

American Dairy Reports Third Quarter 2006 Financial Results Reiterates FY 2006 Financial Guidance

BEIJING, November 14, 2006 (BUSINESS WIRE) -- American Dairy, Inc. (NYSE Arca: ADY), one of the leading producers and distributors of milk powder and soybean products in China, today announced third quarter 2006 financial results. The Company plans to file its SEC Form 10-Q today.

Financial highlights from the third quarter of 2006 versus the third quarter of 2005 include:

- Net income increased 154% to \$5.5 million, or \$0.32 per diluted share in 3Q06, from \$2.2 million, or \$0.14 per diluted share in 3Q05
- Revenue increased 129% to \$32.6 million in 3Q06 from \$14.3 million in 3Q05
- Gross profit grew 157% to \$17.3 million in 3Q06 from \$6.7 million in 3Q05
- Gross margin increased to 53.2% in 3Q06 from 47.3% in 3Q05
- Income from operations increased 122% to \$5.2 million from \$2.4 million in 3Q05

Leng You Bin, Chief Executive Officer and President of American Dairy stated, "Today we are reporting the best operating results in the history of our Company, driven by demand for our leading infant formula and milk powder products in China. Our record results reflect the fundamental strength of American Dairy, and we are particularly pleased with our sequential financial performance from the second quarter of 2006. For example, despite the seasonal slowness associated with the third quarter's hot summer months, we increased our net income by 35% excluding the \$1.2 million of VAT rebates recognized in the second quarter of this year. We also continued to reinvest in our business with a focus on solidifying the Feihe brand and on our ongoing construction projects, which enable us to capitalize and deliver on anticipated future growth."

Quarter Ended September 30, 2006

Net income increased 154% to \$5.5 million in the third quarter of 2006 from \$2.2 million in the third quarter of 2005. Earnings per diluted share increased 129% to \$0.32 in the third quarter of 2006 from \$0.14 in the third quarter of the previous year. During this period, diluted shares outstanding increased to 17.7 million from 15.8 million in the third quarter of 2005. On a sequential basis, net income increased 5% from \$5.3 million in the second quarter of 2006, or up 35% excluding the \$1.2 million of VAT rebates recognized in other income during the second quarter. Net income performance reflects continued revenue growth and gross margin improvement.

Revenue for the third quarter was \$32.6 million, an increase of \$18.3 million or 129% from \$14.3 million in the third quarter of 2005. The increased popularity of the Feihe brand in mainland China continued to drive revenue growth in the third quarter. Sales quantities increased 101% to 7.6 million kilograms in the third quarter of 2006, up from 3.8 million kilograms in the prior year period, driven by increased sales quantities of major products. Specifically, sales volume for the Company's milk power with nucleotides increased 688%, rice powder increased 82%, CPP series increased 115%, and the Ca+Zn product increased 202% as compared to the third quarter of 2005.

Gross profit increased \$10.6 million, or 157%, to \$17.3 million from \$6.7 million in the third quarter of 2005. Gross margin of 53.2% compared to 47.3% in the prior year's period reflects an increase in sales volume and higher average selling unit prices that exceeded increases in cost of sales.

Income from operations increased \$2.9 million, or 122% to \$5.2 million from \$2.4 million in the third quarter of 2005, despite increased distribution and general and administrative expenses. The Company's distribution expenses, which grew 233% during the third quarter on a year over year basis, reflect continued advertising and promotional efforts, as well as transportation costs associated with improving distribution capacity. General and administration expenses, which increased 68% during the third quarter of 2006 compared to the prior year's period, reflect costs associated with increased business activities.

The Company benefited from \$477,000 of other income in the third quarter of 2006 due to sales of raw materials to third parties. Interest and finance costs were \$212,206 during the third quarter, related to additional convertible debt issued in the third quarter of 2005.

Nine Months Ended September 30, 2006

For the nine months ended September 30, 2006, revenue increased 99% to \$84.6 million from \$42.4 million in the first nine months of 2005. During this same time period, gross profit improved 120% to \$44.1 million from \$20.0 million. Income from operations increased 84% to \$14.4 million from \$7.8 million in the first nine months of 2005, and net income improved 104% to \$15.6 million, or \$0.91 per diluted share, from \$7.6 million, or \$0.49 per diluted share, in the first nine months of 2005.

