903
Other operating expenses	-	-	-	(1,592,773)	(60,178)
<b>Total operating expenses</b>	<b>3,231,680</b>	<b>6,767,907</b>	<b>11,695,582</b>	<b>16,216,721</b>	<b>22,013,105</b>
Operating income	18,630,705	23,842,034	30,625,529	21,783,094	35,280,665
Other income (expense)	(6,376,196)	(8,750,180)	(8,146,654)	3,346,183	(11,844,356)
<b>Income before taxes</b>	<b>12,254,509</b>	<b>15,091,854</b>	<b>22,478,875</b>	<b>25,129,277</b>	<b>23,436,309</b>
Provision for income taxes	3,900,541	4,186,868	4,936,631	5,162,388	7,788,348
Net income from continuing operations	8,353,968	10,904,986	17,542,244	19,966,889	15,647,961
<b>Net income</b>	<b>8,353,968</b>	<b>10,904,986</b>	<b>17,542,244</b>	<b>19,966,889</b>	<b>15,647,961</b>
<b>Net income available to common shareholders</b>	<b>8,353,968</b>	<b>10,904,986</b>	<b>17,542,244</b>	<b>19,966,889</b>	<b>15,647,961</b>
<b>Earnings per share</b>					
Basic	4.9	0.64	1.03	1.17	0.8
Diluted	4.9	0.64	0.8	1.17	0.8
<b>Weighted average shares outstanding</b>					
Basic	1,705,242	17,080,000	17,080,000	17,080,000	19,605,589
Diluted	1,705,242	17,080,000	17,719,269	17,080,000	19,605,589
<i>*Fiscal year ends in Mar 31</i>					

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Cash Flow Statements					
US\$, except share data	2006	2007	2008	2009	2010
<b>Cash Flows From Operating Activities</b>					
Net income	8,353,968	10,904,986	17,542,244	19,966,889	15,647,961
Depreciation & amortization	516,217	493,472	999,148	1,768,127	1,947,951
Deferred income taxes	-	-	-	(354,197)	55,850
Accounts receivable	-	-	-	(920,958)	(6,529,223)
Inventory	195,360	65,303	(154,189)	(141,055)	(155,547)
Prepaid expenses	(31,070)	(352,923)	(1,418,658)	540,677	(758,998)
Accounts payable	-	-	-	43,042	2,915,868
Income taxes payable	-	-	-	2,978,145	3,767,245
Other working capital	(365,537)	1,284,960	5,758,930	2,248,135	(853,883)
Other non-cash items	(1,684,976)	(2,388,639)	(3,366,000)	(3,061,978)	12,137,000
<b>Net cash provided by operating activities</b>	<b>6,983,962</b>	<b>10,007,159</b>	<b>19,361,475</b>	<b>23,066,827</b>	<b>28,174,224</b>
<b>Cash Flows From Investing Activities</b>					
Investments in property, plant, and equipment	(97,560)	(1,485,789)	(10,302,291)	(16,671,454)	(13,773,354)
Property, plant, and equipment reductions	-	14,793	-	-	-
Other investing activities	-	-	-	(808,219)	-
<b>Net cash used for investing activities</b>	<b>(97,560)</b>	<b>(1,470,996)</b>	<b>(10,302,291)</b>	<b>(17,479,673)</b>	<b>(13,773,354)</b>
<b>Cash Flows From Financing Activities</b>					
Common stock issued	2,578,000				74,906,572
Other financing activities	(135,280)	(2,280,687)	25,000,000	-	(4,795,048)
<b>Net cash provided by financing activities</b>	<b>2,442,720</b>	<b>(2,280,687)</b>	<b>25,000,000</b>	<b>-</b>	<b>70,111,524</b>
<b>Effect of exchange rate changes</b>	<b>240,187</b>	<b>895,737</b>	<b>3,259,239</b>	<b>926,439</b>	<b>242,937</b>
<b>Net change in cash</b>	<b>9,569,309</b>	<b>7,151,213</b>	<b>37,318,423</b>	<b>6,513,593</b>	<b>84,755,331</b>
Cash at beginning of period	10,271,503	19,840,812	26,992,025	64,310,448	70,824,041
Cash at end of period	19,840,812	26,992,025	64,310,448	70,824,041	155,579,372
<b>Free Cash Flow</b>					
Operating cash flow	6,983,962	10,007,159	19,361,475	23,066,827	28,174,224
Capital expenditure	(97,560)	(1,485,789)	(10,302,291)	(808,219)	-
Free cash flow	6,886,402	8,521,370	9,059,184	22,258,608	28,174,224
<i>*Fiscal year ends in Mar 31</i>					

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*March 9, 2011*

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