

## FOOD FOR THOUGHT: THE 2008 CHINA MILK SCANDAL<sup>1</sup>

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In 2007, Sanlu, a Chinese milk manufacturing company based in Shijiazhuang, was recognized as a formidable force by its competitors as it had topped the list of local dairy producers for more than a decade. It was also the second biggest dairy producer in the world. Sanlu was the number one bestselling milk brand in China, responsible for 18.3 per cent of total national dairy sales in 2007.<sup>2</sup> A year later, however, a scandal unfolded that brought not only Sanlu but other dairy manufacturers in China unwanted international attention. More than 290,000 infants were affected by this scandal, which involved deliberate tainting of milk powder. What motivated one of the most well trusted brands in China to engage in business practices that led to the deaths of innocent infants?

### BACKGROUND INFORMATION

In 2008, an incident in China involving milk products brought regional and global attention to the country. At a time when international trade was important for the country's economic progress, the milk incident raised concerns about the safety of food products made in China and the ethics of business practices in Chinese companies.

China's dairy market had expanded to keep pace with the country's rapid economic development. Besides importing close to 300,000 tonnes of dairy products from Japan, New Zealand and other countries to satisfy the demand of high- and middle-income consumers, many local dairy producers had been established and expanded to meet the demand of the lower income group, which constituted the bulk of Chinese consumers. Sanlu was one example. Priced at RMB85 (about US\$13) per tin (900 grams) — almost half that of imported milk powders — Sanlu's products were very popular among consumers in China's rural areas.

<sup>1</sup> This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Sanlu Group or any of its employees.

<sup>2</sup> Chris Buckley, "Second Infant Death in China Milk Scandal," *Asia One*, September 16, 2008, [www.asiaone.com/Health/News/Story/A1Story20080916-88026.html](http://www.asiaone.com/Health/News/Story/A1Story20080916-88026.html), accessed December 22, 2010.

The low cost strategy allowed the company to be highly successful, and it was the market leader for more than 10 years. However, under the pressure of increasing price competition, coupled with the absence of quality control by both the government and the company, Sanlu engaged in cost-cutting by adding melamine — a chemical used in producing plastic — into diluted raw milk to inflate the protein content. This became a common practice in the dairy industry.<sup>3</sup>

Adding unapproved or banned chemicals to spice up the “quality” of food products in China was not new. For example, washing powder was added to flour to make *you tiao* (Chinese fried bread stick) fluffier and last longer, acetic acid and mineral acid were added to vinegar to increase its fixed acid content and talc powder was added to wheat powder to give a smoother texture. Just five years before the 2008 milk incident, a company sold baby formula with little or no nutritional value, leading to the deaths of at least 12 infants and causing malnutrition in hundreds more.<sup>4</sup>

## INTERNATIONAL ATTENTION

The 2008 Chinese milk scandal was one of the most prominent cases involving food safety that the World Health Organization (WHO) had to deal with in recent years. In December 2008, China reported the number of victims to be more than 290,000.<sup>5</sup> Among them, 51,900 were hospitalized, and four cases were fatal. In addition, 8,311.7 tonnes of unqualified milk products were withdrawn from the market as of October 31 that year.<sup>6</sup> Although the incident drew international attention, the effect was predominantly confined to China with limited cases in Taiwan, Hong Kong and Macau.

On July 16, 2008, the Gansu local government officially reported to the Ministry of Health that 16 infants in the province were diagnosed with kidney stones after consuming milk powder produced by the Sanlu Group.<sup>7</sup> After the initial focus on Sanlu, investigation by the Chinese government revealed that the problem existed to a lesser degree in products from 21 other Chinese companies, including well-known companies such as Monmilk, Yili and Yashili. Some of these had exported their products overseas. This issue raised concerns about food safety and political corruption in China. There was speculation that the Chinese government maintained silence about the incident during the Beijing Olympics to maintain a positive image. This silence led to delay in follow-up actions, which could have averted serious health consequences.

