

American Dairy Reports Second Quarter 2007 Financial Results

**-- Expects 2007 Revenue To Reach \$150 million --
-- Expects 2007 Operating Income to Reach \$30 million --**

BEIJING, August 14, 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 second quarter 2007 financial results. The Company plans to file its 10Q today.

Key Highlights from the Second Quarter of 2007 include:

- Revenue up 61% year over year to \$41.5 million from \$25.7 million in 2Q06
- Gross profit up 43% year over year to \$18.3 million from \$12.8 million, gross margin of 44.1%
- Operating income increased 21% to \$5.2 million from \$4.3 million in 2Q06
- Non-cash interest expenses of \$1.2 million
- Net income of \$4.1 million, or \$0.24 per diluted share

Mr. Leng You Bin, Chief Executive Officer of American Dairy, stated "Our financial results for the second quarter exceeded our expectations. Our revenue growth of 61% on production increases of 37% demonstrates the fantastic pricing power associated with our high end products. Our second quarter 2007 financial results reflect the growing popularity of the Feihe brand as more and more Chinese consumers seek our trusted brand for quality and consistency. We continue to command premium prices for our products and, in fact, our highest margin products, the Nucleotide series and the CPP series, continued to generate a majority of our revenue this quarter."

Roger Liu, Chief Financial Officer of American Dairy, added " We are proud to operate a brand that is quickly accepted in new markets due to our effective promotional efforts. Approximately \$3.1 million of our cost of sales reflects these in-store product promotion efforts, which we execute in new geographic areas to grow our market share. Please keep in mind that our year over year gross margin comparison is skewed because we didn't incur any similar promotional expense in cost of goods in the second quarter of 2006. We are very pleased with our gross margin performance and are excited to benefit from our brand investment in the future as we introduce new higher margin lines."

Revenue for the second quarter was \$41.5 million, up 61% from \$25.7 million in the second quarter of 2006. The increased popularity of the Feihe brand in China continued to drive revenue growth in the second quarter. Importantly, revenue performance was led by the Company's high margin milk powder with Nucleotides series.

Sales quantities increased 37% to 8.4 million kilograms in the second quarter of 2007, up from 6.1 million kilograms in the prior year period, driven by increased sales quantities of the Company's highest ASP products. Specifically, sales volume for the Company's milk powder with Nucleotides increased 66% to 1.4 million kilograms and the CPP infant formula series increased 7% to 2.1 million kilograms. Together these two products generated 67.3% of revenue, in line with 67.2% for the same period the prior year.

Gross profit increased 43% to \$18.3 million from \$12.8 million in the second quarter of 2006. Gross margin of 44.1%, down year over year from 50.1% in the second quarter of 2006, reflects the increase in sales volume offset by \$3.1 million in product incentives, which did not occur in the year-ago period. Please note that in the fourth quarter of 2006, the Company reclassified certain promotional expenses -- such as product incentives -- out of distribution expense and into cost of goods sold. These reclassifications had no impact on net income or net earnings per share. The Company allocates capital to promotional expenses and product incentives in order to generate returns in the future, especially as it works to penetrate new markets.

Income from operations increased 21% to \$5.2 million from \$4.3 million in the second quarter of 2006, despite significant increases in distribution and general and administrative expenses. The Company's distribution expenses increased 54% to \$11.1 million from the year before, primarily reflecting increases in advertising and promotions expenses. General and administrative expenses increased 46% to \$1.9 million, reflecting an increase in staff salaries, insurance expense, and accounting and legal costs associated with financing activities, mostly at the parent company level.

Importantly, American Dairy has begun to recognize operating leverage, reflected in distribution expense as a percentage of sales, which declined 123 basis points to 26.7% of sales, and general and administrative expenses as a percentage of sales, which declined 34 basis points to 4.6%.

In the second quarter of 2007, the Company benefited from \$984,000 of VAT rebates received from the Heilongjiang Province. Interest expense increased to \$2.0 million in the second quarter of 2007 from \$179,000 in the second quarter of 2006. The increase in interest expense is mainly due to \$1.2 million for the non-cash accrual of redemption premiums on the convertible bonds issued in June of 2007. (See Explanation of Redemption Accrual, below.)

Due to the non-cash accrual of redemption premiums and near-term investment in promotional programs, net income was \$4.1 million, compared to \$5.3 million in the same period of 2006. Excluding non-cash interest expenses of \$1.2 million in the second quarter 2007, net income would have been \$5.3 million. On a diluted per share basis, net income was \$0.24, compared to \$0.31 in the prior year period.

