



2014
Sustainable
Development
Report

About This Report

Reporting Period

The Report covers the information from January 1 to December 31, 2014 and also includes additional content beyond the stated reporting period.

Publication Cycle

This Report is published annually and this is the first sustainability report published by China Modern Dairy Holdings Ltd.

Reporting Coverage

The report covers all relevant information of China Modern Dairy Holdings Ltd. and its subsidiaries as shown in its organization chart.

Report Compilation Principles

The Report is compiled in accordance with Guidelines on Environmental, Social and Governance Report released by the Stock Exchange of Hong Kong, and the Sustainability Reporting Guidelines and its supplement for food processing industry from the Global Reporting Initiative (GRI). The Report meets the internationally accepted disclosure standards for sustainability or corporate social responsibility report.

Data Source

All the data in the report are taken from official documents and statistical reports of China Modern Dairy Holdings Ltd.

Reference

In order to facilitate the presentation and reading, the words “we, Modern Dairy or the Company” refer to China Modern Dairy Holdings Ltd.. Unless otherwise specified, the monetary unit “Yuan” used in the report refers to RMB.

Access to the Report

You may download our English- or Chinese-language PDF report at www.xiandaimuye.com

About This Report	1
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Message from Top Management	4
--------------------------------	---

1

About Us

1.1 Company Profile	7
1.2 Development History	10
1.3 Corporate Governance	11

2

Sustainability Management

2.1 Background	13
2.2 Sustainable Development Strategy	14
2.3 Identification of Sustainability Issues	15
2.4 Stakeholder Management	16

3

Produce a Glass of Milk with Efforts

3.1 Tracing the Quality from Source	18
3.2 Ensuring Comfortable Life of Cows	20
3.3 Producing High-quality Milk	23
3.4 Creating High-quality Service	29

4

Focus on Epidemic Prevention to Build Safe Farms

- 4.1 Caring for Cows' Health 32
- 4.2 Creating a Healthy and Comfortable Environment 34

5

Persist in Environmental Protection to Build Eco-farms

- 5.1 Resource-circular Farms 37
- 5.2 Conservation-minded Farms 41
- 5.3 Ecological Farms 43

6

Play Leading Role to Release the Potential of Communities

- 6.1 Developing Agricultural Community 46
- 6.2 Leading the Industry Development 49
- 6.3 Benefiting People's Livelihood through Public Welfare 51

7

Achieve Common Development with Employees

- 7.1 Safeguarding the Legitimate Rights and Interests of Employees 55
- 7.2 Contributing to Employees' Growth and Success 56
- 7.3 Striving for Work-life Balance 60

8

Prospect 63

Message from Top Management

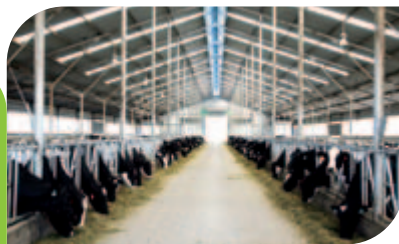


Dear friends,

Very pleased to share with you our Sustainability Report 2014, which is also the first one released by our company. In the report, we focus on presenting what we have done and achieved in the fulfillment of economic, social and environment responsibility since the establishment of the company. Through this report, we expect to deliver our concept of sustainable development to all stakeholders, demonstrate our views and actions on some public concerns, and enhance mutual understanding and communication.

Since we started our business in 2005, we have made considerable development along with social demands and industry development. With the goal of creating the most advanced farm and producing the top-quality milk, we have spearheaded the intensive cow breeding in China. Over past ten years, we have achieved continuous rise in the quality of milk through our model design of breeding excellent cows and producing high-quality milk. By the end of 2014, we have built 25 ten-thousand-cow farms in eight provinces of China, with a population of more than 200,000 cows and the daily capacity of 2,700 tons of raw milk. Modern Dairy has

become the first listed company focused on dairy cow breeding in the world and the largest dairy farming company and high-quality raw milk supplier in China. Relying on high-quality milk product, we have been highly recognized by foreign and domestic institutions. Our UHT milk has been awarded the Gold Award in the food category by Monde Selection, which is regarded as “the Nobel Prize”. This is the first time China’s UHT milk gained this honor. Modern Dairy has created a world record in Monde Selection with its no-additive pure milk.





While proactively fulfilling our social responsibility, we take food safety, cows' health and environmental protection as our intent and purpose. We strive for benign interactions between farms, communities and nature through our integrated industry development model featured with "planting forage – breeding cow – processing product", the ecosystem management throughout the industry, and the timely supply of milk with good quality. We also give full play to the driving effect of farms by providing farmers with job opportunities, promoting the growth of small business, devoting to public charity, and contributing to the prosperity of communities where we have operations. Besides, we seek common progress with employees, value their innovative spirit and encourage them to involve in the development of company, and help them to achieve their growth and development.



As the explorer and pioneer of intensive dairy farms in China, we strive for the comprehensive use of agricultural waste and the continuous optimization of environment in our development to create the new patterns of agricultural and animal husbandry development. While improving internal management, we are seeking support and cooperation with governments, industry associations and research institutions. Relying on well-considered siting, better-regulated supporting equipment and resource use of cow dung such as the returning to the field, production of biogas, power generation and manufacture of organic fertilizer, we aim to achieve harmonious co-prosperity with our surrounding environment and communities.

Each drop of milk contains a share of our responsibility. We would like to share our results and experience with peer companies to jointly promote the integration of dairy industry, assure the quality of domestic milk and provide Chinese with quality milk products. Each communication represents a step forward. We sincerely hope to communicate with all stakeholders to further mutual understanding and contribute to the sustainable development of society and environment.

1

About Us



1.1 Company Profile

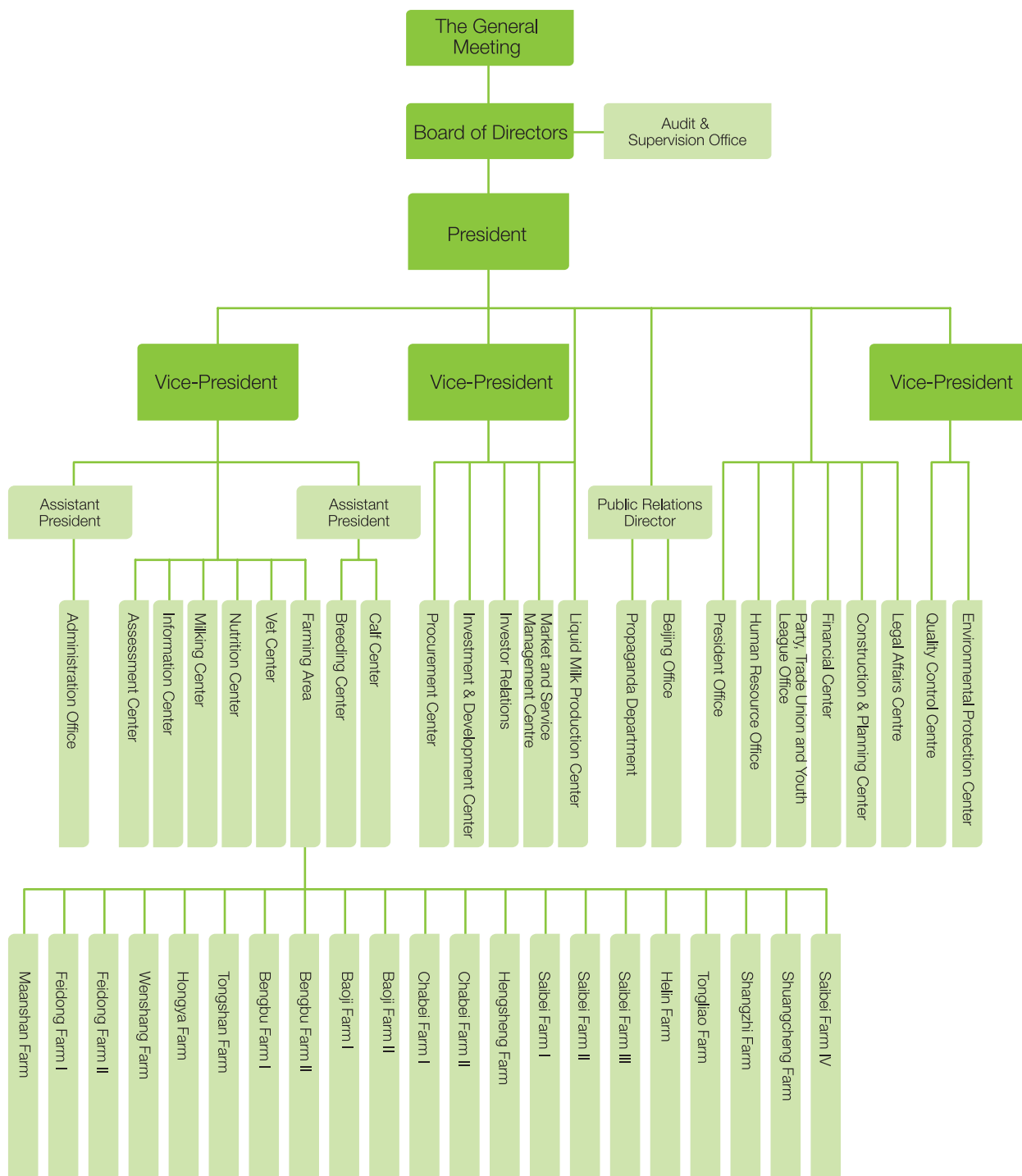
China Modern Dairy Holdings Ltd, established in 2005, is specialized in dairy farming and milk production. The company was listed on the Stock Exchange of Hong Kong (Stock Code: 01117.HK) on November 26, 2010. Modern Dairy is the first listed company focused on dairy cow breeding in the world, as well as the largest dairy farming company and high-quality raw milk supplier in China.

By the end of 2014, Modern Dairy possesses 24 wholly-owned farms and a farm under construction with a total of about 201,507 cows, and two joint-ventured farms (of which one is in operation and the other is under construction) with a total of 7,831 cows in China. Relying on large-scale farming, modern facilities, first-rate management and stringent raw milk standards, Modern Dairy has become a global leader in the dairy farming and milk processing industry.

Apart from the supply of high-quality raw milk, Modern Dairy produces and sells its branded Ultra Heat Treated (UHT) milk. By the end of 2014, the Company has formed its own sales network for UHT milk, covering 214 county-level cities, 196 prefecture-level cities, 4 municipalities and 28 provinces in Northern, Eastern and Southern China.



