

AMERICAN DAIRY, INC.

POLICY ON INSIDER TRADING

The following is the official policy adopted by the board of directors of American Dairy, Inc. (“American Dairy”) with respect to trading in American Dairy’s securities by officers, directors, employees and others who may from time to time possess inside information regarding American Dairy or its business. All management and employees should carefully read and become familiar with the information contained herein.

I. Prohibition Against Insider Trading

The U.S. securities laws regulate the sale and purchase of securities in the interest of protecting the investing public. U.S. securities laws give American Dairy, its officers and directors, and other employees the responsibility to ensure that information about our company and other publicly traded companies is not used unlawfully in the purchase and sale of securities. All employees should pay particular attention to the laws against trading on “inside” information. These laws are based upon the belief that all persons trading in a company's securities should have equal access to all “material” information about that company.

It is a violation of American Dairy’s Policy on Insider Trading (“Company Policy” or “Policy”) and federal law for any employee to trade in American Dairy’s securities while he or she is aware of material, nonpublic information about the company. It is also illegal and against Company Policy to communicate or “tip” material, nonpublic information to others so that they may trade in American Dairy securities based on that information. This Policy applies to all American Dairy securities, including its common stock and securities exchangeable or convertible into common stock such as options, preferred stock, convertible debentures and warrants.

The Securities and Exchange Commission (“SEC”), the NASD, and plaintiff’s lawyers look for instances of apparent insider trading in order to bring cases against individuals who either are guilty of insider trading or appear to be so. A breach of the insider trading laws could expose the insider to criminal fines and imprisonment of up to 20 years, in addition to civil penalties and injunctive actions. In addition, state regulators may become involved and can impose punitive damages under applicable state laws. Securities laws also subject management to civil penalties for illegal insider trading by employees, including employees located outside the United States. Controlling persons include the company and possibly, based upon the SEC’s interpretation, directors, officers, and supervisors. These persons may be subject to fines up to the greater of \$1,000,000 or three times the profit (or loss avoided) by the insider trader.

Inside information belongs to the company and its shareholders collectively and does not belong to the individual directors, officers, or other employees who may handle it or otherwise become aware of it. For any person to use such information for personal benefit or to disclose it to others outside the company violates the company's interests and is therefore a violation of Company Policy. Using inside information to trade in American Dairy securities constitutes fraud against members of the investing public and against the company and its shareholders.

A. Material Information

Any information that a reasonable investor would consider important in deciding whether to buy, sell or hold American Dairy's securities is material. Examples of “material” information include:

- Financial performance, especially quarterly and year-end earnings and significant changes in financial performance, outlook or liquidity.
- Company projections that significantly differ from external expectations.
- Gain or loss of a key customer or joint venture partner.
- Entry into a material agreement.
- Revolutionary discoveries or developments related to our, processes, products or product lines.
- Significant new products or significant changes in an existing product’s development status.
- Stock splits, public or private securities offerings, or a change in the dividend policy or declaration of a dividend.

- Actual or threatened major litigation (or the resolution thereof) or governmental action or investigation.
- Changes in senior management.
- Sizeable financial transactions, mergers, acquisitions or divestiture of significant assets, subsidiaries or business units.
- Significant changes in pricing of products or in costs of production.

B. Nonpublic Information

Information is considered to be nonpublic until it has been effectively disclosed to the public and adequate time has elapsed for the market as a whole to digest that information. Examples of effective disclosure include company filings with the SEC, press releases, meetings with members of the press and the public, and conference calls or webcasts that are open to the public. Generally, no transactions should take place until at least 24 hours after the disclosure of material information. All employees should bear in mind that most information learned in connection with their employment is potentially “insider” information until publicly disclosed.

C. Prohibited Transactions

Transactions in American Dairy Securities.

When an employee possesses material, nonpublic information about American Dairy, he or she may not:

- Trade in American Dairy securities.
- Advise others to buy, hold or sell American Dairy securities.
- Have others trade for him or her in American Dairy securities.
- Disclose the information to (or, tip) anyone else who might then trade.
- Assist anyone in any of these activities.

Transactions that may be necessary or justifiable for independent reasons (such as the need to raise money for an emergency) are not an exception to the prohibition on insider trading.

