

## **American Dairy Reports Fourth Quarter and Full Year 2006 Financial Results -- Revenue and Net Income Exceed Company's Expectations --**

BEIJING, April 2, 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 fourth quarter and full year 2006 financial results. The Company plans to file its 2006 Form 10K today.

### **Key Highlights from 2006 include:**

- Revenue up 81% year over year to \$122.8 million, above previously announced expectations
- Net income per diluted share increased by 54% to \$1.14, above previously announced expectations and despite the increase in the average diluted share count from 16.1 million to 18.1 million
- Continued strategic penetration of the market via increased advertising expenditure, to bolster the strength of the Feihe brand
- Total sales volume grew 68% to 29.1 million kilograms from 17.3 million kilograms in 2005

Leng You Bin, Chief Executive Officer and President of American Dairy stated, "Our financial results for 2006 exceeded our expectations and we generated revenue growth of 81% off of sales volume growth of 68%. Despite significant investment in the Feihe brand and expenses related to the build out of new facilities in 2006, we still increased our net income by 71% for the year. Congratulations and thank you to all of our employees who made 2006 a spectacular year for American Dairy."

Leng You Bin continued, "There are two key points to consider when evaluating our fiscal year performance. First, more and more consumers are seeking out quality and consistency and buying Feihe products. This drove our revenue to almost \$123.0 million in 2006 and we are very proud of that achievement. Second, we are actively using our capital to create future growth. Throughout the year, and especially in the fourth quarter, we strategically invested in our brand and our infrastructure. While we have yet to see the revenue and margin benefits from these material investments, our financials reflect the cost of planning for future success as we build one of China's leading consumer companies, and create significant shareholder value for many years to come."

For the year ended December 31, 2006, revenue increased 81% to \$122.8 million from \$68.0 million in 2005. Depreciation expense accounted for in cost of goods sold roughly doubled in 2006 to \$1.5 million and reflects the depreciation related to new production facilities. During this same period, gross profit improved 79% to \$52.6 million from \$29.3 million in 2005. Income from operations increased 78% to \$17.7 million from \$9.9 million in 2005, and includes the impact of higher expenses such as advertising, distribution and general and administrative expense. Net income improved 71% to \$19.9 million from \$11.6 million in 2005. Diluted EPS income available to common shareholders was \$20.6 million, or \$1.14 per diluted share. Please refer to Table 1 for an explanation of the net income per diluted share calculation.

### **Key Highlights from the Fourth Quarter of 2006 include:**

- Revenue up 49% year over year to \$38.2 million, reflecting the strongest quarter in Company history
- Gross profit up 66% year over year to \$15.5 million, gross margin of 40% reflects reclassification of certain promotional expenses as detailed in Table 2
- Operating income increased 57% to \$3.3 million from \$2.1 million in 4Q05
- Net income increased 9% to \$4.4 million, or \$0.22 per diluted share, from \$4.0 million, or \$0.25 per diluted share in 4Q05
- Fourth quarter net margin of 11% directly reflects strategic investments in advertising and branding. Company spent \$2.8 million, or 7% of revenue, on advertising and marketing in 4Q06, up substantially from \$500,000, or 2% of revenue, spent in 4Q05.
- Legal and accounting costs related to financing totaled \$224,000, or \$0.01 per diluted share, in 4Q06

"Our strategic investment in advertising and marketing is an essential part of our plan to build American Dairy into one of China's leading consumer companies. While this strategy meant lower net margins in the fourth quarter, we believe this is the right strategy that will enhance our brand awareness and continue to increase revenues over the longer term. China is a vast and fragmented consumer marketplace that we are actively penetrating with the right promotional and marketing expenditure. For example, we invested \$2.8 million in the fourth quarter to enhance our brand for long-term growth, compared to only \$500,000 in the fourth quarter of the prior year. Despite the significantly higher year over year branding investment, we still increased our net income by 9% and we are very pleased with these results," commented Leng You Bin.

