

AMERICAN DAIRY, INC.

CORPORATE GOVERNANCE GUIDELINES

Adopted by the Board of Directors

March 2, 2005

These Corporate Governance Guidelines reflect current policies of the Board of Directors for the governance of American Dairy, Inc and its subsidiaries (the “Company”). The Guidelines are subject to periodic review of the Nominating/Corporate Governance Committee of the Board of Directors and may be revised from time to time by the Board of Directors.

1. Role and Functions of the Board

In accordance with the Utah General Corporation Law and the Company’s bylaws, the business and affairs of the Company shall be managed and all corporate powers shall be exercised by or under the ultimate direction of the Board. Day-to-day operation of the business of the Company is delegated to management of the Company.

The primary functions of the Board are to:

- Represent the interests of shareholders, with a focus on long-term value, while seeing that the Company, as may be appropriate, fulfills its obligations to creditors and other third parties.
- Review and evaluate major policies and strategic goals and objectives.
- Review major programs, considering particularly the Company’s financial ability to undertake the risks involved.
- Review major proposed changes in the business.
- Review and monitor financial and operational performance of the Company.
- Approve issuances of securities and other transactions not in the ordinary course of the Company’s business.
- Monitor the Company’s legal compliance and business ethics programs.
- Elect, evaluate and determine compensation for the Chief Executive Officer and other executive officers of the Company.
- Review and provide guidance concerning management succession planning.

- Nominate candidates for election to the Board.

2. Position of Chairman

The Company's bylaws provide that the Chairman of the Board shall be the Chief Executive Officer, who is elected by the Board. The Board may amend the bylaws if it determines that a different arrangement, such as having separate individuals serve as the Company's chairman of the Board and Chief Executive Officer, is desirable.

3. Size of the Board

The Company's bylaws provide that the Board shall consist of not less than 3 nor more than 9 directors. The Board may determine its size within the prescribed range, but shareholder approval is required to change the range. The Board should be large enough to include directors with various backgrounds, areas of expertise and experience, but small enough to facilitate active discussion and participation by all directors. The Board and the Nominating/Corporate Governance Committee will review the size of the Board and the context of nominating a slate of directors for each annual meeting of shareholders.

4. Independent Directors

It is the policy of the Company that the Board consist of at least a majority of independent directors as determined in accordance with applicable stock exchange listing standards and any other applicable law or regulation. On an annual basis, the Board shall affirmatively determine whether each director has any material relationship with the Company that would cause the director not to be independent. The Nominating/Corporate Governance Committee may assist in making those determinations. The Nominating/Corporate Governance Committee has recommended, and the Board has adopted, Standards for Director Independence that are attached as Exhibit A-1. Any additional requirements to serve on any Board Committee shall be stated in that Committee's Charter. No employee or floor member of a securities exchange on which the Company is listed shall serve on the Board.

5. Director Retirement Age

Directors may not stand for re-election as a director after attaining age 72. A director may be nominated for service after the applicable retirement age if the Nominating/Corporate Governance Committee and the Board determine that there is good cause to extend the director's Board service.

6. Board Meetings

In consultation with management, the Board will determine the frequency and length of Board meetings. The Board will seek to hold six to eight regularly scheduled meetings per year. The Board shall meet on at least a quarterly basis. Special meetings may be called when necessary in accordance with the bylaws. The Chairman of the Board will

establish the agenda for each Board meeting. Any director may request that particular items be included in the agenda or may raise at a meeting subjects that are not on the meeting agenda.

Directors should use their best efforts to attend all Board, Board Committee, and Board Subcommittee meetings. The senior executive officers of the Company, as well as other officers and employees, may attend Board meetings at the invitation of the Chairman of the Board or any director to make presentations to the Board, respond to questions or receive recognition, or for other purposes related to the business of the meeting.

Board members related to proposed agenda items shall, to the extent reasonably feasible, be provided to directors sufficiently in advance of Board meetings when necessary to allow meaningful review and to allow directors to prepare for discussions of the items at the meeting. The Board acknowledges that certain items to be discussed at Board meetings are of an extremely sensitive or fast-breaking nature and that the distribution of materials on these matters prior to Board meetings may not be appropriate or feasible.

