

## **American Dairy Reports Third Quarter 2007 Financial Results**

**Operating Income Up 53% to \$8.0 Million**

**Increases Full Year 2007 Revenue Guidance**

**2007 Operating Income Expected to Increase At Least 70% Year Over Year**

BEIJING, November 19, 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 third quarter 2007 financial results. The Company plans to file its Quarterly Report on Form 10-Q today.

### **Key Highlights from the Third Quarter of 2007 Include:**

- Revenue up 26% year over year to \$41.2 million from \$32.6 million in 3Q06
- Gross profit up 10% year over year to \$19.0 million from \$17.3 million, gross margin of 46.1%
- Operating income increased 53% to \$8.0 million from \$5.2 million in 3Q06
- Approximately \$4.4 million of interest and finance costs, mostly non-cash interest expense
- Approximately \$1.82 million payment for liquidated damages pursuant to a registration rights agreement
- Net income of \$2.3 million, or \$0.13 per diluted share

Mr. Leng You-Bin, Chief Executive Officer of American Dairy, stated "Our newest premium infant formula line, Firmus, resonated well with consumers during the quarter and continued demand for our other high quality products, like the CPP and Nucleotide series, enhanced our revenue and operating income performance."

Mr. Leng continued, "Our gross margin results reported today differ from our preliminary results reported last week due to intercompany eliminations, which we did not take into account at the time."

Revenue for the third quarter was \$41.2 million, up 26% from \$32.6 million in the third quarter of 2006. The increased popularity of the Feihe brand in China continued to drive revenue growth in the third quarter. The Company believes its total sales volume increased year over year to roughly 8.4 million kilograms versus 7.6 million kilograms in the third quarter of 2006. The Company is not at this time specifying per product sales volume due to unforeseen accounting delays. However, American Dairy is confident that its leading products like the CPP and Nucleotide series continue to drive growth.

Gross profit increased 10% to \$19.0 million from \$17.3 million in the third quarter of 2006. Gross margin of 46.1%, down year over year from 53.2% in the third quarter of 2006, reflects product display, or slotting, fees paid to resellers, as well as approximately \$1.0 million of product incentives given to resellers. The Company did not give any product to resellers during the comparable periods in 2006. 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 53% to \$8.0 million from \$5.2 million in the third quarter of 2006, which reflects increases in general and administrative expenses and are partially offset by lower distribution expense. General and administration expenses increased 48% to \$2.1 million, reflecting an increase in professional fees. The Company's distribution expenses decreased 17% to \$8.7 million from the year before, primarily reflecting lower advertising expenses.

Interest expense increased to \$4.4 million in the third quarter of 2007 from \$212,206 in the third quarter of 2006. The increase in interest expense is mainly due to \$4.2 million for the non-cash accrual of redemption premiums on the convertible bonds issued in June of 2007. The Company also recognized a one-time payment of approximately \$1.82 million for liquidated damages paid pursuant to a Registration Rights Agreement entered into in October 2006.

In the third quarter of 2007, the Company benefited from \$384,525 of VAT rebates received from the Heilongjiang Province.

Net income was \$2.3 million, compared to \$5.5 million in the same period of 2006. On a diluted per share basis, net income was \$0.13, compared to \$0.32 in the prior year period. Excluding non-cash interest expenses of \$4.2 million in the third quarter 2007, net income would have been \$6.5 million, or approximately \$0.37 per diluted share.

### **Nine Months Ended September 30, 2007**

For the nine months ended September 30, 2007, revenue increased 40.3% to \$118.7 million from \$84.6 million in the first nine months of 2006. During this same time period, gross profit improved 24% to \$54.8 million from \$44.1 million. Income from operations increased 37% to \$19.7 million from \$14.4 million in the first nine months of 2006. Net income for the nine months period in 2007 was \$12.4 million, or \$0.73 per diluted share.

## **Balance Sheet**

As of September 30, 2007, the Company had \$58.4 million of cash, compared to \$106.3 million at June 30, 2007 and \$37.8 million at March 31, 2007. American Dairy had working capital of approximately \$86.0 million at September 30, 2007. The Company had long term debt of \$102.0 million as of September 30, 2007.

## **Use of Capital**

Mr. Leng You-Bin commented, "We are eager to put the \$80.0 million of capital from our convertible note financing 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 plan to deploy the capital to generate the highest risk adjusted returns for our shareholders."

Mr. Leng continued, "During the third quarter, we executed two important steps in this plan. First, we finalized the Equity Purchase Agreement with Ausnutria. Ausnutria's product portfolio is complementary to ours and our distribution networks are mutually beneficial. We look forward to bolstering our presence in top tier cities using Ausnutria's existing network, and certainly their high-margin products are expected to benefit from our leadership in China's many smaller cities."

"Second, we are investing in our milk supply so that we can capitalize on the growing demand for our premium products as well as for organic products. We invested approximately \$15.6 million to build two organic dairy ranches, which will increase our overall supply of milk and will also provide us the opportunity to roll out organic product offerings. We are optimistic about the organic market opportunity in China and we'll continue to keep our shareholders informed about this exciting use of capital," Leng concluded.

## **Business Update**

As previously announced, American Dairy is evaluating a new accounting firm and plans to engage a new auditor in the near future.