The organizational Structure of Modern Dairy



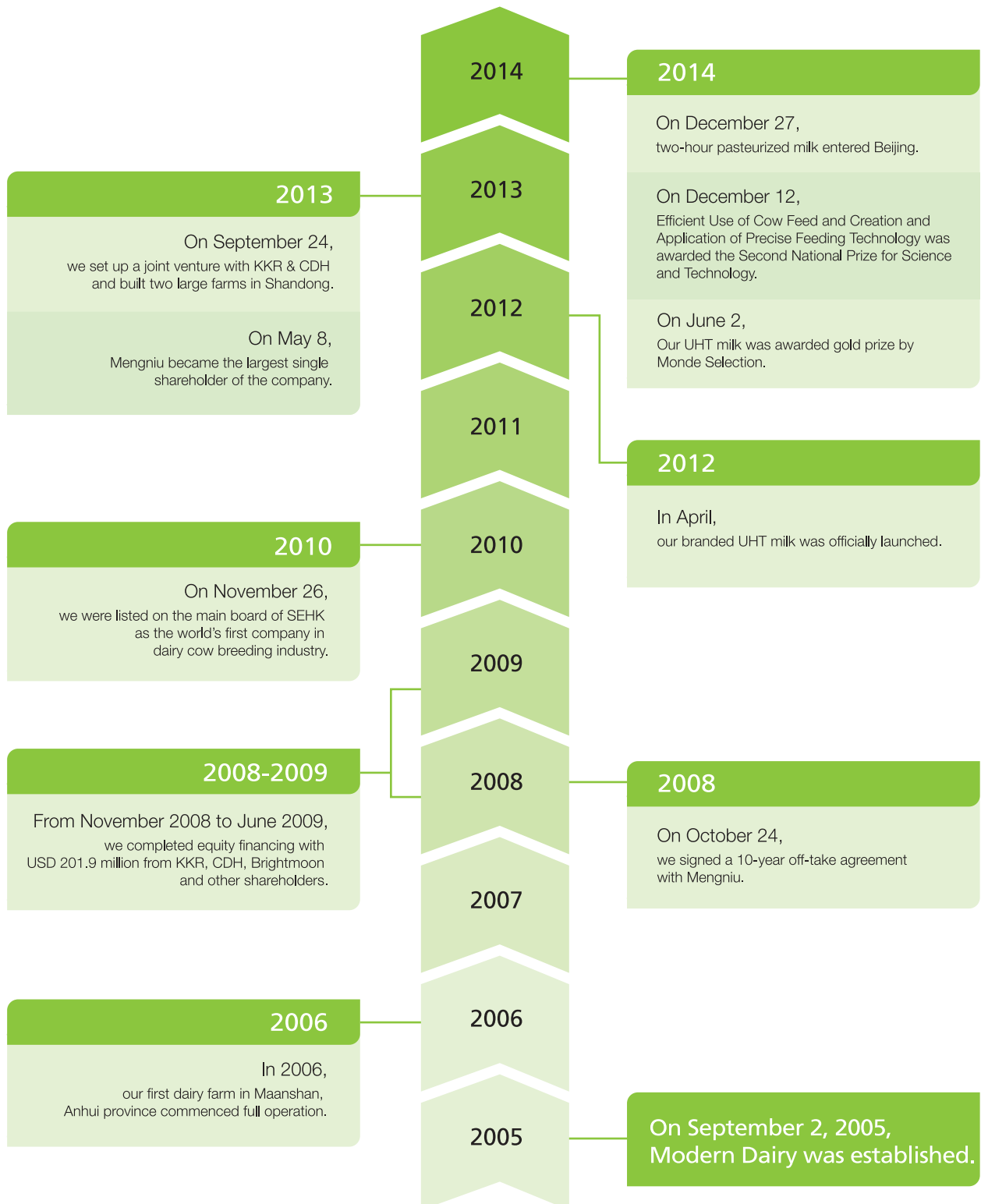
Modern Dairy Farm Distribution Chart

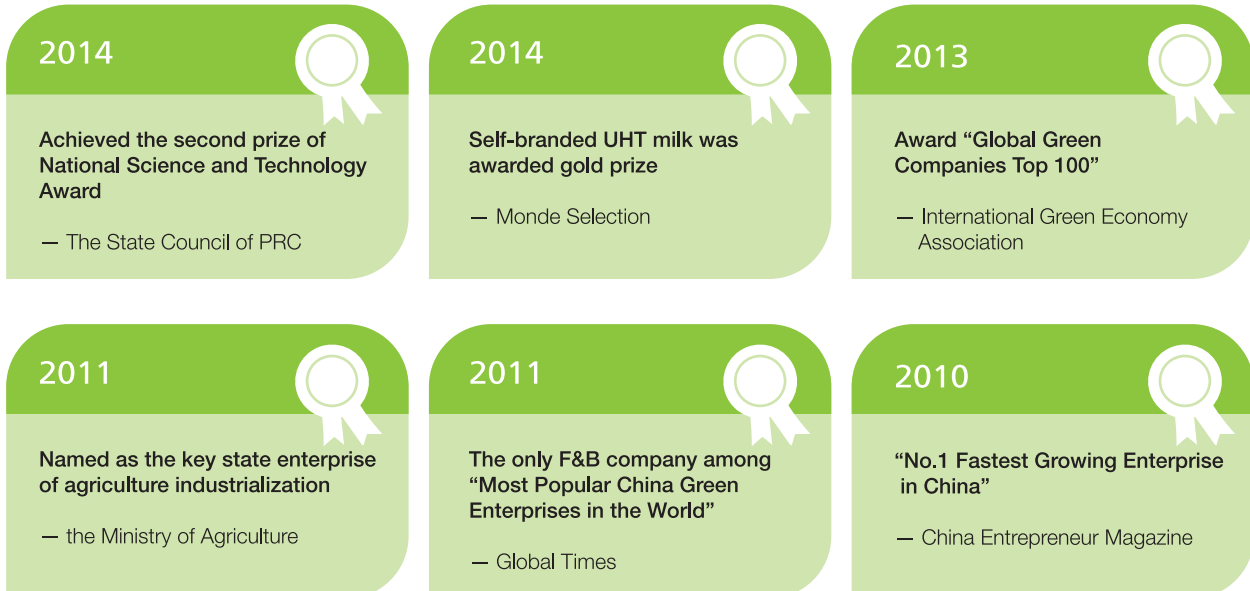


- ① Shangzhi Farm
- ② Tongliao Farm
- ③ - ⑥ Saibei Farm I, II, III, IV
- ⑦ - ⑨ Chabei Farm I, II, III
- ⑩ Hengsheng Farm
- ⑪ Helin Farm
- ⑫ Wenshang Farm
- ⑬ - ⑭ Bengbu Farm I, II
- ⑮ - ⑯ Bengbu Farm III, IV

- ⑰ - ⑱ Feidong Farm I, II
- ⑲ Maanshang Farm
- ⑳ Tongshan Farm
- ㉑ - ㉒ Baoji Farm I, II
- ㉓ Hongya Farm
- ▲ ㉔ Shanghe Farm
- ▲ ㉕ Jinan Farm
- ⑳ - ㉗ Shuangcheng Farm I, II

1.2 Development History





1.3 Corporate Governance

In accordance with the listing rules of the Stock Exchange of Hong Kong and the requirements of modern enterprise management system, we have set up the general meeting, the board of directors and the company’s management, and established an operation mechanism with clear division of power and responsibilities and coordinated management. All of departments must perform their roles and exercise their decision-making, supervision and management rights to operate the company in an efficient, standard and orderly way while taking into account the interests of all stakeholders.

The board of directors is responsible to shareholders and manages the company in a responsible and effective way. Each director is committed to achieving the optimal development of the company with their expertise and knowledge. The board of directors decides the company’s goals and strategies, monitors and controls the operation and financial performance of the company in the practice of strategic objectives, and authorizes CEO and the Company’s management to be in charge of daily business management. The Board of Directors has Remuneration Committee, Audit Committee, Nomination Committee and Strategy and Development Committee. It should review the agenda before board meeting in order to improve its operational efficiency. In 2014, we held an annual general meeting and six board meetings.

For more information about corporate governance, please read China Modern Dairy Holdings Ltd. Annual Results 2014.

2

Sustainability Management



2.1 Background

The development of dairy industry is related to national economy and people's livelihood. The modern and standard farming on a scale has been the trend and general direction of China's dairy industry and has made great contribution to the satisfaction of people's demand for milk and its quality and safety. At the central conference on rural work held on December 23rd, 2014, it was proposed to develop agricultural industrialization, introduce industry chain, value chain and other modern industrial organization methods into agriculture, and promote the integrated development of primary, secondary and tertiary industry. The meeting also proposed the development of farming on a proper scale, giving full play to pioneering spirit and keeping exploration. These will further advance the reasonable development of large-scale farming.

At present, China is still at the stage of exploration on large-scale farming. The environmental protection and epidemic prevention have become the major problems that large-scale farms have to face. In the future, the more reasonable and well-equipped site of new farm is the inevitable requirements for sustainable development of farm. To this end, we should consider the forage growth and the capacity to digest biogas slurry in our surrounding areas. While making good communication with the local people, we should popularize the value and importance of organic fertilizer and dispel their doubts about it so that they can use it in their fields on their own initiative.

Strengths

- The largest dairy farming company and high-quality raw milk supplier in China;
- A wealth of experience in modern, standard and large-scale dairy farming;
- An integrated industrial development model from forage grass planting, cow breeding to product processing;
- Branded UHT milk has been highly recognized in the market.

Weaknesses

- Lack of information disclosure and communication as a public company;
- The necessity to further improve internal stringent process control and systematic management.

Opportunities

- Facing with a historic opportunity for transformation and upgrading in the livestock breeding industry with the great support of national policy on agricultural industrialization;
- The rising consumer demand for milk products;
- The strong market demand for premium milk in domestic markets.

Threats

- Facing with the "New Normal" of transformation and upgrading during the critical period of integrated optimization in China's dairy industry;
- The short-term structural imbalance of raw milk supply in China;
- A flood of foreign milk into Chinese markets through e-commerce.