Transactions in the Securities of Other Companies.

Employees also may learn material, nonpublic information about other companies from time to time as a result of their jobs. Prohibitions against insider trading apply equally to transactions in those companies' securities while the employee is in possession of their material, nonpublic information.

Short Sales.

Short selling is the act of selling securities not yet owned by the seller (or borrowed by the seller) with the expectation of the price dropping and the intent of buying securities of the same class at a lower price for delivery to the purchaser. American Dairy employees, regardless of whether or not they are aware of material, nonpublic information about American Dairy, may not engage in short sales of American Dairy 's securities.

Additional Prohibited Transactions.

American Dairy considers it improper and inappropriate for any Section 16 Employee or Restricted Employee (both as defined below) to engage in speculative transactions in American Dairy's securities. It is therefore Company Policy that, in addition to the prohibited transactions described above, Section 16 Employees and Restricted Employees may not engage in any publicly traded options or hedging transactions (such as zero-cost collars and forward sales contracts) with respect to American Dairy's securities.

II. Persons Covered by this Policy

The prohibition against trading on inside information applies to directors, officers, and all other employees as well as to other people who gain access to that information. Because of their access to confidential information on a regular basis, Company Policy subjects two groups of individuals to additional restrictions on trading in company securities, whether or not those individuals possess nonpublic information. The first group (the "Section 16 Employees") consists of directors, officers and holders of 10% or more of American Dairy's common stock who are subject to the reporting provisions and the trading restrictions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as the administrative assistants of such persons. The second group (the "Restricted Employees") consists of employees who report directly to the Chief Executive Officer and certain others who are designated from time to time. The restrictions for Section 16 Employees and the Restricted Employees are discussed in §III below. In addition, certain employees with inside knowledge of material information may be subject to *ad hoc* restrictions on trading from time to time.

III. Trading Windows and Pre-Clearance Procedures for Section 16 and Restricted Employees

Employees who are deemed by American Dairy to be Section 16 Employees and/or Restricted Employees will be notified of their status by the Designated Compliance Officer. Section 16 Employees and Restricted Employees, because of their position with American Dairy, have regular access to material, nonpublic information and may trade in American Dairy securities only at certain times throughout the year ("trading windows") and only after first obtaining prior approval for a trade from the Designated Compliance Officer at least two (2) days, but no more than five (5) days, prior to the proposed trade. In addition, Section 16 Employees may be prohibited from trading at other times when the regular trading window is open for trading by Restricted Employees. The Designated Compliance Officer may reject any trading request made by a Section 16 Employee or a Restricted Employee at his or her sole discretion. When the trading window is closed for either group or for any employees as specified in this Policy or when announced by the company it is referred to as a "black-out" period.

A. Trading Windows for Section 16 Employees.

Subject to being pre-cleared by the Designated Compliance Officer, Section 16 Employees may trade in American Dairy securities only during the period beginning on the second full trading day following American Dairy's widespread public release of quarterly or year-end earnings, and ending at the close of trading on the last business day of the second month of the fiscal quarter in which the earnings are released. (For example, if American Dairy releases first quarter earnings at the close of the market on May 14th, Section 16 Employees will have a trading window that is open from May 16th, through the last business day in May.) In addition, Section 16 Employees may not trade in American Dairy securities during any "black-out" periods which are announced from time to time by management. Black-out periods will be announced when Section 16 Employees possess material, non-public information relating to American Dairy's business operations which generally will commence upon the development of a significant business or corporate event and extend until two trading days after its public announcement.

B. Trading Windows for Restricted Employees.

Subject to being pre-cleared by the Designated Compliance Officer, Restricted Employees may trade in American Dairy securities only during the period beginning on the second full trading day following American Dairy's widespread public release of quarterly or year-end earnings, and ending at the close of trading on the last business day of the fiscal quarter in which the earnings are released. (For example, if the company releases first quarter earnings on May 14th, Restricted Employees will have a trading window that is open from May 16th through the last business day in June).