7. Executive Sessions of Non-management Directors

Executive sessions of the non-employee directors shall be held without Company management present twice annually or more frequently as requested by any two directors. The presiding director at the executive sessions shall be designated by the non-employee directors on an annual basis and shall be an independent director under the Standards for Director Independence.

Interested parties may make their concerns known to the non-employee directors by communicating directly with the presiding director or the non-employee directors as a group. Interested parties may do so by calling the Company's Independence hotline at the toll-free number posted on the Company's website and asking the hotline provider to transmit the communication directly to the presiding director, or by delivering the communication in writing addressed to "Presiding Director" or "Non-Employee Directors" c/o Corporate Secretary, American Dairy, Inc., C-16 Shin Chen International Building, No. 10, Jiu-shen Road, Zho Yan Chu, Beijing, The People's Republic of China. The Corporate Secretary shall deliver the unopened materials forthwith to the presiding director or non-employee directors, as applicable. These methods of communication shall be disclosed to shareholders through the Company's website.

8. Board Committees and Subcommittees

The Board currently has the following Committees: Audit, Compensation and Executive Personnel, Executive, Finance, and Nominating/Corporate Governance. The duties of each Committee shall be specified in the Committee's Board-approved charter. In its discretion, the Board may create new Committees, either permanent or temporary, disband any existing Committee, or amend the charter of any Committee, subject to limitations imposed by any applicable law, regulation or listing standard. The Board may form Subcommittees of at least two Board members each for any purpose and may delegate

to such Subcommittees such power and authority as the Board deems appropriate; provided however, that the Board shall not delegate any power or authority required by any law, regulation or listing standard to be exercised by the Board or a Committee as a whole, and provided further that the Board may not delegate to any Subcommittee or Committee any of the duties of the Audit Committee, unless expressly permitted by applicable laws, regulations and listing standards, and by the applicable Committee charter. The meetings and any other actions of any Subcommittee shall be governed by the bylaws of the Company applicable to meetings and actions of the Board.

9. Board Committee and Subcommittee Members

The Board has the responsibility to determine the chairs of, and the assignment of directors to, Committees and Subcommittees. The Audit Committee, the Compensation and Executive Personnel Committee, and the Nominating/Corporate Governance Committee shall be composed exclusively of Independent directors as determined under these Guidelines and the applicable Committee charters.

Prior to each annual organizational meeting of the Board, the Chairman of the Board, in consultation with the respective Committee chairs, will develop a proposed slate of Committee assignments for consideration and approval by the Board. Committee assignments and chair positions may be rotated to give directors opportunities to serve on various Committees. The Board currently does not believe that mandatory rotation is appropriate.

10. Board Committee Meetings

Subject to provisions of the Committee's charter, the chair of each Committee, in consultation with Committee members and management of the Company, will determine the frequency and length of Committee meetings and establish the agenda for each meeting. Any Committee member may request the inclusion of items on the agenda or raise subjects not on the meeting agenda. The Board Committees shall report their actions to the Board at a subsequent Board meeting.

11. Board Access to Management and Independent Advisors

Directors shall have complete access to the Company's management and may meet individually with members of management at any reasonable time. Management will provide information requested by directors. Directors will use discretion to avoid any undue burden on management or distraction from their essential duties. As necessary and appropriate, the Board, Board Committees, and Board Subcommittees may retain, at the Company's expense, such independent counsel or other advisors as they deems necessary.

12. Nomination of Directors

The Nominating/Corporate Governance Committee has the duty to recommend a slate of

directors for election at each annual meeting of shareholders. While the Chairman of the Board and management may recommend potential candidates, the Committee shall exercise Independent judgment in making nominations. The Guidelines for Nomination as a Director are attached as Exhibit A-2. The Board will make the final determination of the slate of nominees for each annual meeting.

The Nominating/Corporate Governance Committee and the Board will take into account the nature of and time involved in a director's service on other boards in evaluating the suitability of individual directors and making recommendations to Company shareholders. Service on boards and/or committees of other organizations shall be consistent with the Company's conflict of interest policies.