SWOT Analysis of Modern Dairy

2.2 Our Sustainability Strategy

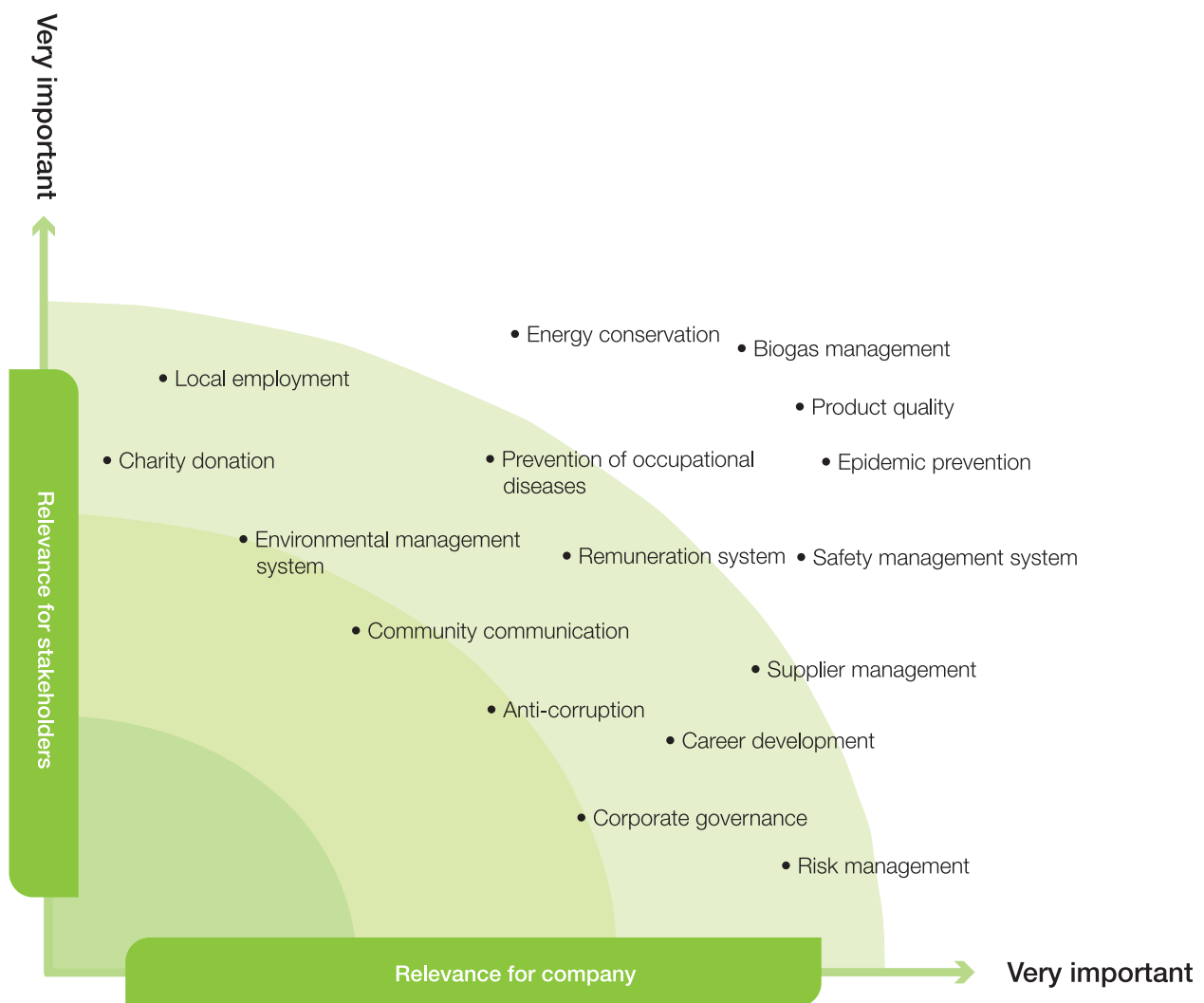
Modern Dairy attaches great importance to corporate social responsibility and sustainable business development and develops its business activities on the basis of integrity and compliance. Through dialogue and collaboration with various stakeholders, we continuously promote the development and progress of large-scale dairy farming industry in China in order to achieve our own objective of “world-class scale, international brand and sustainable industry”.

Our vision	<ul style="list-style-type: none"> • To create world's most advanced dairy farm • To produce world's top-quality milk • To achieve harmonious development between man and nature
Our mission	<ul style="list-style-type: none"> • Adopting scientific breeding and give ethical treatment to cows to produce world's top-quality milk • Applying advanced management facilities and technology in the industry to the provision of the most reliable raw milk
Our management concept	<ul style="list-style-type: none"> • Raw milk is the first defensive line in the quality of milk products • Ensure the freshness of each drop of milk with visible quality and digital standard
Our marketing concept	<ul style="list-style-type: none"> • Pure: to ensure no additives from the breeding of dairy cows to the dining-table of consumers and maintain consistent quality of products. • True: to tell the truth, do practical things and inform consumers of the truest news about products • New: the shortest distance and least procedures contribute to the newest milk. Modern Dairy only takes two hours from milking to final products. • Fresh: the lower microbe content ensures the higher milk freshness. Modern dairy's quantitative standard ensures the visible freshness.
Our CSR concept	<ul style="list-style-type: none"> • Put safety first, focus on epidemic prevention and ensure it through environmental sanitation.

The core values of Modern Dairy

2.3 Identification of Sustainability Issues

In 2014, we consulted the international standards for social responsibility and summarized the impact of our business. In accordance with the relevance that each topic has for Modern Dairy and our stakeholders, we classified and assessed stakeholders' topics and prioritized them to give a disclosure of our operation and management as accurately and comprehensively as we can.



The matrix of Modern Dairy's stakeholders

2.4 Stakeholder Management

Stakeholder	Expectation & Demand	Communication Channels
Shareholder	<ul style="list-style-type: none"> • Economic returns • Law-abiding operation • Production safety 	<ul style="list-style-type: none"> • Company announcements • Special reports • Field investigation
Customer	<ul style="list-style-type: none"> • Integrity • High-quality products • High-quality services 	<ul style="list-style-type: none"> • Business communication • Customers' feedback
Environment	<ul style="list-style-type: none"> • Energy conservation • Manure disposal • Reasonable use of water • Environmental protection 	<ul style="list-style-type: none"> • Communication with local environmental authorities • Communication with local residents
Industry	<ul style="list-style-type: none"> • Contribution to local employment • Localized management • Formulation of industry standards • The leading role in the industry • Improvement of the industry management 	<ul style="list-style-type: none"> • Communication with local labor authorities • Participation in industry forum • Investigation and exchange visits
Employees	<ul style="list-style-type: none"> • Prevention of occupational disease • Remuneration and welfare • Career development • Humane care 	<ul style="list-style-type: none"> • Workers' Congress • Letters and emails • Suggestion box
Communities	<ul style="list-style-type: none"> • Improvement of community environment • Support to the public welfare activities of communities 	<ul style="list-style-type: none"> • Meetings with communities • Exchange visits
Media	<ul style="list-style-type: none"> • Open and transparent information 	<ul style="list-style-type: none"> • Company's website • Company's advertisements • Interviews

Stakeholder management of Modern Dairy

3

Produce a Glass of Milk with Efforts



Milk, known as “white blood”, occupies an important position in the modern human diet structure because of its rich minerals and easy digestion. Raw milk is the first line of defense in the quality of milk products. As the largest producer of raw milk in China, we regard customers as our family and have a deep sense of responsibility for the protection of their health. That’s why we work to align with the world’s highest quality and improve our dairy farming. We hope to supply healthy raw milk in the market and make a glass of milk with heart.

3.1 Tracing the Quality from Source

Excellent cows must eat top-quality forage to produce high-quality milk, which is our basic logic for cow breeding. To this end, our professional breeding experts and nutritionists search a worldwide range of dairy cows and forage every year to find out and introduce the best of them.

3.1.1 Devoting to Cow Breeding

The cows in our farms are mainly selected by our livestock engineers from the farms in Australia, New Zealand Uruguay and other countries and then introduced to our country. After that, we make further breed improvement of cows with the frozen semen of North American and European high-yield thoroughbred bull. Through artificial insemination and embryo transfer, we have bred a number of own core breeding herds that are adaptable to domestic breeding conditions.

Case Study Raising the World’s Best Cows

Holstein cow is an excellent variety that are raised most widely in the world. However, there are also distinction among holstein cows. The whole herd of excellent holstein cows can produce 10 tons of milk on an annual average, with milk fat rate of 3.7%. Our holstein cows are at the top of holstein cow herd’s pyramid, because they are carefully selected by livestock engineers from Australia, New Zealand, Uruguay and other places and each has a detailed description of purebred lineage. By the end of 2014, we raised a total of 201,507 Holstein cows on our farms.



3.1.2 Selecting and Mixing Forage Scientifically

We strictly control the quality of feed from the source to ensure adequate forage for each cow and maintain their nutritional balance. On the one hand, we choose feed suppliers through a stringent process and purchase quality alfalfa, oat and other feed from many countries each year. On the other hand, we carefully investigate the surrounding conditions of farms and plant plenty of forage on the well-located farms.



Feed mixing station

We have set up a nutrition center to fully implement dairy ration control system with TMR as a core. We adopt CPM software to develop various diet programs for different herds. With the help of intelligent feed mixer, we thoroughly mix the coarse and fine feed to avoid picky eaters. At each meal, we provide cows with 3-5% more feed than their consumption to ensure adequate feed and avoid massive waste. Through these measures, we intend to ensure cows can get maximum nutrition from each kilogram of feed, thereby improving feed conversion efficiency and maintaining the high quality of milk.

Do you know?

TMR (Total Mixed Ration) is an advanced breeding process in which the nutrition expert designs a formula in accordance with the nutritious needs of cows at different growth stages and the lactation period, and the ingredients of a ration are mixed, cut and blended in a special mixer.

CPM Software (Cornell Pennsylvania Mier Software) is a feed formula software suitable for modern large-scale dairy farms. In the software, the feed protein and carbohydrates are divided into fast-, medium- and slow-degradation groups according to their degradation rate in the rumen. Through the simulation and refinement in the balance of protein and carbohydrate degradation, it improves the accuracy of feed formula and its efficiency.

Case Study A Well-mixed and Well-balanced Meal for Cows

At Modern Dairy, each cow has been equipped with its unique “electronic ID file”, which keeps detailed records of their information such as genealogy, epidemic prevention, fertility, health, nutrition, diet, milking and others. Through ID file, the breeding expert can customize the catering for each cow and give additional nutrition corresponding to its different growth stages. For example, when lactating cows enter the lactation period, they need better access to constant elements like sodium, chloride, potassium, magnesium, sulfur and iron, the vitamins A, B, D, E, K and other trace elements besides the basic protein, fiber, calcium, and phosphorus. On the basis of rigorous calculation, cow nutritionist adds natural nutrients to the quality forage at a certain percentage. The exclusive well-balanced meal for cows is the guarantee to the quality milk product with balanced nutrition.

3.2 Ensuring Comfortable Life of Cows

The Ten-thousand-cow farms have high breeding density and each cowhouse can hold 2,800 cows, which is a big challenge to ensure dairy cow welfare. We focus on the comfort management of cow herds and make our best effort to bring comfortable life to each cow.



3.2.1 Building Cozy Cowhouse

We emphasize the functions and conditions of cowhouse. In accordance with the climate differences in the north and south and the different stages of cow growth, we design appropriate cowhouses. Based on the physiological needs of cows, we install air supply and lighting facilities to meet the needs of their normal growth and development.



Modern cowsheds – “Being favored by human and livestock”

3.2.2 Strengthening Cowhouse Management

In terms of cowhouse management, we adhere to a rational circulation system comprised of cow dung disposal, cow bed cleaning, cow feeding and cow resting. We persist in cleaning cow beds twice a day and 24-hour cow dung disposal. On this basis, we carry out scientific breeding and give ethic treatment to cows.