According to WHO, the crisis led to a significant decline in consumers’ confidence in China’s food products. WHO spokesperson and food safety scientist, Peter Ben Embarek, attributed the cause of the event to inadequate measures and lack of control among agencies responsible for monitoring food safety in the private sector. These agencies were often not well-staffed and lacked resources and equipment. As a result, they could not keep up with the rapid pace of food, agricultural and industrial production in China over the past few decades. He concluded by referring to the large scale of the incident as being

<sup>3</sup> Duncie Lawrence, “China Says Sanlu Milk Likely Contaminated by Melamine,” (Update 1), *Bloomberg*, September 12, 2008, [www.bloomberg.com/apps/news?pid=newsarchive&sid=at6LcKJB6YA8&refer=asia](http://www.bloomberg.com/apps/news?pid=newsarchive&sid=at6LcKJB6YA8&refer=asia), accessed December 22, 2010.

<sup>4</sup> “47 Detained for Selling Baby-Killer Milk,” *China Daily*, May 10, 2004, [www.chinadaily.com.cn/english/doc/2004-05/10/content\\_329449.htm](http://www.chinadaily.com.cn/english/doc/2004-05/10/content_329449.htm), accessed December 22, 2010.

<sup>5</sup> “Timeline: Sanlu Milk Powder Scandal,” *Television New Zealand Limited*, December 24, 2008, [www.tvnz.co.nz/business-news/timeline-sanlu-milk-powder-scandal-2429256](http://www.tvnz.co.nz/business-news/timeline-sanlu-milk-powder-scandal-2429256), accessed December 22, 2010

<sup>6</sup> “8,300 Tons of Tainted Milk Products Withdrawn,” *Xinhua News Agency*, October 31, 2008, [www.china.org.cn/china/national/2008-10/31/content\\_16693286.htm](http://www.china.org.cn/china/national/2008-10/31/content_16693286.htm), accessed December 29, 2010.

<sup>7</sup> “China Seizes 22 Companies with Contaminated Baby Milk Powder,” *Xinhua News Agency*, September 16, 2008, [www.news.xinhuanet.com/english/2008-09/17/content\\_10046949.htm](http://www.news.xinhuanet.com/english/2008-09/17/content_10046949.htm), accessed December 22, 2010.

“clearly not an isolated accident. It was a large-scale intentional activity to deceive consumers for simple, basic, short-term profits.”<sup>8</sup> For a timeline of events in the milk scandal, see Exhibit 1.

## PARTIES INVOLVED

The magnitude of this scandal implicated several organizations — the Chinese government, Chinese manufacturers and the Chinese media. In the following sections, the role of the private company, Sanlu, and the other parties involved in shaping the course of events will be discussed.

### The Role of the Company: Sanlu Group

Lack of corporate governance, transparency and social corporate responsibility were the main issues underlying the milk scandal. Instead of working towards producing good quality and safe products, Sanlu ignored early warnings and did not take steps to highlight the situation to consumers. Since late 2007, the company had been receiving complaints from consumers regarding changes in the colour of urine as well as crystals in the urine of babies who had consumed Sanlu’s milk powder.<sup>9</sup> However, the company took little action to improve its product. Instead, it engaged in the practice of “private settlement” to appease consumers who publicly questioned the quality of its products.<sup>10</sup>

After receiving confirmation that its product was tainted with melamine and that the chemical was “deliberately added by man” in August 2008, the Sanlu Group engaged in a series of actions to conceal the incident from the public. One face-saving initiative involved collaborating with China’s biggest search engine, Baidu.com, by signing an advertising agreement of RMB3 million (US\$474,000) on the condition that negative news related to the company was removed.<sup>11</sup>

### The Role of the Government

The Chinese government played a critical role in the development and proliferation of the incident. By providing Sanlu with the national inspection exemption label, not taking immediate action to address a potential national epidemic and silencing the media, the Chinese government was directly as well as indirectly implicated in the milk incident. The inspection exemption label was a form of special reward designed by the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). This label was awarded to Chinese companies with a reputation for quality products, big market shares and strict safety controls so that they did not have to undergo certain quality inspections. As a result of the absence of state inspection, quality control was left to the manufacturers’ discretion, which provided opportunities for companies to engage in questionable cost-cutting measures. There were early warnings related to the milk scandal posted by the public,<sup>12</sup> professionals<sup>13</sup> and the media,<sup>14</sup> even before the case was formally exposed in March 2008. However, the government did not take these warnings seriously.