In the event that non-employee directors change the employment positions they held when they became a member of the Board, or retire from employment, the Nominating/Corporate Governance Committee shall review the continued appropriateness of Board membership, and make a recommendation to the Board as to whether the effected director should be asked to resign or should not be included in the slate of nominees for the next annual meeting of shareholders.

13. Orientation of New Directors and Continuing Education

The Board and Company shall provide an orientation for new directors that includes background materials, information about Company policies, meetings with senior management, and visits to Company facilities, as appropriate. The Board and Company shall, from time to time as appropriate, provide continuing education for directors through presentations at Board meetings, discussion at in-depth strategic review meetings, additional reading materials, and other means.

14. Board Compensation

The Board has the responsibility to determine the compensation and benefits for directors, subject to shareholder approval when required. The Compensation and Executive Personnel Committee may make recommendations for consideration and action by the Board. Management of the Company will report periodically to the Compensation and Executive Personnel Committee or the Board on the status of the Company's Board compensation in relation to other reasonably comparable United States large corporations.

It is the policy of the Board that non-employee directors should be compensated at an aggregate level consistent with total compensation at other comparable corporations. Compensation may include a fixed annual retainer, equity compensation, meeting fees and such other elements as the Board may determine.

15. Evaluation of Chief Executive Officer and Management

The Compensation and Executive Personnel Committee annual will evaluate the

performance of the Chief Executive Officer and the other executive officers in accordance with its charter and upon the basis of such criteria as the Committee deems appropriate. The Chief Executive Officer will provide to the Committee his or her assessment of the performance of the executive officers of the Company. The Committee will report on its actions to the Board at a subsequent Board meeting.

16. Succession Planning

The Board periodically will review executive succession planning and management development for the Company's senior officers including the Chief Executive Officer. The Compensation and Executive Personnel Committee and the Chief Executive Officer will take the lead in developing a report for consideration by and discussion among the Board members. The Chief Executive Officer will ensure that the Board has opportunities to become acquainted with the senior officers of the Company and others who may have the potential to handle significant management positions.

17. Board Contacts and Investors and Others

Generally, management should speak on behalf of the Company with institutional investors, individual shareholders, customers, media representatives, regulators and other constituencies. Directors may meet or communicate with such parties as they see fit, but should bear in mind that securities laws prohibit selective disclosure of material information about the Company. To prevent disclosure problems, such contacts should be coordinated with the Chairman of the Board whenever possible.

18. Evaluation of Board and Committees

The Board and Committees shall be responsible for annually conducting a self-evaluation to determine whether the Board and Committees are functioning effectively. The Committees shall deliver to the Board reports setting forth the results of any evaluation. Any director is free at any time to comment on the Board's or any Committee's performance.

19. Code of Business Conduct and Ethics

The Nominating Corporate Governance Committee shall review periodically the code of business conduct and ethics for directors, officers and employees and recommend any desirable changes to the code for adoption by the Board. The code shall be available on the Company's internet website and in print to any requesting shareholder as disclosed in the Company's Annual Report on Form 10-K or Form 10-KSB. The code shall require any waiver of the code for directors or executive officers to be made by the Board or a Committee and promptly disclosed to shareholders. The code shall contain compliance standards and procedures that will facilitate its effective operation, shall address, among other things, conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of Company assets, compliance with laws, rules and regulations (including insider trading laws), and shall encourage the reporting of any

illegal or unethical behavior.

20. Stock Ownership of Directors

Directors should be encouraged to own a significant amount of American Dairy common stock or derivative securities convertible into common stock. Beneficial ownership of an aggregate amount of shares having a value equivalent to four times the amount of the annual Board retainer paid to directors would be desirable, although lesser holdings greater than none may be sufficient depending on such factors as the financial circumstances of the director, the length of time the director has been a member of the Board, and other relevant considerations.

Exhibit A-1 to Corporate Governance Guidelines

STANDARDS FOR DIRECTOR INDEPENDENCE

The Board has adopted the following categorical standards to assist it in determining whether each director has any material relationship with the Company that would cause the director not to be independent.

Definitions. The terms below shall have the stated meanings for purposes of these Standards:

“Company” means American Dairy, Inc. and its consolidated subsidiaries.

