

American Dairy Reports First Quarter 2007 Financial Results

Gross Profit Margin of 48.6 Percent

Company Exceeds Net Margin Target

BEIJING, May 15, 2007 (PR Newswire) -- American Dairy, Inc. (NYSE Arca: ADY), one of the leading producers and distributors of milk powder and soybean products in China, today announced its first quarter 2007 financial results.

Key Highlights from the First Quarter of 2007 include:

- First quarter net margin of 16.5% exceeds net margin target
- Revenue up 39% year over year to \$36.0 million from \$25.9 million
- Gross margin of 48.6% up from 46.0% in the prior year period and up from 40.0% sequentially
- Operating income increased 33% year over year to \$6.5 million from \$4.9 million
- Net income increased 24% to \$5.9 million, or \$0.33 per diluted share, from \$4.8 million, or \$0.29 per diluted share in the first quarter of 2006
- Diluted sharecount of 19.4 million shares

Leng You Bin, Chief Executive Officer of American Dairy, Inc. stated, "We reported stronger than expected financial results in the first quarter of 2007 despite the holiday-related slowness traditionally experienced in the first quarter. We spent approximately \$4.7 million on branding and advertising during the quarter and we continue to see increased demand for our Feihe premium infant formula products. We believe these efforts are starting to benefit our financial results, especially in our product mix shift to higher margin products such as our CPP infant formula series and our Nucleotide products. This allowed us to materially improve our gross margin to 48.6% from 46.0% in the first quarter of last year and from 40.0% in the fourth quarter of 2006."

"In the past two years, we completed several rounds of fundraising and we continue to evaluate our fundraising options. These efforts are integral to our capacity expansion and we expect to more than double our daily production capacity from 720 tons to 1,700 tons of liquid milk per day by the end of 2009. We are optimistic about these efforts because they allow us to meet increasing demand for premium infant formula products in China over the next several years and, with time, we anticipate significant top and bottom line growth due to these reinvestments in our business. Despite the near-term headwind of dilution these efforts cause, we are pleased to report a 24% increase in net income in the first quarter of 2007 and we reiterate our focus on creating value for shareholders over the next several years," concluded Leng You Bin.

Revenue for the first quarter was \$36.0 million, up 39% from \$25.9 million in the first quarter of 2006. The increased popularity of the Feihe brand in China continued to drive revenue growth in the first quarter. Importantly, revenue performance in the first quarter of 2007 reflects a product mix shift toward higher margin products such as the Company's CPP infant formula series and the milk powder with Nucleotide series.

Product sales by volume increased 20% to 7.5 million kilograms in the first quarter of 2007, up from 6.3 million kilograms in the prior year period, driven by increased sales quantities of major products. Specifically, sales volume for the Company's CPP infant formula series increased 20% to 2.2 million kilograms and the milk powder with Nucleotide series increased 61% to 1.2 million kilograms. Combined, these two products generated 70% of total revenue in the first quarter of 2007, up from 64% of total revenue in the first quarter of 2006.

Gross profit increased 47% to \$17.5 million from \$11.9 million in the first quarter of 2006. Gross profit margin of 48.6% is substantially higher than 46.0% in the prior year's period and 40.0% sequentially, and reflects the product mix shift toward higher margin products such as CPP infant formula series and Nucleotide products.

Income from operations increased 33% to \$6.5 million from \$4.9 million in the first quarter of 2006, despite significant increases in distribution and general and administrative expenses. The Company's distribution expenses increased 52% to \$9.0 million, which is in line with higher revenues and reflects a larger sales force and advertising and promotional expenditure. General and administration expenses, which increased 81% to \$1.9 million during the first quarter of 2007 compared to the prior year's period, reflects higher salaries at the senior management level as well as \$646,000 of stock compensation expensed during the quarter.

Interest and finance costs were \$701,000 during the first quarter of 2007 and includes amortization of the discount on outstanding convertible debt. Interest and finance costs were \$224,000 in the first quarter of 2006.

Net income increased 24% to \$5.9 million in the first quarter of 2007 from \$4.8 million in the first quarter of 2006. Note that according to GAAP, approximately \$446,000 of interest expense is added back to net income for the diluted earnings per share calculation. As such, income per diluted share available to Common shareholders was \$6.4 million, or \$0.33 per diluted share in the first quarter of 2007, compared to \$4.9 million, or \$0.29 per diluted share, in the first quarter of 2006.

Balance Sheet

As of March 31, 2007, the Company had \$37.8 million of cash, compared to \$39.5 million at December 31, 2006 and \$11.6 million at March 31, 2006. American Dairy had working capital of approximately \$33.5 million at March 31, 2007. The Company had long term debt of \$17.1 million as of March 31, 2007.

Financial Outlook

American Dairy is currently evaluating its fundraising needs and will do so with an emphasis on what is best for the Company and for shareholders. Due to this process, management is refraining from giving financial guidance at this time.

"While at this time, we have decided to refrain from giving financial guidance, we remain optimistic about American Dairy's financial health and growth opportunities for the rest of the year," stated Roger Liu, Chief Financial Officer of American Dairy.

Note that the Company continues to expect the following during 2007:

- **Cost of Goods Sold:** The Company anticipates increased utility costs as new production facilities come online, which may not be immediately offset by revenue generation. This could affect the Company's near-term gross margins in 2007.
- **Advertising and Marketing Expenses:** The Company is actively investing in the long-term growth of the Feihe brand and anticipates continued expenditure related to these efforts. It is likely that advertising and marketing expenses will be roughly 10% of total revenue in 2007.
- **VAT Tax:** The Company expects to continue to receive VAT rebates at certain times throughout the year.