Cow dung disposal is the most important part in the management of cowhouse condition. We have installed automatic scraping system and conducted 24-hour of uninterrupted cleaning to effectively prevent the breeding of bacteria.



Cow back scratcher

Case Study

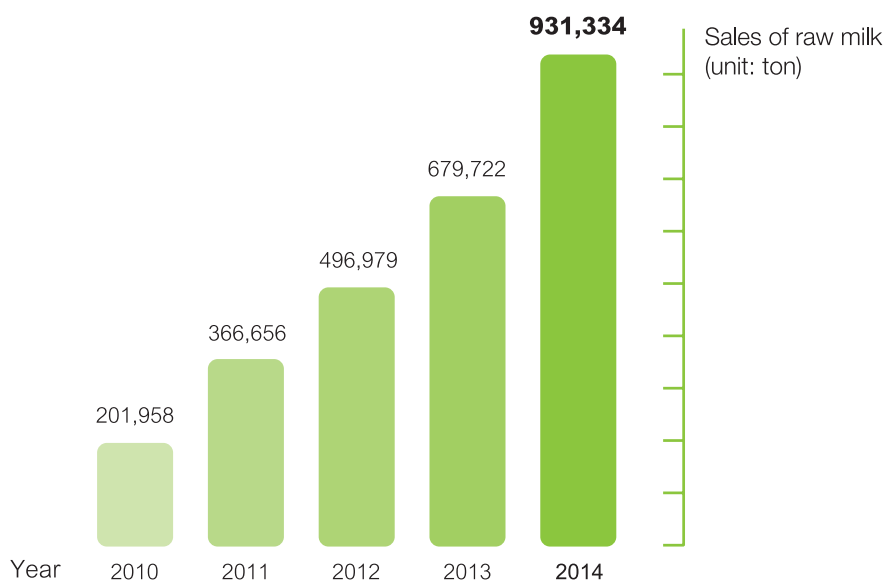
Professional Bedding Dryer Increases the Comfort of Cowbeds

The concrete floor of cowhouse is hard and uninsulated and this is not conducive to cow rest. That's why we tailor different sizes of cow beds to different cows through professionally building cow houses. A layer of soft and dry biogas dregs can make cows feel more comfortable. In comparison with sand and sawdust, biogas dregs are a good choice because it can increase comfort, reduce cost and recycle waste. The biogas dregs with less than 55% moisture content are the most suitable for bedding cows.

In order to reduce higher moisture content in biogas dregs, we have compared various biogas water treatment methods such as coal-fired drying, gas drying, electric drying, sun drying and machine extrusion. Considering from the aspects of equipment investment, processing cost, treatment effect and efficiency, floor area, staff input and operational convenience and safety, we found that the double-extrusion turned out the best. After separation of solid and liquid, put the biogas dregs into feeder and then make spiral extrusion of materials. Through double extrusion, the moisture content reduces from 70-75% to 50-55%. In addition, the equipment has many advantages such as low acquisition cost, less floor area, low processing cost, easy operation and higher safety.

3.3 Producing High-quality Milk

In our integrated model from milking to product processing, we have truly realized the full process control from the source to finished product. This enables us to avoid the loopholes in the production process and control and maintain the product quality. In 2014, our farms sold 931,334 tons of raw milk and 87,096 tons of liquid milk.



Modern Dairy raw milk sales for 5 consecutive years

3.3.1 High-efficient and Clean Milking Process

We have adopted the international milking method and introduced the world's leading 80-stand rotary milking machine, 2 × 32 parallel milking machine and herringbone milking machine. These devices have the functions like udder detection, milking measurement and others. Before and after milking, we must disinfect milking machines in a stringent manner. The cleaning process can be fully automated, including water temperature, water flow, detergent, flushing strength and cleaning time.



Milking process



Cows are being milked on rotary milking machine.

Do you know?

The following is assessment standard for high-quality raw milk:

Physical and chemical quality—normal milk composition

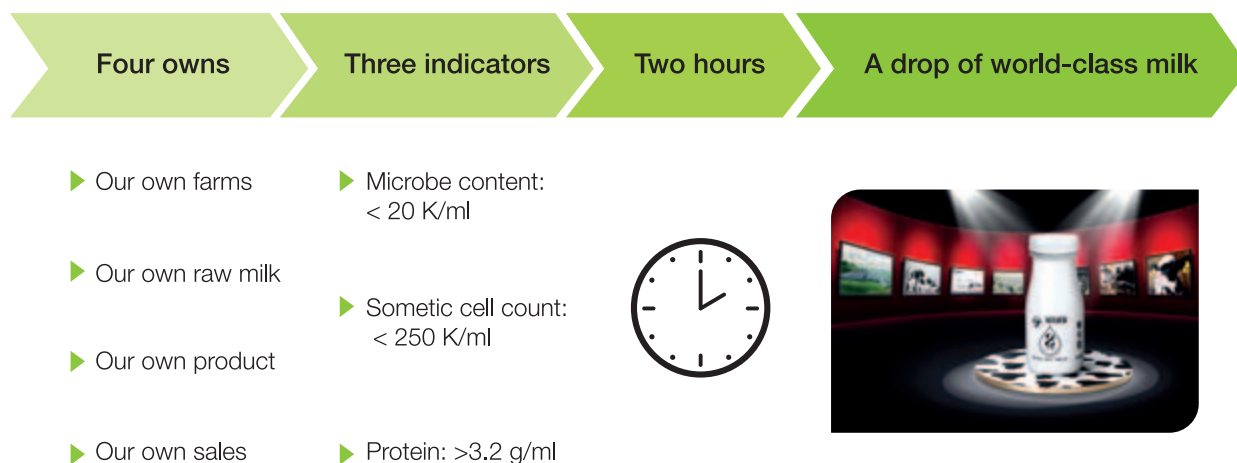
Hygienic quality—low number of bacteria colony/low somatic cell count

Sensory quality—no foreign smell and color

Other quality—no antibiotic residues/adulteration

3.3.2 Two-hour Production Line

The quality and safety problems in domestic dairy enterprises mainly stem from the supply of raw milk. Modern Dairy has first created an integrated development model featured with “planting forage — breeding cow — processing product”. Our branded milk products are made of our self-produced raw milk, which takes two hours from milking to final product with the shortest distance and least procedures possible. This has effectively ensures the absolute cleanliness throughout the production.



Modern Dairy's "4321" model



Achieving an integrated model on Bengbu Farm



Modern Dairy's roadmap to "two-hour" pasteurized milk

Do you know?

The microorganism in the milk is not denatured within 2 hours after milking. Therefore, the milk processed within the shortest time can omit the excessive heating process (with good sterilization but less milk quality), and effectively inhibit the breeding of bacteria. In the meanwhile, a lot of beneficial bacteria are retained in the milk.

Case Study **CMD's UHT Milk Product was Awarded Gold Prize by Monde Selection**

With high-quality milk products, we have got high recognition from a number of domestic and foreign institutions and made great contribution to build up the confidence of China's dairy industry and the trust of consumers. In June, 2014, our UHT milk product was awarded gold prize in the food category by Monde Selection, which is known as "Nobel Prize of Food". This is the first time China's branded UHT gained its honor, also known as the highest prize given to China's dairy product since 2008. After a year, that is, on June 1st, 2015, Mrs. Gao Lina received the prize again from Monde Selection in Portugal. On behalf of China's milk industry, Modern Dairy has come on the honorary stage of "Nobel Prize of Food" for the second time.



Modern Dairy's milk product contains no additives but remains fresh and pure taste, which left a deep impression on the judges. It indeed deserves the honor. Two consecutive years of gold prize winner in Monde Selection means it has achieved stable product quality, reached the national food evaluation standard and obtained an internationally recognized quality passport.

—Patrick de Halleux, Monde Selection Chairman

Mr. Patrick de Halleux, Monde Selection Chairman (right) and Mr. Joseph Baseman, President of Jury, awarded the prize to Mrs. Gao Lina, CMD's CEO

3.3.3 Full-process Quality Control

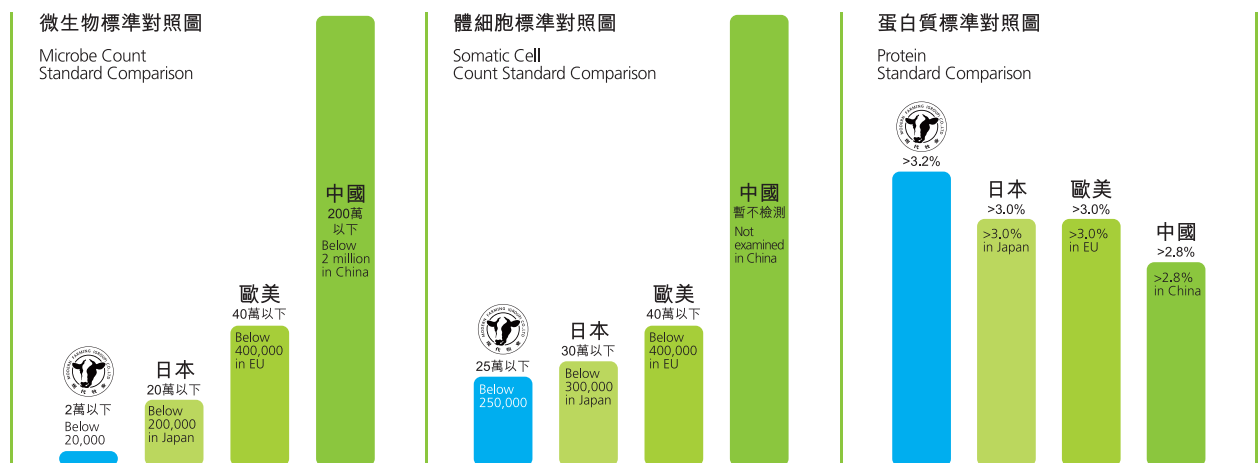
We have set up a quality assurance department to specially manage product quality and adopted ISO related management system to control our product quality. We have also built a central control room in liquid milk production workshop to fully monitor milking process and production line. Every day we post the honor list of daily quality to conduct performance evaluation. In addition, we have introduced the quality and safety traceability system to trace product quality in a dual-way.

The full-process monitoring has put an end to the possibility to add something to the milk no matter who he is. In particular, the raw milk is directly piped into the processing line, which avoids pollution and contact in all links.

– Zhou Shigang, Leader of Modern Dairy Liquid Milk Plant

Case Study Stringent Milk Quality Standard at Modern Dairy

Microbes and somatic cell count are two major indicators to measure milk quality. In these aspects, the content of our milk not only meet our national standards, but also exceed the indicators in European and American standards. The microbe content in our milk is below 20k/ml and somatic cell count is below 250k/ml. All these test quantitative indicators are transparent to consumers and the public.



Comparison of measurement indicators of milk quality

Do you know?