<sup>8</sup> Lisa Schlein, “China’s Melamine Milk Crisis Creates Crisis of Confidence,” *Voice of America*, September 26, 2008, [www.voanews.com/english/news/a-13-2008-09-26-voa45.html](http://www.voanews.com/english/news/a-13-2008-09-26-voa45.html), accessed December 29, 2010.

<sup>9</sup> Zhu Zhe and Cui Xiaohuo, “Sanlu Ex-boss Was Aware of Tainted Milk,” *China Daily*, January 1, 2009, [www.chinadaily.com.cn/china/2009-01/01/content\\_7358822.htm](http://www.chinadaily.com.cn/china/2009-01/01/content_7358822.htm), accessed December 22, 2010.

<sup>10</sup> “Sanlu to Recall Milk Powder as Baby Dies,” *China Daily*, September 12, 2008, [www.chinadaily.com.cn/china/2008-09/12/content\\_7020499.htm](http://www.chinadaily.com.cn/china/2008-09/12/content_7020499.htm), accessed December 22, 2010.

<sup>11</sup> “The Chinese Milk Crisis: Lessons for CSR,” *CSR Asia Weekly*, 4.41, October 8, 2008, [www.csr-asia.com/upload/cover/037971505303.pdf](http://www.csr-asia.com/upload/cover/037971505303.pdf), accessed December 22, 2010.

<sup>12</sup> On June 30, an inquiry from the public about the product was found on the official website of the AQSIQ.

Besides the lack of response, the Sanlu incident also provided evidence of the prevalence of institutionalized corruption in China, where companies engaged in unethical practices in pursuit of profits. In numerous articles, the incident was compared to the SARS crisis, when reports about SARS incidents in China were delayed. In both situations, the Chinese government placed restrictions on media coverage to protect its political image, which subsequently led to a worsening of the incident.<sup>15</sup> In the case of the tainted milk incident, the Propaganda Department put out a 21-point directive to the nation's media during the Olympics period. The eighth point said: "All food safety issues, such as cancer-causing mineral water, are off-limits," which prevented early exposure of the incident.<sup>16</sup>

Also, there was speculation regarding corruption and inefficiency in the local government. Although the municipal government in Shijiazhuang was informed of the melamine contamination by the Sanlu Group, it neither took immediate action to contain the situation nor informed the central government, which was informed of the crisis by foreign diplomats. According to the New Zealand government, Sanlu's New Zealand partner, Fonterra, was aware of the contamination in August 2008 and immediately requested its Chinese partner as well as government officials to recall all milk powder produced by the Sanlu Group. However, as local officials did not cooperate, action was taken only a month after the alert. Left with few alternatives, Fonterra eventually reported the case to the New Zealand government. It was then that the New Zealand government bypassed local officials and reported directly to the Chinese central government and the case was brought to light.<sup>17</sup>

### The Role of the Media

The extent of Chinese government control over the media becomes evident when examining the timeline of the publication of the media reports on the Sanlu incident. Sanlu Group informed the local authority on August 2, 2008, six days before the opening of the Beijing Olympics. It was only from September 10 onwards (when the games were officially over) that the news was released to the public. Given the heightened vigilance following 2007's spate of food safety scares, it came as a surprise that the news related to the Sanlu incidents was contained for one month. Newspapers, television, radio and even the Internet were able to actively conceal and downplay the severity of the incident.

This did not prevent social media from discussing the food scare, as individuals (e.g., affected parents) blogged openly about their experiences with Sanlu milk powder and their dealings with the company. Such information, however, remained restricted as those websites did not appear in search results on the Internet. This was primarily due to the agreement between Sanlu and Baidu.com, which removed negative information and stories about Sanlu from China's most powerful search engine.

<sup>13</sup> In July, a urologist in a paediatric hospital specifically asked the AQSIQ to refer his observations to epidemiologists but was asked to refer his query to the Health Department.