Balance Sheet

As of September 30, 2006, the Company had \$23.5 million of cash, compared to \$13.0 million at December 31, 2005 and \$16.2 million at June 30, 2005. American Dairy had working capital of approximately \$10.4 million in at September 30, 2006. The Company had long term debt of \$5.6 million as of September 30, 2006.

Guidance

American Dairy is reiterating its previously announced financial expectations for 2006.

The Company continues to expect revenue of \$120.0 million, up 76% from \$68.0 million in 2005, as well as net income of \$20.0 million, up 72% from \$11.6 million in 2005.

The Company's diluted sharecount increased to 17.7 million in the third quarter of 2006, from 17.1 million in the second quarter of 2006. Based on this updated diluted sharecount of 17.7 million shares, the Company expects net income per diluted share of \$1.13 in 2006.

American Dairy's guidance takes into account the following expectations:

- Increased demand for the Company's products in the seasonally strong fourth quarter
- Continued marketing and advertising expenditure in 2006
- Potential VAT rebates in the fourth quarter 2006

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.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)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
SALES	\$ 32,611,627	\$ 14,273,618	\$ 84,614,873	\$ 42,424,253
COST OF GOODS SOLD	<u>15,266,001</u>	<u>7,529,262</u>	<u>40,511,966</u>	<u>22,420,317</u>
Gross Profit	<u>17,345,626</u>	<u>6,744,356</u>	<u>44,102,907</u>	<u>20,003,936</u>
OPERATING AND ADMINISTRATIVE EXPENSES:				
Distribution expenses	10,567,343	3,170,934	25,698,262	9,971,876
General and administrative expenses	1,451,998	866,179	3,788,019	1,646,154
Depreciation	<u>89,186</u>	<u>351,192</u>	<u>256,970</u>	<u>589,800</u>
	<u>12,108,527</u>	<u>4,388,305</u>	<u>29,743,251</u>	<u>12,207,830</u>
Income from operations	<u>5,237,099</u>	<u>2,356,051</u>	<u>14,359,656</u>	<u>7,796,106</u>
OTHER INCOME (EXPENSE):				
Other income (expenses)	477,487	17,269	1,763,726	79,405
Interest and finance costs	<u>(212,206)</u>	<u>(194,621)</u>	<u>(615,143)</u>	<u>(240,234)</u>
	<u>265,281</u>	<u>(177,352)</u>	<u>1,148,583</u>	<u>(160,829)</u>
MINORITY INTEREST	<u>25,859</u>	<u>-</u>	<u>46,468</u>	<u>-</u>
INCOME BEFORE INCOME TAXES	5,528,239	2,178,699	15,554,707	7,635,277
(PROVISION FOR) BENEFIT FROM INCOME TAXES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME	5,528,239	2,178,699	15,554,707	7,635,277
OTHER COMPREHENSIVE INCOME:				
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	<u>724,447</u>	<u>662,098</u>	<u>1,193,801</u>	<u>662,098</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 6,252,686</u>	<u>\$ 2,840,797</u>	<u>\$ 16,748,508</u>	<u>\$ 8,297,375</u>
BASIC NET INCOME PER COMMON SHARE	<u>\$ 0.37</u>	<u>\$ 0.16</u>	<u>\$ 1.07</u>	<u>\$ 0.55</u>
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	<u>14,895,411</u>	<u>13,978,246</u>	<u>14,566,126</u>	<u>13,765,204</u>
DILUTED NET INCOME PER COMMON SHARE	<u>\$ 0.32</u>	<u>\$ 0.14</u>	<u>\$ 0.91</u>	<u>\$ 0.49</u>
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	<u>17,670,895</u>	<u>15,751,215</u>	<u>17,337,967</u>	<u>15,538,173</u>

AMERICAN DAIRY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2006 AND DECEMBER 31, 2005