Microbe content is an important indicator to evaluate the milk quality, especially its freshness. The lower its content is, the fresher the milk is. After milking, the microbe in the milk will increase along with the time of milk storage.

Somatic cell count is an indicator to measure the health of lactating cows. Generally, if somatic cell count is more than 500 k/ml, it is regarded as clinical mastitis symptom. The quality of milk produced by such cows is not high. At present, this indicator has not been included in the raw milk testing standard in China.

Furosine is the popular name of an organic compound. The furosine in the milk products is one product of Maillard reaction, where milk protein reacts with lactose at high temperature. Therefore, its content is an important indicator to determine the quality of liquid milk product.

3.4 Creating High-quality Service

Quality product is the key to our success or failure while the customers' trust is the driving force of our business. We continue to improve customer service system and provide consumers with good product experience. We carry out the survey on customer satisfaction to understand their demand and open a service hotline to receive their complaints, suggestions and others. We also organize consumers to visit our factory, allowing them to experience the milk quality assurance. In addition, we hope to make more people understand our products through free samples at the market and other ways, winning public praise and favor.



Consumers are visiting dairy farm



Offering free samples at the market



Holding regular meetings with distributors

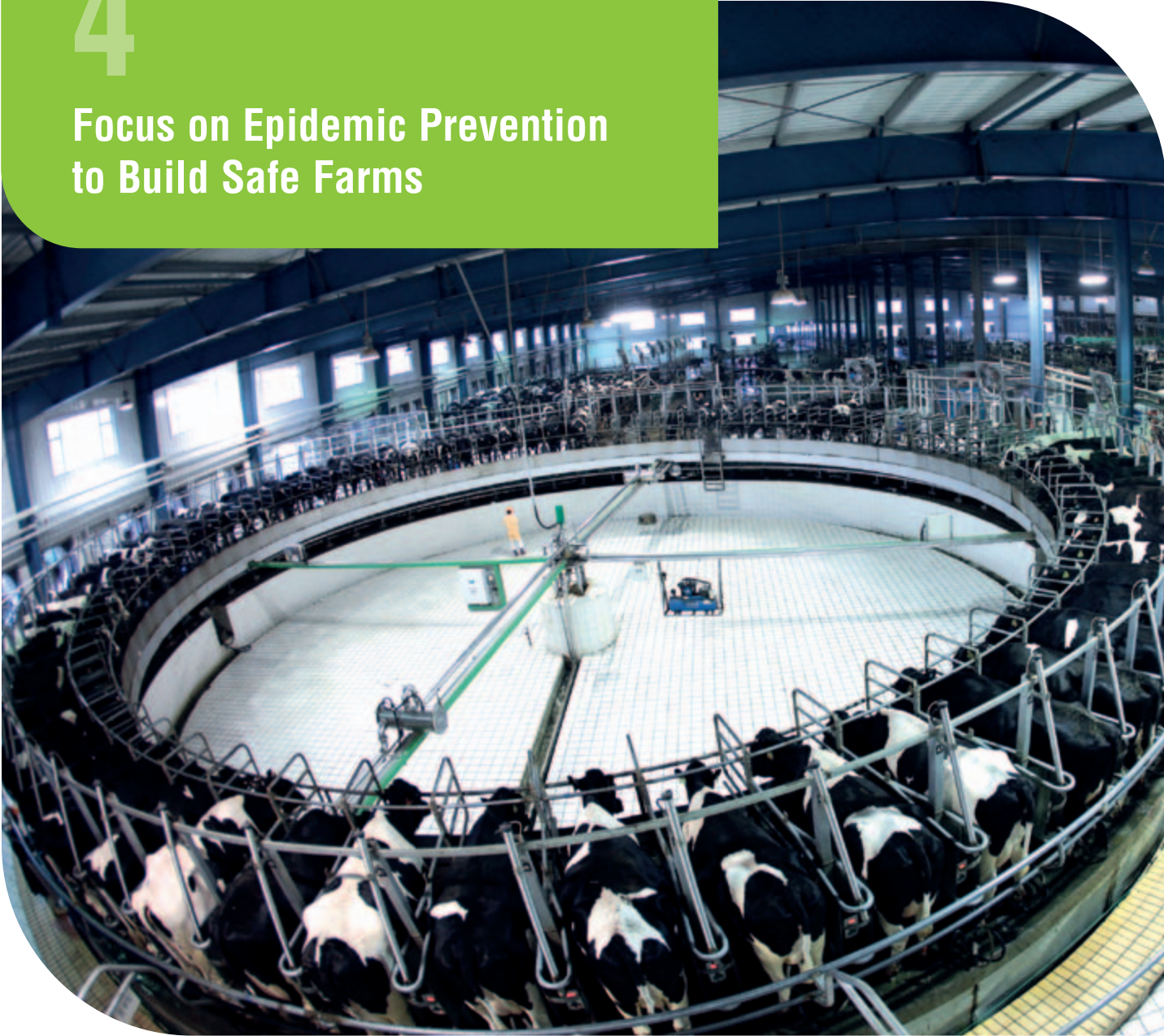
Case Study Setting Up More Points of Sales across Wider Areas

From 2012 to 2014, we achieved the annual compound growth rate of 208% in the sales of our branded milk and increased point of sales to more than 260,000, covering 28 provinces of China. By the end of 2014, our pasteurized dairy products successfully entered more than 30 large supermarkets in Beijing. Pasteurized milk is featured with short shelf life and higher requirements for cold chain transport equipment. This determines the raw milk must be sourced as near as possible. Relying on the inherent advantages of our widely-distributed farms, we have the strength to be a national brand of low-temperature milk and bring our products to more people in the future.



4

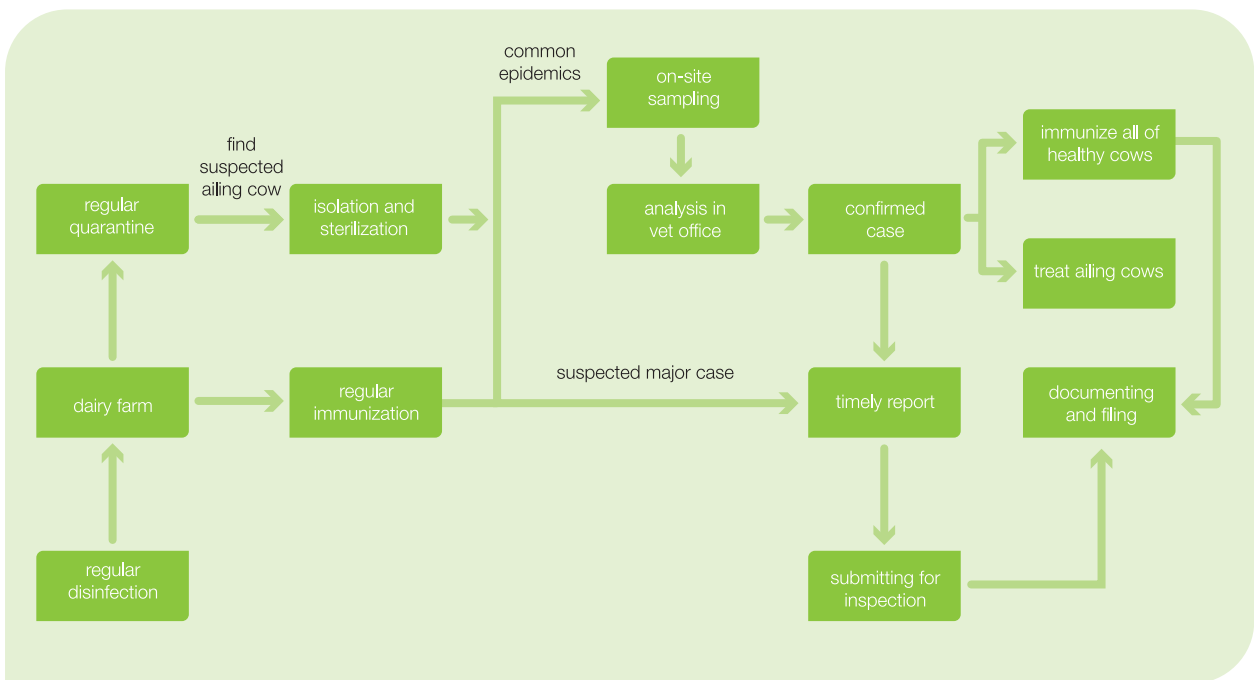
Focus on Epidemic Prevention to Build Safe Farms



Epidemic prevention is the foundation for the safety of farms. That’s why we have established a rigorous scientific epidemic prevention and control system. We strive to ensure the healthy life of cows, create a safe working environment and actively maintain public health and safety.

4.1 Caring for Cows’ Health

We strictly abide by the national rules and regulations on immunization and quarantine, adopt advanced technology and management experience in the industry and establish a complete set of epidemic prevention system. We have built a special area on each farm for the diagnosis and treatment of ailing cows and kept a detailed treatment records, mastitis treatment records and sampling records of anti-bovine cows. All these measures can help us have a full understanding of ailing cows in the process of treatment.



Quarantine procedure of Modern Dairy's Farms

4.1.1 Strengthening the Management of Epidemic Prevention

At the beginning of farm construction, we have formulated a rational plan for the production area, life management area, waste treatment area, ailing animal area and others. All of farms conduct closed-end management and prohibit non-production personnel into the farm. In order to reduce the risk of cross infection, any relevant person and vehicle must be strictly disinfected in the sterilizing room or disinfection tank before entering the farm. In the production area, we perform spraying disinfection to cowhouses twice a day to ensure the health of cow to the greatest extent.



Performing spraying disinfection in the cowhouse



Vehicle disinfection area at the gate of farm

4.1.2 Performing Strict Immunization and Quarantine

According to the Law of the People's Republic of China on Animal Epidemic Prevention and other rules and regulations and in connection with the actual situation of farms, we developed a stringent program on cow immunization and quarantine. All of cows must go through immunization from their birth to death. Every year, all of farms must vaccinate cows regularly against state-specified zoonosis. All of farms must perform quarantine against cow brucellosis and tuberculosis. Besides, Modern Dairy formulates and implements a sound immunization and quarantine programs in connection with the situation of local farms.



The vet is treating a ailing cow in the cow hospital

4.1.3 Making Proper Disposal of Culled Cows

Cows will lose breeding value if they have long-term low-yield, breeding disorder or suffer parturient paresis. When eliminating such cows, we will propose a declaration plan in accordance with the procedures to phase out cows. The culled cow in qualified body condition will be sent for tender sale after the official veterinary quarantine in case that ailing cows enter the market and endanger human health. In no circumstances do we have intention to sell, transport, process and eat dead cows died of disease or for unknown reasons. They will be given innocent treatment within two hours after death.

4.2 Creating a Healthy and Comfortable Working Environment

The particularity of farming industry has resulted in the difficult working conditions for farming staff and the occupational risk of infecting zoonosis. That's why we work to improve the environment of breeding areas and create a safe and healthy working condition for employees.