“Executive officer” has the same meaning specified for the term “officer” in Rule 16a-1(f) (or any successor provision thereto) under the Securities Exchange Act of 1934, as amended.

“Immediate family member” of a director means his or her spouse, parent, child, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, and anyone (other than domestic employees) who shares the director’s home; provided, that an individual shall not be deemed an immediate family member if the individual is no longer related to a director as a result of legal separation, divorce, death, or incapacitation.

A. **Disqualifying Relationships.** A director shall not be considered independent if he or she:

1. is or was in the past three years employed by the Company other than in the exclusive capacity of interim Chairman or Chief Executive Officer or other executive officer of the Company;
2. has received from the Company during any twelve-month period ending within the past three years more than \$100,000 in direct compensation, other than compensation for Board and Board committee service, a pension or other forms of deferred compensation for prior service not contingent in any way on continued service, and compensation received for former service to the Company as an interim Chairman or Chief Executive Officer or other executive officer;
3. is or was within the past three years an executive officer of another company during the same time period that any executive officer of the Company serves or served on the compensation committee of that company.
4. (a) is a current partner or employee of a firm that is the present internal or external auditor of the Company; or, (b) has been within the past three years (but is no longer) a partner or employee of the present internal or external auditor of the Company and personally worked on the Company’s audit within that time;

5. is currently an employee of a company that, within any fiscal year of that company ending within the past three years, made payments to or received payments (other than contributions to a tax-exempt charitable organization) from the Company for property or services in an amount that exceeded the greater of \$1,000,000 or 2% of that company's consolidated gross revenues, as reported by that company in the applicable fiscal year; or
6. has an immediate family member who would not qualify as independent under the foregoing standards; provided, that an immediate family member's employment in any of the following capacities shall not preclude the Board from determining that the director is independent;

as to Standards 1 and 2 above, employment by or service to the Company in a non-executive officer capacity;

as to Standards 3 and 5 above, employment in a non-executive officer capacity by another company doing business with the Company; or

as to Standard 4(I), employment as an employee of a firm that is the present internal or external auditor of the Company, unless the immediate family member participates in the firm's audit, assurance or tax compliance (but not tax planning) practice.

B. Non-Disqualifying Relationships. Directors who are not disqualified from being independent under the Standards in Section A above will be determined by the Board to be independent unless a director otherwise has a material relationship with the Company. The following relationships shall not be considered material:

1. Discretionary charitable contributions by the Company to a tax exempt organization (including a non-profit educational or other institution) with which the director or an immediate family member is (or was in the preceding three years) affiliated as an officer, director, trustee, or employee, or otherwise, if (a) the Company's total contributions to the organization in each of the organization's preceding three fiscal years were less than 1% of the organization's reported consolidated gross revenues in the applicable fiscal year (the Company's matching of employee contributions shall not be included in the amount of the Company's contributions for this purpose), and (b) the contributions did not result in any direct financial benefit to the director or an immediate family member;
2. Payments made by the Company to an entity with which the director or an immediate family member is (or was in the preceding three years) affiliated as a director, officer, employee, or otherwise or payments received by the Company from such an entity, for property or services, if (a) the total amount of the payments made or received in each of the entity's preceding three fiscal years was less than 1% of the entity's reported consolidated gross revenues in the applicable

fiscal year, (b) the payments did not result in a direct financial benefit to the director or an immediate family member, and © the director and any immediate family members do not (and did not in the preceding three years) directly or indirectly own, in the aggregate, more than 10% of the entity;