Revenue for the fourth quarter was \$38.2 million, up 49% from \$25.6 million in the fourth quarter of 2005. The increased popularity of the Feihe brand in China continued to drive revenue growth in the fourth quarter. Sales quantities increased 47% to 8.7 million kilograms in the fourth quarter of 2006, up from 5.9 million kilograms in the prior year period, driven by increased sales quantities of major products. Specifically, sales volume for the Company's Ca+Zn product increased 160% to 2.8 million kilograms, milk power with nucleotides increased 152% to 1.1 million kilograms, CPP series increased 33% to 1.3 million kilograms, and the soybean series increased 381% to 662,000 kilograms, as compared to the fourth quarter of 2005.

Gross profit increased 66% to \$15.5 million from \$9.3 million in the fourth quarter of 2005. Gross margin of 40% reflects the significant increase in sales volume offset by the reclassification of certain promotional expenses out of distribution expense and into cost of goods sold, as detailed in Table 2. These reclassifications had no impact on net income or net earnings per share.

Income from operations increased 57% to \$3.3 million from \$2.1 million in the fourth quarter of 2005, despite significant increases in distribution and general and administrative expenses. The Company's distribution expenses increased 58% to \$10.7 million, which includes the previously discussed advertising expenditure as well as larger incentive bonuses paid to the Company's network of promotional salespeople during the fourth quarter. The Company did not experience similar advertising and promotional costs in the prior year period. General and administration expenses, which increased 65% during the fourth quarter of 2006 compared to the prior year's period, reflect accounting and legal costs associated with increased business and financing activities, mostly at the parent company level. This includes legal and accounting costs specific to financing in 4Q06 which totaled \$224,000, or \$0.01 per diluted share.

The Company benefited from \$1.6 million of other income in the fourth quarter of 2006, which as expected includes approximately \$1.9 million of VAT rebates received from the Heilongjiang Province. Interest and finance costs were \$582,000 during the fourth quarter, partly reflecting the issuance of convertible notes in the fourth quarter 2006.

Net income increased 9% to \$4.4 million in the fourth quarter of 2006 from \$4.0 million in the fourth quarter of 2005. The Company reported diluted earnings per share of \$0.22 in the fourth quarter of 2006.

#### **Balance Sheet**

As of December 31, 2006, the Company had \$39.5 million of cash, compared to \$13.0 million at December 31, 2005 and \$23.5 million at September 30, 2006. American Dairy had working capital of approximately \$28.8 million at December 31, 2006. The Company had long term debt of \$16.9 million as of December 31, 2006.

#### **Business Update**

- Gannan County processing plant: As of today, American Dairy has completed the installation of milking and other equipment including fillers, product tanks, pasteurizers, and storage. 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.
- Langfang packaging plant: American Dairy expects that the Langfang construction project will create one of China's biggest milk powder packaging plants. The Company expects to begin Langfang packaging operations in 2007, and expects an initial packaging capacity of 35,000 tons of milk powder per year. The Company is currently testing the Langfang production lines.
- U.S. corporate presence: American Dairy announced in December that it hired a Vice President of U.S. Operations in order to facilitate communications between U.S. based auditors, lawyers and investors.
- New company website: American Dairy has launched its new corporate website, including an enhanced investor relations section, at [www.americandairyinc.com](http://www.americandairyinc.com).

#### **Financial Outlook**

"We expect first quarter revenue to increase by at least 39% year over year to at least \$36.0 million, and we believe that macroeconomic trends continue to be encouraging for Feihe products. Ultimately the year 2007 is a year to invest in our future growth as we focus on increasing our capacity, enhancing our brand and expanding our distribution reach. While we continue to strive for long-term shareholder value, we expect to reach a net margin in the first quarter of 2007 of at least 14%." stated Roger Liu, Chief Financial Officer of American Dairy.

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 full year 2007 guidance at this time.

However, the Company does 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 margin 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, 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.