Six Months Ended June 30, 2007

For the six months ended June 30, 2007, revenue increased 52% to \$77.5 million from \$50.9 million in the first six months of 2006. During this same time period, gross profit improved 40% to \$35.8 million from \$25.6 million. Income from operations increased 29% to \$11.7 million from \$9.1 million in the first half of 2006. Net income for the six month period in 2007 was \$10.1 million, or \$0.58 per diluted share. Excluding \$1.2 million of non-cash interest expense, net income in the first six months of 2007 would have been \$11.3 million, an increase of 13% from net income of \$10.0 in the first half of 2006.

Balance Sheet

As of June 30, 2007, the Company had \$106.3 million of cash, compared to \$39.5 million at December 31, 2006 and \$37.8 million at March 31, 2007. American Dairy had working capital of approximately \$103.5 million at June 30, 2007. The Company had long term debt of \$98.3 million as of June 30, 2007.

You Bin continued, "We completed approximately \$80.0 million of convertible debt financing in the second quarter of 2007. We intend to put this money to work to generate returns for our shareholders as well as to capitalize on opportunities that will benefit American Dairy for years to come. Our balance sheet currently allows us to pursue several avenues, including acquisitions, and it is our intention to deploy the capital to generate the highest risk adjusted returns for our shareholders. In fact, we expect to announce an important negotiated transaction in the near future."

Business Update

- *Gannan County processing plant:* The construction of the Gannan facility will be completed in September 2007. The Company will test the production line in October 2007 and the facility will be put into production at the end of 2007. As planned, the Gannan facility will be able to process at least 300 tons of fresh milk per day by the end of 2007. American Dairy expects that the Gannan plant will process at least 1,000 tons of fresh milk per day by the end of 2009. The Company expects continued operating leverage as production continues to come on line.
- *Langfang packaging plant:* American Dairy expects that the Langfang construction project will create one of China's biggest milk powder packaging plants. Its first production line was put into use in the second quarter 2007. The initial packaging capacity is 30,000 tons of milk powder per year. The second production line will be put into use in June 2008, increasing the capacity to 50,000 tons of milk powder per year. The Company is currently purchasing equipment for the second production line and the expected investment will be less than \$2.0 million.
- *NYSE listing:* The Company is actively pursuing a listing on the NYSE. Management continues to work toward meeting all of the requirements for a listing, and hopes to update investors in the near future with regards to the progress.

Financial Outlook

"2007 is a year in which we are making planned, strategic investments in our future growth, as we focus on increasing our capacity, enhancing our brand recognition, and expanding our portfolio and distribution reach," continued Roger Liu, Chief Financial Officer of American Dairy. "Excluding any potential incremental benefits from acquisitions and strategic partnerships, we expect revenues for the full year 2007 will reach \$150.0 million, a 22% increase over 2006, and we expect to realize income from operations of \$30.0 million for the full year 2007, a 58% increase over the full year 2006 results."

Explanation of Redemption Accrual

The Company raised a total of \$80.0 million through two guaranteed senior secured convertible note financings with Citadel, and various institutional investors on June 1, 2007 and June 27, 2007, respectively. These notes bear interest at a rate of 1.0% per annum and are due in 2012. Under the indentures, if the notes are not converted before their respective maturities, the notes are to be redeemed by the Company on the maturity date at a redemption price equal to 100% of the principal amount of the notes then outstanding plus an additional amount of 18% per annum, calculated on an annual compounded basis, plus any accrued and unpaid interest.

As of June 30th, the Company had accrued \$1.2 million as a redemption amount payable under the notes, which was included in interest expense in the second quarter of 2007. Unlike the annual interest rate of 1.0% which is paid in cash to the note holders under the note indenture on a semi-annual basis, the Company would only pay the accrued redemption amount under the notes if the notes are not converted into the Company's common stock at a price currently equal to \$24.00 per share before their respective maturities and are redeemed in accordance with its terms. Nevertheless, the Company believes that it must accrue the entire redemption amount under U.S. generally accepted accounting principles. This accrual will result in non-cash expense of approximately \$7.0 million in the second half of 2007.

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, BaiQuan Feihe Dairy in Kedong County, and also has a milk powder processing plant in the city of Qiqihaer, Heilongjiang Province. <http://www.americandairyinc.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.

CONTACT

In the U.S.:

Ashley Ammon MacFarlane

Integrated Corporate Relations, Inc.