4.2.1 Implementing Good Occupational Health and Safety Management



4.2.2 Building a Clean and Tidy Workplace

We work to create a clean and tidy work environment and strictly implement the Regulations on Hygiene Management of Farms. In addition, we make regular inspection of health conditions in the office and breeding areas, cleaning the cowhouse on time, making regular disinfection and burying the odor source.

5

**Persist in Environmental
Protection to Build Eco-farms**



We need a large quantity of water, power and other resources to keep the normal operation of our farms, and enough environmental space to absorb manure and urine of thousands of cows. We have made environmental commitment, which says we should make high-efficient operation within the carry capacity of environment, combine cow breeding with local natural endowments, and achieve the balance between the economic returns of cow breeding and ecological benefits. At present and in the immediate future, we work to honor our environmental commitment through making effective communications with farmers about use of liquid fertilizer, striving for the government's land transfer policies, promoting large-scale cultivation surrounding our farms to increase the income of farmers, and increasing the agricultural absorptive capacity for liquid fertilizer.

5.1 Resource-circular Farms

We are committed to building resource-circular farms and achieving the positive interaction between getting resources from nature and giving back to it. For each farm, we have invested about RMB 40 million to protect ecological environment. With advanced technical process, we have been able to generate power by biogas and produce organic liquid fertilizer, achieving 100% utilization of cow manure. These technologies has not only protected ecological environment, but also achieved the recycling of resources. For example, the forage and silage crops fertilized with organic fertilizer can be used as quality cow feed.

In 2014, our farms generated 43.5725 MWh of electricity by biogas, representing 28.6% in the total power consumption; 1.289 million tons of solid biogas residue, all for cow bed mattress; and 5.0395 million tons of organic biogas slurry fertilizer, 100% for agricultural cultivation.



Chart of Modern Dairy recycling system

5.1.1 Biogas Power Generation

Biogas power generation is an energy-saving production method, using the methane gas produced by fermentation of manure, straw, weeds and other organic matter to generate power. At Modern Dairy, 200,000 cows can produce about 16,000 cubic meters of cow dung per day. As one cubic meter of cow dung can produce about 14.5 cubic meters of biogas, we have obvious advantages in the raw material for biogas production. By the end

of 2014, we have installed a total of 51 biogas power generators with annual capacity of 43.5725 MWh. On some of our farms, its generation accounts for 65.4% in their total power consumption. In addition, the backup generator can start at any time during the temporary power outage on the farm and this ensures the normal lighting and fan operation in the cowhouse.



Biogas power generation on farm

5.1.2 Liquid Fertilizer Production

The production and promotion of organic fertilizer can not only reduce environmental pollution caused by direct discharge of biogas slurry, but also help to improve soil quality and farming efficiency. Relying on our sophisticated fertilizer production technology, we can produce a large amount of liquid fertilizer every day. We have conducted active interaction with farming communities surrounding our farms, made negotiations about regional recycling economic program, and achieved the mutual support between crop farming and cow breeding. Through these actions, we have gradually solved cow dung pollution problem and promoted the reduction of regional resource consumption and waste, which can further optimize the rural ecological environment and drive the ecosystem toward a virtuous circle.

Hongya Farm: Liquid fertilizer pipeline for two purposes

On Hongya Farm, we have built an automatic circulation system “cow dung — biogas digester — liquid fertilizer pre-processing and storage tank — low-pressure pipe irrigation crop — cow breeding”. In this system, we have organically connected cow dung disposal with its digestion in the field and formed a large cycle of planting and breeding. This has effectively addressed cow dung pollution, improved the rural environment and contributed to the higher production and income. In addition, the biogas slurry pipeline can meet dual purpose, transmitting biogas slurry and irrigation water. This has not only significantly enhanced the resilience of agricultural production in the region, changing original low-yielding fields into high-yielding dependable fields, but also improved the utilization of light, heat, water, fertilizer and other resources in the farmland.

Baoji Farm: Transporting liquid fertilizer in a reasonable and efficient way

Since Baoji Farm commenced operation in 2010, we have started the sales of liquid fertilizer and helped farmers transport it to the fields free of charge. As farmers come to realize the value of liquid fertilizer and have higher intention to buy it, we begin to explore the paid transport. According to the transport distance, we set the price with the village as the unit. The moderate transport charge has reduced the cost of farm and maintained farmers' enthusiasm for buying it. We deliver fertilizer to the fields in time to help farmers increase the yields and income.

Helin Farm: Bundling biogas transport slurry with silage planting

On Helin Farm, we have bundled the sales of biogas slurry with silage planting, which has effectively returned liquid fertilizer to the land. On the one hand, we helps farmer reduce planting cost through less use of chemical fertilizer. On the other hand, the liquid fertilizer has effectively improved soil quality and prevented soil from compaction and deterioration. This has not only increased the yield and quality of silage maize and enhanced the quality of cow feed. In particular, the local agricultural products are free from pollution through the application of liquid fertilizer to the surrounding vegetable greenhouses and orchards. While keeping ecological balance, we help farmers increase both yields and income.

“Strengthen the control of agricultural nonpoint source pollution, develop soil testing and formulated fertilization, promote bio-organic fertilizer and low toxicity and low-residue pesticides, make resource utilization of straw and animal manure, and recycle mulch film residue in the regional demonstration area.”

—Central No.1 Document 2015

“We shouldn't regard the utilization of manure in the cropland as sewage activities and it has no relations with sewage charge.....”, “We should respect the natural laws, encourage manure returning to soil, and promote breeding balance to step up industrial transformation....”

—Kongyuan, Leader of Agricultural Environment Office of Ecological Department, Ministry of Environmental Protection, interpreting the Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry

“Livestock manure is a natural fertilizer resource.”

—The interpretation of the Action Plan on the Prevention and Treatment of Water on the official website of the Ministry of Environmental Protection

Do you know?

Biogas slurry is a new type of high-quality organic liquid fertilizer with available nutrient and abundant organic matter. It contains essential nutrients for plant growth, which are easily absorbed and play an important role in high yield and efficiency. In addition, the organic matter in biogas slurry can ameliorate the property and fertility of soil, and increase its water retention capability to resist drought and waterlogging. Its various growth regulators and beneficial microorganisms are very effective in the protection of flowers and fruits, the improvement of fruit quality and appearance and pest and disease control.

Case Study Showing the Effect of Liquid Fertilizer in the Demonstration Plot of Hongya Farm

We always intend to allow more people to understand the effect of liquid fertilizer and its applying quantity in the field. To this end, we opened a 5-acre land on Hongya farm, planting seasonal vegetables and fruits including radish, Chinese cabbage, cabbage, lettuce, cucumber and watermelon. We applied 50 m³ of fertilizer per acre of land. As leaf vegetables don't need top dressing, we only applied base fertilizer before planting them. However, the melon or fruit vegetables are in the contrast. We performed top dressing in the ratio of 5 to 10 m³ per acre. When the crop is ripe, we evaluated the yield of single plant. The result showed the yield of fruit and vegetables with liquid fertilizer increased by 10% to 20% than before. More importantly, the fruits have better appearance and higher sugar while the vegetables taste more delicious and have no residue. These fruits and vegetables are more nutritious because of their higher content of organic acids, vitamins and calcium, iron, zinc, selenium and other minerals.



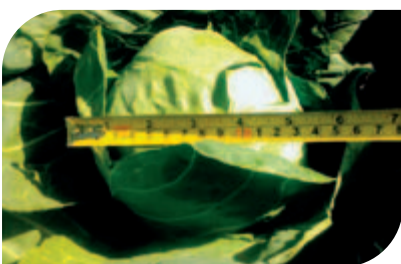
Clearing the land



Farming the land



Having a harvest



Cabbage



Radish



Oat

5.2 Conservation-minded Farms

We strive to build a conservation-minded farm. Through our transformation and upgrading of equipment and standardized operation, we work to reduce the consumption of water, electricity, coal, diesel and other resources. We also develop assessment criteria and implement monthly competition to enhance conservation awareness on each farm and promote the improvement of their management. In addition, we maximize the intensive farming to reduce the use of land.

Water saving measures

Add water meters

Installing water meters in the main area of farms to monitor water consumption

Use Automatic sprinkler

Making automatic control of spray water during the period of heat stress on the southern farms

Control washing frequency

Standardizing the washing frequency of drinking troughs to reduce direct water consumption

Adjust water level

Adjusting the water level of troughs in the cowhouse to avoid water leakage

Recycle waste water

Recycling and treating waste water generated from milking parlor

Clean with marsh liquid

Backwashing cow dung passage with marsh liquid to reduce direct water consumption

Power saving measures

Improve lighting facilities

Replacing inefficient lights with energy-saving ones in the renovation of cowhouses

Manage lighting facilities

Controlling the number of turned-on lights in the cowhouse according to the brightness requirements

Control the fan operation

Adjusting the frequency of fan operation with the seasons

Avoid idling equipment

Equipping with reasonable numbers of equipment according to the number of cows in each cowhouse to reduce idling equipment

Fuel saving measures

Tighten the procurement of equipment

Purchasing suitable fuel-saving equipment and facilities based on workload

Arrange reasonable numbers of vehicles

Allocating vehicles according to departments and personnel and implementing responsibility system

Regulate the operation of vehicles

Providing trainings for drivers to reduce the fuel consumption caused by the improper operation of people

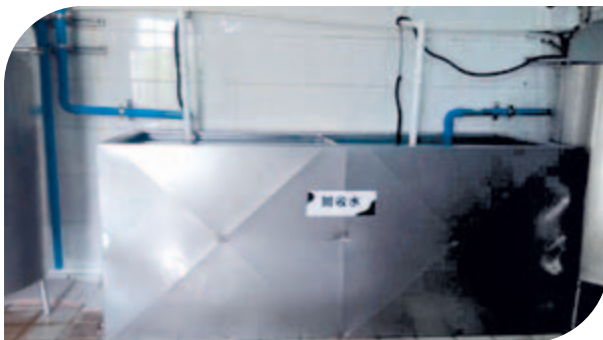
Check tire system

Checking the tire pressure according to the standard to reduce the resulting fuel consumption

Case Study The Water Conservation System on Shangzhi Farm

At Shangzhi Farm, we have made two key improvements in the recycled water of milking parlor to save water resource and reduce the consumption of marsh liquid.

- Collecting the cleaning water from milking parlor into a tank and then pumping the collected water to clean the milking clusters, tabletops and cow stands of two rotary plates, which may save about 15 tons of water per day.
- Collecting waste water generated from cleaning towels and rotary tables, discharging it into the cesspool in the west of milking parlor, and then pumping it to rinse the holding area, which can save 20 tons of water per day.