#### **CONTACT**

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

	<u>Three Months Ended December 31,</u>		<u>Twelve Months Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
SALES	\$ 38,184,536	\$ 25,599,650	\$ 122,799,191	\$ 68,023,903
COST OF GOODS SOLD	<u>22,728,001</u>	<u>16,295,578</u>	<u>70,221,023</u>	<u>38,715,895</u>
Gross Profit	<u>15,456,535</u>	<u>9,304,072</u>	<u>52,578,168</u>	<u>29,308,008</u>
OPERATING AND ADMINISTRATIVE EXPENSES:				
Distribution expenses	10,680,709	6,770,702	29,397,910	16,742,578
General and administrative expenses	1,380,507	837,885	5,218,526	2,484,039
Depreciation	<u>59,184</u>	<u>(428,350)</u>	<u>266,154</u>	<u>161,450</u>
	<u>12,120,400</u>	<u>7,180,237</u>	<u>34,882,590</u>	<u>19,388,067</u>
Income from operations	<u>3,336,135</u>	<u>2,123,835</u>	<u>17,695,578</u>	<u>9,919,941</u>
OTHER INCOME (EXPENSE):				
Other income (expenses)	1,646,106	2,141,346	3,409,544	2,220,751
Gain on disposal of assets	(147)	9,125	(147)	9,125
Interest and finance costs	<u>(581,551)</u>	<u>(282,578)</u>	<u>(1,196,694)</u>	<u>(522,812)</u>
	<u>1,064,408</u>	<u>1,867,893</u>	<u>2,212,703</u>	<u>1,707,064</u>
MINORITY INTEREST	<u>(46,468)</u>	<u>2,424</u>	<u>-</u>	<u>2,424</u>
INCOME BEFORE INCOME TAXES	4,354,075	3,994,152	19,908,281	11,629,429
(PROVISION FOR) BENEFIT FROM INCOME TAXES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME	4,354,075	3,994,152	19,908,281	11,629,429
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	<u>(82,406)</u>	<u>(56,837)</u>	<u>1,111,395</u>	<u>605,261</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 4,271,669</u>	<u>\$ 3,937,315</u>	<u>\$ 21,019,676</u>	<u>\$ 12,234,690</u>
BASIC NET INCOME PER COMMON SHARE	<u>\$ 0.28</u>	<u>\$ 0.28</u>	<u>\$ 1.35</u>	<u>\$ 0.83</u>
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	<u>15,369,133</u>	<u>14,075,682</u>	<u>14,755,576</u>	<u>13,931,006</u>
DILUTED NET INCOME PER COMMON SHARE	<u>\$ 0.22</u>	<u>\$ 0.25</u>	<u>\$ 1.14</u>	<u>\$ 0.74</u>
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	<u>18,669,699</u>	<u>16,817,936</u>	<u>18,056,143</u>	<u>16,057,073</u>

Income and expenses as reported for the three months ended December 31, 2006 take into consideration certain reclassifications between expense categories to conform to the classifications used in the December 31, 2006 audited financial statements. These reclassifications had no impact on net income or net income per share.

AMERICAN DAIRY, INC.  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2006 AND 2005

ASSETS

	2006	2005
Current assets:		
Cash	\$ 39,473,910	\$ 12,958,435
Accounts receivable		
Trade-net of allowance for bad debts of \$322,520 and \$309,461, respectively	5,459,760	4,132,931
Employees	433,121	488,413
Other	452,728	1,516,105
Notes receivable	230,179	-
Inventories	13,913,766	9,622,347
Prepaid expenses	664,530	875,031
Advances to suppliers	1,301,935	1,216,172
Other tax refundable	1,365,214	500,892
	63,295,143	31,310,326
Property and equipment:		
Fixed assets, net of accumulated depreciation	36,981,569	34,685,898
Construction in progress	9,433,148	3,373,833
	46,414,717	38,059,731
Other assets:		
Goodwill	1,460,695	-
	1,460,695	-
Total assets	\$ 111,170,555	\$ 69,370,057