203-682-8200

In Asia:

Xuyang Zhang

Integrated Corporate Relations, Inc.

+86 10 8523 3087

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
SALES	\$ 41,514,018	\$ 26,110,028	\$ 77,521,388	\$ 52,003,246
COST OF GOODS SOLD	23,196,735	12,880,859	41,699,461	25,245,965
Gross Profit	18,317,283	13,229,169	35,821,927	26,757,281
OPERATING AND ADMINISTRATIVE EXPENSES:				
Distribution expenses	11,093,294	7,575,358	20,104,071	15,130,920
General and administrative expenses	1,905,624	1,268,021	3,835,168	2,336,021
Depreciation	108,701	117,133	203,894	167,784
	13,107,619	8,960,512	24,143,133	17,634,725
Income from operations	5,209,664	4,268,657	11,678,794	9,122,556
OTHER INCOME (EXPENSE):				
Refunds of VAT taxes	983,703	1,412,914	1,143,221	1,536,983
Other income (expense)	(3,998)	(258,066)	(3,484)	(250,743)
Interest and finance costs	(2,048,645)	(179,345)	(2,749,977)	(402,937)
	(1,068,940)	975,503	(1,610,240)	883,303
MINORITY INTEREST	-	17,807	-	20,608
INCOME BEFORE INCOME TAXES	4,140,724	5,261,967	10,068,554	10,026,467
(PROVISION FOR) BENEFIT FROM INCOME TAXES	-	-	-	-
NET INCOME	4,140,724	5,261,967	10,068,554	10,026,467
Other comprehensive income:				
Foreign currency translation adjustment	1,469,992	(65,606)	2,412,513	469,354
TOTAL COMPREHENSIVE INCOME	\$ 5,610,716	\$ 5,196,361	\$ 12,481,067	\$ 10,495,821
BASIC NET INCOME PER COMMON SHARE	\$ 0.26	\$ 0.36	\$ 0.63	\$ 0.70
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	15,951,732	14,579,828	15,900,884	14,373,202
DILUTED NET INCOME PER COMMON SHARE	\$ 0.24	\$ 0.31	\$ 0.58	\$ 0.61
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	18,981,890	17,113,560	18,949,528	16,860,107

AMERICAN DAIRY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2007 AND DECEMBER 31, 2006

	ASSETS	
	June 30, 2007 (unaudited)	December 31, 2006
Current assets:		
Cash	\$ 106,251,487	\$ 39,473,910
Accounts receivable		
Trade-net of allowance for bad debts of \$354,844 and \$322,520, respectively	5,397,826	5,459,760
Employees	879,365	433,121
Other	978,662	452,728
Notes receivable	459,318	230,179
Inventories	15,685,612	13,913,766
Prepaid expenses	3,830,425	664,530
Advances to suppliers	2,705,198	1,301,935
Other tax refundable	654,004	1,365,214
	136,841,897	63,295,143
Property and equipment:		
Fixed assets, net of accumulated depreciation	44,904,961	36,981,569
Construction in progress	12,134,175	9,433,148
	57,039,136	46,414,717
Other assets:		
Deposit	10,104,987	-
Goodwill	1,634,467	1,460,695
	11,739,454	1,460,695
Total assets	\$ 205,620,487	\$ 111,170,555

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2007 (unaudited)	December 31, 2006
Current liabilities:		
Accounts payable and accrued expenses	\$ 16,800,591	\$ 13,263,315
Current portion of long term debt	5,128,216	5,103,197
Advances from related parties	147,002	119,911
Advances from employees	587,664	735,294
Deferred income	2,666,945	2,145,325
Short-term notes and loans payable	7,962,481	13,122,868
	33,292,899	34,489,910
Long term debt, net of current portion shown above, net of discount of \$1,403,895 and \$1,715,871, respectively	98,348,092	16,936,654
Minority interest	498,688	-

Stockholders' equity:

Common stock, \$.001 par value; 50,000,000 shares authorized; 15,971,070 and 15,831,820

shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively

	15,971	15,832
Additional paid-in capital	19,090,040	17,834,429
Retained earnings	50,245,628	40,177,074
Accumulated other comprehensive income	<u>4,129,169</u>	<u>1,716,656</u>
Total stockholders' equity	<u>73,480,808</u>	<u>59,743,991</u>
Total liabilities and stockholders' equity	<u><u>\$ 205,620,487</u></u>	<u><u>\$ 111,170,555</u></u>