Recycled water tank



Cleaning rotary plate

Case Study **Achieving Energy Efficiency of the Lighting in Tongliao Farm**

At Tongliao Farm, we had to pay RMB 336 yuan for each 400W spotlight and RMB 220 yuan for their maintenance once every two months before upgrading the lighting system. Without prejudice to the brightness, we replaced the original lamps with 60W LED lights. The new spotlight is worth RMB 385 yuan but reduces the power by 340W. More importantly, it is maintenance-free within two years. Through the upgrading of lighting system, we have effectively reduced the power consumption and operation cost.



The previous 400W metal halide lamp



The new energy-saving 60W spotlight

5.3 Ecological Farms

We have made unified planning on the greening projects of our farms. In combination with the conditions of local farms, we plant flowers and grass and strengthen the management and protection to ensure their survival. The construction of ecological farms has not only improved the environmental conditions and air quality, but also played an isolating and protecting role.



Beautiful landscape of cow farms



Case Study Building a Greenbelt in Maanshan Farm

At Maanshan Farm, we built a green belt, which is comprised of camphor trees and bamboo willows, along the road outside the cowhouse. The green belt has not only beautified the farm, but also improved the surrounding environment.



6

**Play Leading Role to Release
the Potential of Communities**



Currently, most of ten-thousand-cow farms are faced with a series of problems such as less environmental carrying capacity in the place where it operates, more pressure on surrounding dairy farmers and epidemic crisis. As China’s largest supplier of raw milk, we hope to solve this big problem together with all sectors of society by exploring the development trend of the industry and participating in the development of industry standards.

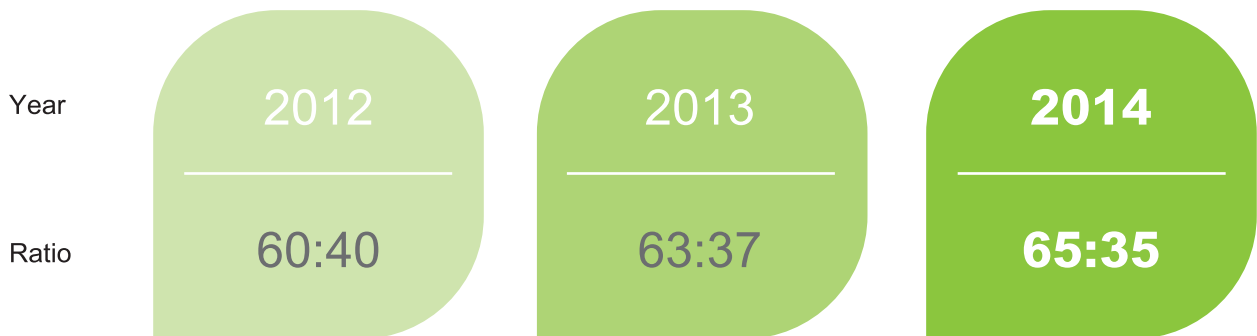
In the community, we proactively shoulder our social responsibility for our own operational impact, strengthen all-round communication with the stakeholders and strive to achieve the positive interaction between dairy farms and communities. In the meanwhile, we give full play to the cluster advantages of dairy industry, develop farming communities and build responsible supply chain to constantly release the potential of communities and promote the construction of new socialist countryside and the development of modern agriculture.

6.1 Developing Agricultural Community

We are committed to playing the cluster effect of dairy industry. In the meanwhile, we work to build a circulatory economy industrial chain which is comprised of forage supply, large-scale farming, dairy processing, marketing and product packaging to create regional economic growth areas.

6.1.1 Providing Job Opportunities

We proactively create job opportunities at the location of our farms. Under the same conditions, we give priority to local employees to absorb surplus labor in rural areas, especially rural women. While giving full play to their familiarity with the local social and natural environment, we help them improve their job skills to achieve career development



Ratio of local and non-local employees from 2012 to 2014

6.1.2 Helping Farmers Get Rich

We make full use of liquid fertilizer produced on our farms to help surrounding farmers reduce the quantity of chemical fertilizer, increasing their crop yields and leading them to get rich. As we need a large amount of forage for breeding cows, we sign purchasing contracts with surrounding farmers each year so that they can plant forage crops earlier without worry, reduce their risks and achieve win-win outcome with us.

Case Study

Helping Farmers Increase Yields with Liquid Fertilizer

In 2014, Modern Dairy Tongliao Farm produced a total of 24,000 cubic meters of liquid fertilizer, applying it to 12,000 acres of land. It reduced the use of chemical fertilizer by 25 kilograms per acre, increased yields by more than 75 kilograms and increased farmers' annual income by a total of 2.4 million yuan. From its free use in 2011 to paid use now, the liquid fertilizer has won such high recognition among farmers that its demand exceeds its supply. In 2015, we will bundle liquid fertilizer and silage planting, which is expected to reduce disposal cost by RMB 0.99 million yuan. We will try to achieve zero cost in its disposal and even generate profit for the company.

6.1.3 Boost Industrial Development

We pay much attention to the industrial cluster effect. While boosting the development of secondary and tertiary industry such as forage farming, feed processing, transport, packaging and commercial services, we adjust and optimize rural industrial structure and speed up the industrialization process to build a new development path of agricultural industrialization and stimulate the economic development at our location.

Case Study

Boosting the Growth of Qiushi Forage Industry

When we were building the global standardized eco-farm at Bengbu farm, we had a huge demand for quality forage. In the meanwhile, the shortage of silage in the southern part of China created the great possibility to plant alfalfa. That's why Modern Dairy gave strong financial and technical support to the development of Qiushi Forage Industry Co. Ltd. (hereinafter referred to as Qiushi). By addressing drainage problem, selecting good variety and optimizing processing and storage methods, we avoided the disadvantages in the southern region such as acidic soil and excessive rainfall. We have helped Qiushi establish a large-scale professional alfalfa production base in the southern China, which has reached the industrialization level. The development of Qiushi has not only ensured the adequate and safe supply of forage to our dairy farms, but also met our strong demand on quality forage.

Case Study **Developing Feed Processing Enterprise**

Kangneng Agricultural Product Co., Ltd. is a professional corn processing enterprise (steam-flaked corn), established with the rapid development of Modern Dairy. At present, it is a major feed supplier of Modern Dairy's subsidiaries in the northern and northeastern part of China. Through sincere cooperation, the company has completely aligned itself with Modern Dairy in the product sourcing, production and product quality. It has grown into an outstanding company with annual output value of RMB 260 million yuan. By the end of 2014, the company has 14 wide-transport vehicles, and provides the local people with over 50 jobs. Each year, the company needs more than 100,000 tons of corn, which benefits 5,200 corn farmers and facilitates corn sales for local farmers.

Case Study **A National Integrated Standardized Dairy Demonstration Plot**

In March, 2014, the national integrated standardized dairy demonstration plot project applied by Modern Dairy Wuhe (Bengbu) Co., Ltd. was approved by Standardization Administration Committee of China. The successful approval of Bengbu demonstration plot will play a pivotal role in improving the quality of local soil and agricultural products, increasing the efficiency and competitiveness and promoting the local labor export. More importantly, it will speed up the scientific transformation of traditional agriculture and the transfer of agricultural growth pattern and increase farmers' income in Wuhe County.



6.2 Leading the Industry Development

Modern Dairy, as China's largest supplier of raw milk, shoulders the mission of industry development. It will proactively build a responsible supply chain and participate in various exchanges and cooperation in the industry to promote the stable, healthy and prosperous development of the industry.

6.2.1 Building a Responsible Supply Chain

By the end of 2014, we have 302 suppliers across 20 provinces in China. From the source of supply chain, that is, procurement, we choose excellent suppliers of sources. On one hand, we directly purchased from COFCO's subsidiaries in Gongzhuling, Zhaodong and Chengdu. On the other hand, we choose to cooperate with large feed enterprises in China. While ensuring the supply of high-quality materials, we actively participated in the price analysis and market competition mechanism in the industry.

In terms of procurement, we have formulated a stringent Supplier Management System. While implementing the policy of "strict entry and exit", we have extended our management to our suppliers' production and operation. We have combined our raw material testing results on site with suppliers' investigation and put forward corrective suggestions to address the possible fluctuations in quality caused by some vulnerable links.

We strengthen our communications with suppliers through various channels, ensure their basic rights and support their development. We also invite them to involve in our inventory adjustment strategy and change our procurement idea from short-term purchase to long-term strategic supply chain management to achieve win-win cooperation with our suppliers.

In the selection of new suppliers, we conduct strict access system in accordance with our management system. After their admission, we place some mini-order with them at first. After their transition to a more stable quality and supply, they will get big contract. In the management of existing suppliers, we make monthly evaluation on their performance, including purchase quantity and amount, product quality, timely delivery and other. On this basis, we adjust the levels of suppliers every quarter to ensure effective supervision over their product quality.

We strengthen communication with suppliers through various channels to safeguard their basic rights and boost their development. We have invited our suppliers to involve in our inventory adjustment strategy, changing the thinking from short-term procurement to the long-term strategic supply chain management, in order to achieve win-win cooperation with suppliers.

6.2.2 Sharing Development Achievements

We actively make technological innovation and participate in the formulation of industry technology standards to lead the industry to the standard and scientific development. In addition, we strengthen communication and exchanges with peers through domestic and international forums, conferences and exhibitions.

Case Study

Solving the Problem of “three low and one high” Through University-industry Cooperation

At present, the low yield, milk protein rate and feed conversion rate and high environment emission (three low and one high) have become an important industry issue that constrains the development of China’s dairy industry. In this context, Modern Dairy has developed the research project “Efficient Use of Cow Feed and Creation and Application of Precise Feeding Technology” in cooperation with a number of institutions including China Agricultural University. Nearly 70% of farms involved in the research and project training. They have become the important experiment and demonstration bases.

In this research project, we have made three innovations. Firstly, we have revealed the role of key nutrients in metabolic mechanism and regulation of cows and formed the key technology to increase the rate of milk protein and feed conversion. Secondly, we have created the standard for dairy cow nutrition and feeding and built China dairy feed nutritional value database. Thirdly, we have established the precise dairy farming technology system, the core of which includes the digital information platform, standardized farming techniques, evaluation on the effect of cow herd breeding and emission reduction technique. At the demonstration farms, the milk yield is 32.7% higher than the national average with an increase of the milk protein rate by 0.1%.

The research project was awarded the second prize of National Science and Technology Awards in 2014. Modern Dairy will actively develop university-industry cooperation to contribute to the improvement of domestic dairy farming technology and the transformation and upgrading of dairy farming industry.

July, 2014	Participated in the 8th International Dairy Industry Development Forum
July, 2014	Participated in 2014 Inner Mongolia Forum on Calf Intestinal Health and Mycoplasmosis
August, 2014	Participated in 2014 Alfalfa Capital International Forum
September, 2014	Participated in the 5th Southern Dairy Industry Forum
October, 2014	Participated in 2014 WWS Golden Autumn Technical Seminar

6.3 Benefiting People’s Livelihood through Public Welfare

We actively communicate with stakeholders around our farms and integrate their expectations and demands into our operation strategy. While devoting to the pursuit of our own development, we managed to win the trust, understanding and support of community residents. Besides, we proactively give back the local communities and devote to public charity and volunteer activities to contribute to society.