ASSETS

	September 30, 2006 <u>(unaudited)</u>	December 31, 2005
Current assets:		
Cash	\$ 23,463,652	\$ 12,958,435
Accounts receivable		
Trade-net of allowance for bad debts of \$318,448 and \$309,461, respectively	6,562,987	4,132,931
Employees	741,169	488,413
Other	268,022	1,516,105
Inventories	15,164,783	9,622,347
Prepaid expenses	340,373	875,031
Advances to suppliers	1,081,964	1,216,172
Other tax refundable	-	500,892
	<u>47,622,950</u>	<u>31,310,326</u>
Property and equipment:		
Fixed assets, net of accumulated depreciation	36,443,045	34,685,898
Construction in progress	6,052,521	3,373,833
	<u>42,495,566</u>	<u>38,059,731</u>
Total assets	<u><u>\$ 90,118,516</u></u>	<u><u>\$ 69,370,057</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2006 <u>(unaudited)</u>	December 31, 2005
Current liabilities:		
Accounts payable and accrued expenses	\$ 13,710,446	\$ 11,855,430
Current portion of long term debt	5,071,045	102,466
Advances from related parties	945,024	932,942
Advances from employees	703,535	947,596
Deferred income	3,937,886	12,073,781
Short-term notes and loans payable	12,846,971	7,323,801
	<u>37,214,907</u>	<u>33,236,016</u>
Total current liabilities	<u>37,214,907</u>	<u>33,236,016</u>
Long term debt, net of current portion shown above	<u>509,521</u>	<u>5,543,517</u>
Minority interest	<u>417,057</u>	<u>493,500</u>
Stockholders' equity:		
Common stock, \$.001 par value; 50,000,000 shares authorized; 14,928,245 and 14,132,824 issued and outstanding at September 30, 2006 and December 31, 2005, respectively	14,929	14,133
Additional paid-in capital	14,339,540	9,208,837
Retained earnings	35,823,500	20,268,793
Accumulated other comprehensive income	1,799,062	605,261
	<u>51,977,031</u>	<u>30,097,024</u>
Total stockholders' equity	<u>51,977,031</u>	<u>30,097,024</u>
Total liabilities and stockholders' equity	<u><u>\$ 90,118,516</u></u>	<u><u>\$ 69,370,057</u></u>

AMERICAN DAIRY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 15,554,707	\$ 7,635,277
Adjustments to reconcile net income to operating activities -		
Depreciation	1,362,854	589,800
Compensation expense for stock issued	1,055,480	940,240
Compensation expense for warrant extension	290,952	-
Gain on disposal of assets	(143)	-
Changes in assets and liabilities:		
(Increase) decrease in -		
Accounts and notes receivable	(2,430,056)	(3,610,989)
Other receivables	1,248,082	(2,257,920)
Employees receivables	(252,756)	-
Inventories	(5,542,436)	(5,118,411)
Prepaid expenses	534,658	(221,156)
Advances to suppliers	134,208	(734,309)
Other tax refundable	500,892	(28,374)
Increase (decrease) in -		
Accounts payable and accrued expenses	2,050,016	(714,169)
Advances from related parties	12,082	604,393
Advances from employees	(244,061)	556,013
Deferred income	(8,135,895)	(6,635,090)
Net cash provided by (used in) operating activities	6,138,585	(8,994,695)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets and construction in progress	(5,798,547)	(10,279,131)
Payments received on note receivable	-	52,454
Minority interest	(76,443)	599,074
Net cash used in investing activities	(5,874,990)	(9,627,603)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term loan	13,437,121	7,082,255
Proceeds from long-term loan	732,880	5,020,542
Repayment of short-term loans	(4,932,367)	-
Repayment of long-term loans	(779,880)	(74,771)
Issuance of common stock	590,067	550,000
Net cash provided by financing activities	9,047,821	12,578,026
Effect of exchange rate change on cash and cash equivalents	1,193,801	662,098
NET DECREASE IN CASH AND EQUIVALENTS	10,505,217	(5,382,174)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,958,435	6,645,197
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 23,463,652	\$ 1,263,023
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid, net of capitalized amounts	\$ 266,779	\$ 10,017
Income taxes paid	\$ -	\$ -

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

During April 2006, holders of \$3,000,000 in convertible debt elected to convert their notes plus accrued interest thereon into 399,375 shares of the Company's common stock. The conversion price was \$8.00 per share.