3. Indebtedness of the Company owed to, or indebtedness owed to the Company by, an entity with which the director or an immediate family member is (or was in the preceding three years) affiliated as a director, officer, or employee, or otherwise, if (a) the total amount of indebtedness in each of the entity's preceding three fiscal years were less than 1% of the entity's reported consolidated gross assets at the end of the applicable fiscal year, and (b) the indebtedness does not result in any direct financial benefit to the director or an immediate family member;
 4. Direct or indirect ownership by the director or an immediate family member (including ownership by an entity with which the director or an immediate family member is affiliated as a director, officer, or employee, or otherwise) of equity securities of the Company;
 5. Direct or indirect ownership by the Company of equity securities of an entity with which the director or an immediate family member is (or was in the preceding three years) affiliated as a director, officer, or employee, or otherwise, if (a) the total amount of the entity's equity securities owned by the Company did not exceed 5% of the entity's outstanding equity securities at any time during the preceding three years, and (b) the Company's ownership of the equity securities does not result in any direct financial benefit to the director or an immediate family member;
 6. Gifts, perquisites, and other similar transactions between the Company and the director or an immediate family member that did not provide an aggregate direct or indirect financial benefit or value of more than \$5,000 to the director and immediate family members in any of the preceding three calendar years; and
 7. The Company's employment in a non-executive officer capacity of an immediate family member of the director, if the direct compensation paid to the director's immediate family member in each of the preceding three calendar years was \$30,000 or less.
- C. **Other Relationships.** For relationships not covered in Sections A or B above, the determination of whether the relationship is material or not, and therefore whether a director would be independent or not, shall be made in good faith by the directors that the Board has determined are independent.

Exhibit A-2 to Corporate Governance Guidelines

GUIDELINES FOR NOMINATION AS A DIRECTOR

General Criteria

1. Nominees should have a reputation for integrity, honesty and adherence to high ethical standards.
2. Nominees should hold or have held a generally recognized position of leadership.
3. Nominees should have demonstrated business acumen, experience and ability to exercise sound judgments in matters that relate to the current and long-term objectives of the Company.
4. Nominees should have a commitment to understand the Company and its industry and to regularly attend and participate in meetings of the Board and its Committees.
5. Nominees should have the interest and ability to understand the sometimes conflicting interests of the various constituencies of the Company, which include shareholders, employees, customers, governmental units, creditors and the general public, and to act in the interests of all shareholders.
6. Nominees shall not be discriminated against on the basis of race, religion national origin, sex, sexual orientation, disability, or any other basis proscribed by law. The value of diversity on the Board should be considered.
7. Nominees should normally be able to serve for at least five years before reaching the retirement age of 72.
8. Nominees should be encouraged to own a significant amount of American Dairy common stock or derivative securities convertible into common stock. Beneficial ownership of an aggregate amount of shares having a value equivalent to four times the amount of the annual Board retainer paid to existing directors would be desirable, although lesser holdings greater than none may be sufficient depending on such factors as the financial circumstances of the nominee, the length of time the nominee has been associated with the Company, and other relevant considerations.

Application of Criteria to Existing Directors

1. The renomination of existing directors should not be viewed as automatic, but should be based on continuing qualification under the criteria set forth above.
2. Directors should not be nominated for reelection to the Board after reaching the age 72;

provided however, a director may be renominated after reaching such age, if that is determined to be in the best interests of the Company.

Additional Criteria for Officer/Directors

1. Officers serving as directors should generally be limited to the Chairman of the Board and the Chief Executive Officer. In the event these positions are held by one individual, the Board may include one additional officer.
2. An officer of the Company serving as a director should resign from the Board at the time he or she ceases to be an officer. A retired Chairman of the Board and a retired Chief Executive Officer may be invited to continue as a director at the discretion of the Nominating/Corporate Governance Committee and the Board.

Criteria for Composition of the Board of Directors

1. At least a majority of the members of the Board shall be independent directors, as determined by the Board in accordance with the guidelines set forth on Exhibit A-1.
2. The backgrounds and qualifications of the directors considered as a group should provide a significant breadth of experience, knowledge and abilities that will assist the Board in fulfilling its responsibilities.

Review the Criteria

1. From time to time the Nominating/Corporate Governance Committee will review these criteria and recommend revisions for the approval of the Board whenever such revisions are considered to be in the best interests of the Company.
2. In addition to the general criteria set forth above, the Nominating/Corporate Governance Committee will conduct a review, prior to recommending the slate of nominees for election at each annual meeting of shareholders or prior to recommending any candidate to fill a Board vacancy, of specific skills, backgrounds, qualifications and other abilities and characteristics that may be useful to the Board in light of the existing and prospective business environment faced by the Company. Such specific criteria should be discussed with the Board and considered in evaluating potential nominees.