<sup>14</sup> The China News Service reported that for months many parents of sick infants had complained to their local inspection administrations and sent samples for testing. However, they were told that the powder met national safety standards. In July, a cable TV channel in Hunan Province reported that an unusually high number of kidney stone cases among infants were found in a children's hospital.

<sup>15</sup> Chua Chin Hon, "Milk Scandal — A Tale of Greed and Cover-up," *Straits Times*, September 28, 2008, [www.asiaone.com/News/the%2BStraits%2BTimes/Story/A1Story20080928-90424.html](http://www.asiaone.com/News/the%2BStraits%2BTimes/Story/A1Story20080928-90424.html), accessed December 22, 2010.

<sup>16</sup> Frank Ching, "Tainted Food: China's History of Using Melamine," *National Business Review*, September 16, 2008, [www.nbr.co.nz/comment/frank-ching/tainted-food-china-s-history-using-melamine](http://www.nbr.co.nz/comment/frank-ching/tainted-food-china-s-history-using-melamine), accessed December 22, 2010.

<sup>17</sup> "Toxic Milk Toll Rockets in China," *BBC News*, September 15, 2008, [www.news.bbc.co.uk/2/hi/7616346.stm](http://www.news.bbc.co.uk/2/hi/7616346.stm), accessed December 22, 2010.

## REMEDYING THE SITUATION

### Government Reaction and Recall

Immediately after the incident was made public, China's Health Ministry announced that it would launch a nationwide investigation into the infant kidney stone cases. Seventy-eight individuals suspected of being involved in the baby milk powder contamination were questioned by Chinese police. These individuals included dairy farmers and milk dealers. It was found that water had been added to dilute the milk, which was then sold to Sanlu for greater profit. Melamine was subsequently added to the diluted milk to maintain the product's standard protein content.<sup>18</sup> With the commencement of the investigation, Sanlu also sealed off 2,176 tonnes of contaminated milk powder and recalled more than 8,300 tonnes from the market. Finally, on September 13, 2008, an order was decreed by the authorities to halt all production at Sanlu plants.<sup>19</sup>

The Health Ministry also took action to keep the cases under control. It initiated warnings and informed the public to immediately refrain from consuming Sanlu milk powder formula. The public was advised to consult doctors if babies who had consumed the milk powder were found to have difficulty urinating. In addition, the ministry issued a treatment scheme on its official website to help local hospitals treat such sick babies.<sup>20</sup> Besides controlling the situation in China, the government also actively managed international opinion. The Health Ministry promised to notify WHO and affected countries of any development in the case.

### New Policies and Regulations

To prevent similar incidents from happening again, the Chinese government also implemented new policies and regulations. Measures were introduced to regulate the dairy market, including providing a sum of RMB316 million (US\$50 million) to dairy farmers (RMB200 (US\$31) per cow) to defray feeding and other operating costs.<sup>21</sup>

New food safety draft laws, which set stricter food quality standards and demanded greater government responsibility, were reviewed on October 23, 2008. Under the draft laws, health authorities were responsible for assessing and approving food additives, and food manufacturers were expected to adhere to regulations and guidelines by authorities or run the risk of having their production licenses revoked.<sup>22</sup> The draft stipulated that even non-harmful substances, as long as they were not approved food additives, were not allowed to be added in food. The law required health authorities to issue scientific, safe and reliable food safety standards, which were compulsory for all food producers. The revised law also stated that all enterprises, hospitals and quality supervision agencies were required to immediately report all food safety incidents to health authorities.

<sup>18</sup> Daniel Barboza, "China's Dairy Farmers Say They are Victims," *New York Times*, October 3, 2008, [www.nytimes.com/2008/10/04/world/asia/04milk.html?pagewanted=all](http://www.nytimes.com/2008/10/04/world/asia/04milk.html?pagewanted=all), accessed December 22, 2010.

<sup>19</sup> "China Reports 432 Infants with Kidney Stones Due to Fake Milk," *Economic Times*, September 13, 2008, [http://articles.economictimes.indiatimes.com/2008-09-13/news/27704989\\_1\\_milk-powder-kidney-stones-sanlu-group](http://articles.economictimes.indiatimes.com/2008-09-13/news/27704989_1_milk-powder-kidney-stones-sanlu-group), accessed December 23, 2010.