6.3.1 Communicating with Communities

Milk will go through more than 100 production and testing links from cow breeding, milking, processing, filling till selling to consumers. We take the initiatives to communicate with our stakeholders and allow them to deeply understand our production process through our “Transparent Farm”, exhibition halls and other channels. Our communication with village committee and villagers can help them understand the impact of our farms on the surrounding environment and the economic benefits that our farms create for communities. In this way, we hope to obtain the support of community stakeholders.

Case Study First “Transparent Farm” in China

As the first transparent farm in the dairy industry, Modern Dairy Bengbu Farm has made its milk production and processing fully visible at every step. Through the glass curtain wall, visitors can see the entire process including milking, milk pasteurization, filling and storage.

In Modern Dairy, we not only focus on these superficial visible “transparency”, but pay more attention to the inherent “standard transparency”. Our various indicators are better than those in European and American standards. For example, Somatic cell count <250K, microbe content <20K, protein \geq 3.2%, the milk processing is completed within 2 hours……All these figures not only reflect our pursuit for product quality, but also embody our ambitious dream “Chinese drink Chinese-made milk”.

As Mrs. Gao Lina, CEO of Modern Dairy, said, “In our ‘transparent farm’ program”, what we represent is the standard for global dairy industry. Our challenges are our own comprehensive strength and the acceptance of consumers, which is also the highest standard for the development of industry.”



Visit channel of Wenshang Farm, where visitors can take a close look at cowhouses



Octagonal Pavilion of Saibei Farm, where visitors can take a bird's view of the entire farm

6.3.2 Public Charity

We strongly advocate a number of volunteer activities and strive to provide the vulnerable group with what we can do.

Case Study

Quality Education Social Practice Base For Primary And Secondary Students

At present, the quality issue has attracted increasing attention of the whole society because the quality of product and service is related to people's safety and health. Modern Dairy attaches great importance to the quality and safety of its products, increasing the awareness of society, especially the primary and secondary students, on the knowledge of quality laws and quality management and control methods. Besides, we have built a quality education social practice base for primary and secondary students in Anhui province and organized consumers and students to visit our factory to understand the full process of milk production and quality inspection. Through these actions, we help them recognize the role of standard and standardization in the production and services, establish strong quality awareness and correct quality ideas, and enhance their quality identification ability and consciousness. In 2014, our base was honored as the Quality Education Social Practice Base For Primary And Secondary Students in Anhui province by the Education Department of Anhui Province and Anhui Bureau of Quality Supervision.



Taking photos with students visiting Quality Education Social Practice Base For Primary And Secondary Students



Children's Play Performance for Children's Day

Case Study

Devoting to Children's Play Performance for Children's Day

In mid-May, 2014, Modern Dairy supported Children's Play Performance for Children's Day at Anhui Hefei Grand Theatre. We provided a number of products as the prizes of interactive activities. In addition, we invited hundreds of children from the orphanage and the schools for children of emigrant workers to enjoy the children's play, showing our love and care to those vulnerable group and needy children.

7

**Achieve Common Development
with Employees**



Employees are the cornerstone of corporate development. We believe only the best staff can raise excellent cows. That's why we persist in the people-oriented concept in the employment, establish a comprehensive training system and develop a detailed career development plan for employees. We hope we can bring our care, help and warmth to them, enhance their cohesion and sense of corporate identity, and increase their satisfaction and happiness.

7.1 Safeguarding the Legitimate Rights and Interests of Employees

In strict accordance with the Labor Law and the Contract Law, we persist in equal employment and achieve equal pay for men and women. We take an equal and non-discriminatory employment policy, giving fair treatment to employees regardless of their nationality, race, gender, religion and cultural background, and eliminating the use of child labor and forced labor. In 2014, no violation of related rules and regulations on child labor and forced labor occurred in Modern Dairy.

By the end of 2014, we achieved 100% in the labor contract rate and insurance coverage rate, and provided employees with the supplementary accident insurance.

Case Study

Safeguarding the Legitimate Rights and Interests of Tongshan Employees in Their Reasonable Settlement

In 2014, Tongshan Farm started its relocation plan after several communications with the local government. Tongshan event has reflected that we need further improvement in the publicity of organic fertilizer, land location, standard for local supporting facilities and internal management.

With the relocation of the farm, we were faced with the resulting employment of a large number of surplus employees. In order to protect their maximum interests, we diverted them to neighboring farm and took the corresponding job in compliance with their wishes. For those against diversion, we will compensate them in accordance with the national policy after the completion of farm relocation. In addition, we communicated with the local government to strive for loans, jobs, unemployment insurance and other benefits for those who are unwilling to leave Tongshan. We hope to provide them with good settlement.

7.2 Contributing to Employees' Growth and Success

We persist in common growth with our employees and proactively design their career development path to expand their development space. In the meanwhile, we work to enhance their professional ability, quality and spirit and build a solid and broad platform for their career development. In 2014, we organized 1,700 trainings for 60,416 trainees.

7.2.1 Diversified Training

The systematic and comprehensive training is the best guarantee to the improvement and development of employees' capability. In connection with our development strategy and the development needs of employees, we share our advantageous training resources with employees at the first time to allow each of them to get the latest information about the professional technical requirements and management.

We provide all employees with different levels of training programs in accordance with their jobs and duty to build a training system that is suitable for our own development and meets the different needs of employees. On this basis, we work to enhance their professional capability and reserve a number of talents for the good operation of our company.

Training levels	Training programs
Headquarters	From technology to management, business etiquette, legal knowledge, new environmental protection law and other trainings
All centers	Professional trainings like the safety and management of pathogenic microbiology laboratory, calf index, dynamic weighing system, and calf breeding and management
All farms	A variety of trainings in accordance with the characteristics of farms and their own needs

We have adopted “send-out” and “invite-in” strategies in the training of high-end talents to improve their professional quality and enthusiasm in the entire operation team.



Invite-in strategy

Inviting foreign top expert team to visit our farms and participating in the production including cow breeding, nutrition, veterinary, calves and milking. While they are solving practical problems of our farm, our employees get invaluable learning opportunities

Send-out strategy

Sending our core management staff at all levels to work and study in the advanced dairy farming regions of California, Wisconsin, Pennsylvania, New York and other states of US





Feidong Plant of Liquid Milk Centre provided employees with a 16-day on-the-job military training to enhance their sense of organizational discipline, team cohesion and awareness of responsibility



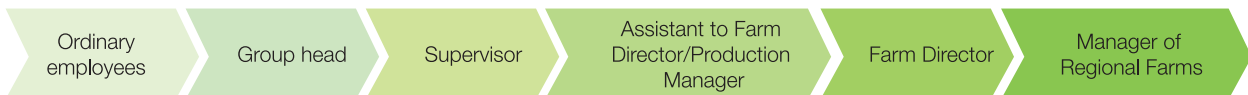
In consideration of a large storage of forage, which is prone to fire, Hengsheng Farm invited the local fire brigade to provide fire drill for employees on key jobs to enhance their capability of emergency response

7.2.2 Career Development

Modern Dairy works to expand employees' career development path and establishes a clear and comprehensive channel. While focusing on internal fairness of promotion mechanism and external competitiveness, we promote the development of professional and specialized talent team.

Career Development Channel

Path for Managerial Excellence



Path for Technical Excellence



Case Study Finding More Back-up Talents

In order to satisfy the needs of rapid development and smooth the promotion channel for internal employees at Modern Dairy, we have implemented a training mechanism for reserve leaders. We hope to find, develop and train back-up talents in a proper way. In 2014, we selected 20 qualified people as back-up management from our farms, providing them with training on leadership and influence and helping improve their expertise, leadership skills and other integrated quality.

7.3 Striving for Work-life Balance

Modern Dairy pays great attention to humane care and cares about the living conditions and mental health of each employee. A variety of recreational and sports activities are held periodically to ease their emotions and keep their work-life balance.

7.3.1 Recreational and Sports Activities

In 2014, we carried out a wide range of cultural activities to encourage our employees to deal with work and life challenges with a positive and optimistic mindset.



A basketball match on Wenshang Farm



A tug-of-war on Wenshang Farm



The New Year's Performance on Feidong Farm



Making Chinese dumplings on New Year's Eve on Shangzhi Farm

7.3.2 Harmonious Working Environment

We have built an apartment and a restaurant on each farm and installed fitness equipment in the apartments. With richer life and entertainment facilities, we have created happy and healthy working conditions and harmonious environment.



The well-equipped fitness centers

Most of our farms are built in the outer suburbs of cities, which brings much inconvenience to our employees. For this reason, each employee is offered a 20-day home leave each year. Besides, we provide accommodation for married employees and encourage the couples to work together on the farm.



Beautiful and comfortable living environment on farms

8

Prospect



Looking ahead to 2015, China's dairy industry will face a decline in the price of milk and the impact of milk imports and other difficulties. Modern Dairy cannot immune from it, either. Faced with the challenges, we should keep a positive and calm attitude and make greater efforts in the quality of milk source, the epidemic prevention on farms and environment-friendly operation to promote the sustainable development of the company and the industry.



The milk quality must be controlled from the source. We will continue to rely on our integrated development model "growing forage — breeding cows — processing product", implement the world's most stringent standards and standardize our breeding management. We will also improve our intensive level and increase milk yield and quality to provide consumer with healthy and reliable milk.

The safe operation of farms is closely related to the earnest implementation of epidemic prevention. We will continue to strictly enforce the quarantine systems in accordance with national requirements, care for cow health, and protect the occupational safety of employees to avoid the outbreak of diseases and casualty accident. While learning from the lessons of past few years, we should make effective communication with governments, media, public and other stakeholders, make epidemic prevention transparent, and bring each of them the correct understanding of cow epidemic prevention to ensure the sale of cows in qualified body condition.

The environmental operation of farms and the better development of agricultural communication are interdependent. We will achieve benign interactions between farm, agricultural communities, and natural environment by promoting the use of liquid fertilizer in surrounding farming areas and easing the degradation of soil and lower quality of agricultural products caused by over-reliance on pesticides and chemical fertilizer. We will also strive for the government's land transfer policies, promote the coordinated development of regional farming and animal husbandry industry, and push the integration of their industry chain and large-scale intensive operation to drive the local employment and increase income of farmers.

The year 2015 is also the 10th anniversary of the establishment of Modern Dairy. On this occasion, we will be working for our goals "creating the most advanced farm and producing quality milk" and playing a leading role in the industry to contribute to the prosperity and the stable development of China's dairy industry and inspire Chinese consumers' confidence and support for it.