## **Financial Outlook**

Today, the Company is increasing its full year 2007 revenue guidance. American Dairy expects to generate revenue of at least \$160.0 million in 2007, a year over year increase of at least 30%. This is up from prior guidance of \$150.0 million for the full year 2007. The Company continues to anticipate operating income of at least \$30.0 million, a year over year increase of 70% and in line with the Company's third quarter 2007 operating margin of roughly 19%.

American Dairy's financial outlook excludes potential incremental benefits from acquisitions and strategic partnerships.

## **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.

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AMERICAN DAIRY, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

Three Months Ended September 30

Nine Months Ended September 30

2007

2006

2007

2006

SALES	\$ 41,220,158	\$ 32,611,627	118,741,546	\$ 84,614,873
COST OF GOODS SOLD	22,222,151	15,266,001	63,921,612	40,511,966
Gross Profit	18,998,007	17,345,626	54,819,934	44,102,907
OPERATING AND ADMINISTRATIVE EXPENSES:				
Distribution expenses	8,735,026	10,567,343	28,839,097	25,698,262
General and administrative expenses	2,146,671	1,451,998	5,981,839	3,788,019
Depreciation	115,747	89,186	319,641	256,970
	10,997,444	12,108,527	35,140,577	29,743,251
Income from operations	8,000,563	5,237,099	19,679,357	14,359,656
OTHER INCOME (EXPENSE):				
Liquidating damages	(1,820,000)	-	(1,820,000)	-
Refunds of VAT taxes	384,525	-	1,527,746	1,449,710
Other income (expense)	167,903	477,487	164,419	314,016
Interest and finance costs	(4,408,989)	(212,206)	(7,158,966)	(615,143)
	(5,676,561)	265,281	(7,286,801)	1,148,583
MINORITY INTEREST	-	25,859	-	46,468
INCOME BEFORE INCOME TAXES	2,324,002	5,528,239	12,392,556	15,554,707
(PROVISION FOR) BENEFIT FROM INCOME TAXES	-	-	-	-
NET INCOME	2,324,002	5,528,239	12,392,556	15,554,707
Other comprehensive income:				
Foreign currency translation adjustment	2,937,801	724,447	5,350,314	1,193,801
TOTAL COMPREHENSIVE INCOME	\$ 5,261,803	\$ 6,252,686	\$ 17,742,870	\$ 16,748,508
BASIC NET INCOME PER COMMON SHARE	\$ 0.14	\$ 0.37	\$ 0.77	\$ 1.07
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	16,554,132	14,895,411	16,121,026	14,566,126
DILUTED NET INCOME PER COMMON SHARE	\$ 0.13	\$ 0.32	\$ 0.73	\$ 0.91
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	17,422,782	17,670,895	17,000,413	17,337,967

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

	ASSETS	September 30, 2007 (unaudited)	December 31, 2006
Current assets:			
Cash		\$ 58,363,718	\$ 39,473,910
Accounts receivable			
Trade-net of allowance for bad debts of \$353,833 and \$322,520, respectively		5,967,692	5,459,760
Employees		197,622	433,121
Other		105,179	452,728
Short term investments		10,013,351	-
Notes receivable		2,200,720	230,179
Inventories		23,268,951	13,913,766
Prepaid expenses		2,257,221	664,530
Advances to suppliers		5,360,908	1,301,935
Due from related parties		96,430	-
Deposit for inventory		197,400	-
Other current assets		4,995	-
Other tax refundable		-	1,365,214
	Total current assets	<u>108,034,187</u>	<u>63,295,143</u>
Property and equipment:			
Fixed assets, net of accumulated depreciation		52,161,117	36,981,569
Construction in progress		<u>30,465,765</u>	<u>9,433,148</u>
		<u>82,626,882</u>	<u>46,414,717</u>
Other assets:			
Deposit		9,333,869	-
Note receivable		4,000,000	-
Intangible assets, net of amortization		3,513,037	-
Goodwill		<u>1,634,467</u>	<u>1,460,695</u>
		<u>18,481,373</u>	<u>1,460,695</u>
Total assets		<u><u>\$ 209,142,442</u></u>	<u><u>\$ 111,170,555</u></u>

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2007 (unaudited)	December 31, 2006
Current liabilities:		
Accounts payable and accrued expenses	\$ 14,632,518	\$ 13,263,315
Current portion of long term debt	121,802	5,103,197
Advances from related parties	146,130	119,911
Advances from employees	583,845	735,294
Deferred income	4,923,371	2,145,325
Short-term notes and loans payable	1,579,600	13,122,868
Total current liabilities	21,987,266	34,489,910
Long term debt, net of current portion shown above, net of discount of \$1,247,907 and \$1,715,871, respectively	101,964,533	16,936,654
Minority interest	507,343	-
Stockholders' equity:		
Common stock, \$.001 par value; 50,000,000 shares authorized; 16,835,268 and 15,831,820 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	16,835	15,832
Additional paid-in capital	25,465,973	17,834,429
Retained earnings	52,133,522	40,177,074
Accumulated other comprehensive income	7,066,970	1,716,656
Total stockholders' equity	84,683,300	59,743,991
Total liabilities and stockholders' equity	\$ 209,142,442	\$ 111,170,555