LIABILITIES AND STOCKHOLDERS' EQUITY

	2006	2005
Current liabilities:		
Accounts payable and accrued expenses	\$ 13,263,315	\$ 11,855,430
Current portion of long term debt	5,103,197	102,466
Advances from related parties	119,911	932,942
Advances from employees	735,294	947,596
Deferred income	2,145,325	12,073,781
Short-term notes and loans payable	13,122,868	7,323,801
	34,489,910	33,236,016
Long term debt, net of current portion shown above, net of discount of \$1,715,871 at December 31, 2006	16,936,654	5,543,517
Minority interest	-	493,500
Stockholders' equity:		
Common stock, \$.001 par value; 50,000,000 shares authorized; 15,831,820 and 14,132,824 shares issued and outstanding at December 31, 2006 and 2005, respectively	15,832	14,133
Additional paid-in capital	17,834,429	9,208,837
Retained earnings	40,177,074	20,268,793
Accumulated other comprehensive income	1,716,656	605,261
	59,743,991	30,097,024
Total liabilities and stockholders' equity	\$ 111,170,555	\$ 69,370,057

**Table 1: Reconciliation of Numerator and Denominator in earnings per share calculation**

	Income (Numerator)	Shares (Denominator)	Per Share Amount
For the year ended December 31, 2006			
Basic EPS income available to Common shareholders	\$ 19,908,281	14,755,576	\$ 1.35
Effect of dilutive securities:			
Convertible notes	723,707	1,833,285	\$ 0.11
Warrants issued		1,467,282	\$ 0.10
Diluted EPS income available to Common shareholders	\$ 20,631,988	18,056,143	\$ 1.14
For the year ended December 31, 2005			
Basic EPS income available to Common shareholders	\$ 11,629,000	13,931,006	\$ 0.83
Effect of dilutive securities:			
Warrants issued	—	1,643,533	\$ 0.08
Convertible notes	304,000	482,534	\$ 0.01
Diluted EPS income available to Common shareholders	\$ 11,933,000	16,057,073	\$ 0.74
For the year ended December 31, 2004			
Basic EPS income available to Common shareholders	\$ 6,258,000	12,077,085	\$ 0.52
Effect of dilutive securities:			
Warrants issued		1,378,615	\$ 0.05
Diluted EPS income available to Common shareholders	\$ 6,258,000	13,455,700	\$ 0.47

**Table 2: Summarized unaudited quarterly financial data for 2006 and 2005**

The table below for fiscal year 2006 includes certain reclassifications of expenses previously reported as distribution expenses to cost of goods sold to conform to the classifications used in the December 31, 2006 audited financial statements. These reclassifications had no impact on net income or net earnings per share.

	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	Fiscal Year 2006
Total revenues	\$25,893,000	\$26,110,028	\$32,611,627	\$38,184,536	\$122,799,191
Gross profit	\$11,908,000	\$9,997,007	\$15,236,726	\$15,456,435	\$52,578,168
Gross Margin:	46%	38%	47%	40%	43%
Net income	\$4,764,000	\$5,261,967	\$5,528,239	\$4,354,075	\$19,908,281
Net earnings per common share:					
Basic	\$ 0.34	\$ 0.36	\$ 0.37	\$ 0.28	\$ 1.35
Diluted	\$ 0.29	\$ 0.31	\$ 0.32	\$ 0.22	\$ 1.14

  

	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	Fiscal Year 2005
Total revenues	\$13,560,731	\$14,589,807	\$14,273,618	\$25,599,747	\$68,023,903
Gross profit	\$6,263,478	\$6,996,110	\$6,744,356	\$9,304,064	\$29,308,008
Gross Margin:	46%	48%	47%	36%	43%
Net income	\$2,632,757	\$2,823,250	\$2,178,699	\$3,994,723	\$11,629,429
Net earnings per common share:					
Basic	\$ 0.19	\$ 0.21	\$ 0.16	\$ 0.27	\$ 0.83
Diluted	\$ 0.17	\$ 0.18	\$ 0.14	\$ 0.25	\$ 0.74