About American Dairy, Inc.

American Dairy, Inc. conducts operations in the People's Republic of China ("China") through its wholly owned subsidiary, Feihe Dairy. Founded in 1962, Feihe Dairy is one of the leading producers and distributors of milk powder and soybean products in China. Feihe Dairy is located in Kedong County, China, and has been in operation since 2001. American Dairy also has a milk powder processing plant, Baiuan Feihe Dairy in Kedong County, and also has a milk powder processing plant in the city of Qiqihaer, Heilongjiang Province. <http://www.feihe.com/>

Certain of the statements made herein constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements typically involve risks and uncertainties and may include financial projections or information regarding our future plans, objectives or performance. Actual results could differ materially from the expectations reflected in such forward-looking statements as a result of a variety of factors, including the risks associated with the effect of changing economic conditions in The People's Republic of China, variations in cash flow, reliance on collaborative retail partners and on new product development, variations in new product development, risks associated with rapid technological change, and the potential of introduced or undetected flaws and defects in products, and other risk factors detailed in reports filed with the Securities and Exchange Commission from time to time.

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AMERICAN DAIRY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March, 31	
	2007	2006
SALES	\$ 36,007,370	\$ 25,893,218
COST OF GOODS SOLD	<u>18,502,726</u>	<u>13,985,222</u>
Gross Profit	<u>17,504,644</u>	<u>11,907,996</u>
OPERATING AND ADMINISTRATIVE EXPENSES:		
Distribution expenses	9,010,777	5,935,447
General and administrative expenses	1,929,544	1,068,001
Depreciation	<u>95,193</u>	<u>50,651</u>
	<u>11,035,514</u>	<u>7,054,099</u>
Income from operations	<u>6,469,130</u>	<u>4,853,897</u>
OTHER INCOME (EXPENSE):		
Refunds of VAT taxes	159,518	124,069
Other income	514	7,324
Interest and finance costs	<u>(701,332)</u>	<u>(223,592)</u>
	<u>(541,300)</u>	<u>(92,199)</u>
MINORITY INTEREST	<u>-</u>	<u>2,801</u>
INCOME BEFORE INCOME TAXES	5,927,830	4,764,499
(PROVISION FOR) BENEFIT FROM INCOME TAXES	<u>-</u>	<u>-</u>
NET INCOME	5,927,830	4,764,499
Other comprehensive income:		
Foreign currency translation adjustment	<u>942,521</u>	<u>534,960</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 6,870,351</u>	<u>\$ 5,299,459</u>
BASIC NET INCOME PER COMMON SHARE	<u>\$ 0.37</u>	<u>\$ 0.34</u>
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	<u>15,849,470</u>	<u>14,164,280</u>
DILUTED NET INCOME PER COMMON SHARE	<u>\$ 0.33</u>	<u>\$ 0.29</u>
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	<u>19,412,856</u>	<u>17,068,052</u>

AMERICAN DAIRY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2007 AND DECEMBER 31, 2006

ASSETS

	March 31, 2007 (unaudited)	December 31, 2006
Current assets:		
Cash	\$ 37,799,383	\$ 39,473,910
Accounts receivable		
Trade-net of allowance for bad debts of \$322,520 and \$322,520, respectively	3,576,564	5,459,760
Employees	1,167,843	433,121
Other	838,938	452,728
Notes receivable	1,033,592	230,179
Inventories	15,223,229	13,913,766
Prepaid expenses	4,878,330	664,530
Advances to suppliers	3,133,252	1,301,935
Other tax refundable	858,009	1,365,214
	<u>68,509,140</u>	<u>63,295,143</u>
Property and equipment:		
Fixed assets, net of accumulated depreciation	36,515,973	36,981,569
Construction in progress	12,706,726	9,433,148
	<u>49,222,699</u>	<u>46,414,717</u>
Other assets:		
Goodwill	1,634,467	1,460,695
	<u>1,634,467</u>	<u>1,460,695</u>
Total assets	<u>\$ 119,366,306</u>	<u>\$ 111,170,555</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2007 (unaudited)	December 31, 2006
Current liabilities:		
Accounts payable and accrued expenses	\$ 13,334,390	\$ 13,263,315
Current portion of long term debt	5,103,489	5,103,197
Advances from related parties	116,528	119,911
Advances from employees	594,186	735,294
Deferred income	4,596,012	2,145,325
Short-term notes and loans payable	11,272,061	13,122,868
	<u>35,016,666</u>	<u>34,489,910</u>
Long term debt, net of current portion shown above, net of discount of \$1,559,883 and \$1,715,871, respectively	<u>17,089,298</u>	<u>16,936,654</u>
Stockholders' equity:		
Common stock, \$.001 par value; 50,000,000 shares authorized; 15,861,320 and 15,831,820 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	15,861	15,832
Additional paid-in capital	18,480,400	17,834,429
Retained earnings	46,104,904	40,177,074
Accumulated other comprehensive income	2,659,177	1,716,656
	<u>67,260,342</u>	<u>59,743,991</u>
Total liabilities and stockholders' equity	<u>\$ 119,366,306</u>	<u>\$ 111,170,555</u>