C. Hardship Cases.

The Designated Compliance Officer may, on a case-by-case basis, authorize trading in American Dairy securities by Section 16 Employees and Restricted Employees outside of the applicable trading windows due to financial or other hardships, but only if: (i) the employee who wishes to trade has, at least two (2) days prior to the

anticipated trade date, notified the Designated Compliance Officer in writing of the circumstances of the hardship and the amount and nature of the proposed trade(s) and (ii) the person trading is not in possession of material, nonpublic information concerning the company and has certified that fact in writing to the Designated Compliance Officer.

IV. Special Situations

A. Employee Stock Purchase Plans.

The trading prohibitions and restrictions set forth in this Policy do not apply to periodic contributions by American Dairy or by employees to employee benefit plans (e.g., 401K plans) which are used to purchase American Dairy securities pursuant to the employees' advance instructions. Employees, however, may not alter their instructions regarding the purchase or sale of American Dairy securities in such plans, or make discretionary transfers into or out of American Dairy securities in such plans, while in the possession of material, nonpublic information.

B. Stock Option Plans.

The trading prohibitions and restrictions of this Policy apply to the exercise of American Dairy stock options only if the employee exercising his or her stock option receives cash in lieu of shares of American Dairy stock at the time of such exercise. Employees who exercise their American Dairy stock options and opt to receive only shares of American Dairy stock are not subject to the trading prohibitions and restrictions of this Policy.

C. Rule 10b5-1 Trading Plans.

Company Policy permits employees to trade in American Dairy securities regardless of their awareness of inside information if the transaction is made pursuant to a pre-arranged trading plan that was entered into when the employee was not in possession of material, nonpublic information (a "Rule 10b5-1 Trading Plan"). Company Policy requires Rule 10b5-1 Trading Plans to (i) be written, (ii) specify the amount of, date(s) on, and price(s) at which the securities are to be traded or establish a formula for determining such items, (iii) satisfy in all respects the conditions set forth in Rule 10b5-1(c) under the Exchange Act, and (iv) receive prior approval from the Designated Compliance Officer. Rule 10b5-1 Trading Plans may be adopted, amended and replaced only during periods when trading is permitted in accordance with this Policy and under no circumstances when the employee is in possession of material, nonpublic information about American Dairy.

V. Applicability of this Policy to Non-Employees

A. Applicability of this Policy to Employees' Family Members and Other Related Parties

This Policy applies not only to American Dairy employees but also to American Dairy employees' spouses, minor children, other relatives who live in their households and trusts and similar entities with respect to which employees are trustees or otherwise enjoy beneficial ownership (each, a "Related Party"). For example, (i) a Related Party of an American Dairy employee may not purchase American Dairy securities while the employee is in possession of material, nonpublic information, even if the employee does not actually "tip" the Related Party regarding such information, and (ii) a Related Party of a Section 16 Employee or a Restricted Employee is subject to the pre-clearance and trading window restrictions set forth in this Policy.

B. Applicability of this Policy to Former Employees

This Policy's prohibitions against insider trading will continue to apply to transactions in American Dairy securities by former employees and their Related Parties.

VI. Compliance and Penalties

A. Reporting Violations

Any employee who becomes aware of a violation of this Policy should (i) report such violation to his or her supervisor or the Designated Compliance Officer or (ii) submit an anonymous report to the Nominating and Corporate Governance Committee of American Dairy's board of directors.

B. Legal Review

Whenever an employee has any questions about a transaction or compliance with this Policy or seeks an exception from this Policy, he or she should consult with the Designated Compliance Officer before the transaction takes place. Although their advice should not be considered investment or legal advice or a guarantee that no liability will arise, all decisions by the Designated Compliance Officer with respect to this Policy will be final.

C. Penalties for Insider Trading

An employee's failure to comply with this Policy may subject the employee to company-imposed sanctions, including dismissal, regardless of whether or not the employee's failure to comply with this Policy results in a violation of law. In addition, employees who engage in insider trading (i) could be subject to imprisonment for up to 10 years (25 years if their actions constitute fraud), civil fines of up to three times the profit gained or loss avoided through the trade, and criminal fines of up to \$1 million and (ii) may subject American Dairy and its management to a civil fine of up to the greater of \$1 million or three times the profit gained, or loss avoided, as a result of the employee's insider trading violations and a criminal penalty of up to \$2,500,000.