<sup>20</sup> "Nationwide Investigation Launched on Sanlu Scare," *Xinhua News Agency*, September 12, 2008, [www.china.org.cn/government/central\\_government/2008-09/12/content\\_16440855.htm](http://www.china.org.cn/government/central_government/2008-09/12/content_16440855.htm), accessed December 22, 2010.

<sup>21</sup> "China Takes Measures to Regulate Dairy Market, Aid Dairy Farmers," *Xinhua News Agency*, September 24, 2008, [www.china.org.cn/china/national/2008-09/25/content\\_16529887.htm](http://www.china.org.cn/china/national/2008-09/25/content_16529887.htm), accessed December 22, 2010.

<sup>22</sup> "China Reviews Food Safety Draft Law," *Xinhua News Agency*, October 23, 2008, [www.china.org.cn/business/2008-10/23/content\\_16656987.htm](http://www.china.org.cn/business/2008-10/23/content_16656987.htm), accessed December 22, 2010.

## Arrest and Apology

In total, 22 companies were involved in the milk scandal, and several top executives were arrested. The board chairwoman and general manager of Sanlu Group, Tian Wenhua, was fired along with other local officials. Twenty-one people were arrested, with two men facing the death penalty and Tian sentenced to life imprisonment.<sup>23</sup>

Tian, 66, was convicted for not halting the milk production and sales even after she was informed that they were contaminated. She was fined about RMB25 million (US\$3.95 million) as well.<sup>24</sup> On December 19, 2008, Sanlu secured a loan of RMB902 million (US\$142.6 million) to pay the medical expenses of and compensation to children affected by the tainted milk powder it produced. Sanlu went bankrupt in December 2008 with a net debt of RMB1.1 billion (US\$174 million). Sanlu was fined RMB50 million (US\$7.9 million) despite its bankruptcy.<sup>25</sup>

While Tian was on trial at the beginning of 2009, other Chinese dairy companies (e.g., Inner Mongolia Yili Industrial Group, Mengniu Dairy and Bright Dairy Group) involved in the tainted milk incident surprised many by offering an apology in the form of a New Year text message sent to millions of mobile phone subscribers: “We are deeply sorry for the harm caused to the children and the society. . . . We sincerely apologize for that and we beg for your forgiveness.”<sup>26</sup>

Skeptics stated that “saying sorry was not good enough” as real change would require more than training and education of officials.<sup>27</sup> According to China scholar Russell Leigh Moses, “The problem is not so much political or structural as psychological. The top leadership is more and more out of step with the public and even though there is still room for them to maneuver on this, these events accumulate and the wiggle room gets narrower and narrower.”<sup>28</sup>

The milk incident affected the public’s confidence in the safety of Chinese-made products, which was already tainted by a series of other scares involving food, drugs and toys in recent years.<sup>29</sup> This has further prompted authorities to put in place tighter rules governing milk production.

## REPEAT CASES

Despite the string of food scares, as well as other contaminated non-food products (e.g., lead contamination in Mattel’s children’s toy products), unethical practices continued to surface in Chinese companies. In December 2010, five wineries were suspected of manufacturing adulterated wines that only

<sup>23</sup> Daniel Palmer, “Culprits in China’s Contaminated Milk Scandal Get Death Penalty,” *Australian Food News*, January 23, 2009, [www.ausfoodnews.com.au/2009/01/23/culprits-in-chinas-contaminated-milk-scandal-get-death-penalty.html](http://www.ausfoodnews.com.au/2009/01/23/culprits-in-chinas-contaminated-milk-scandal-get-death-penalty.html), accessed December 22, 2010.

<sup>24</sup> Zhu Zhe and Cui Xiaohuo, “Two Get Death in Tainted Milk Case,” *China Daily*, January 23, 2009, [www.chinadaily.com.cn/china/2009-01/23/content\\_7422983.htm](http://www.chinadaily.com.cn/china/2009-01/23/content_7422983.htm), accessed February 1, 2012.

<sup>25</sup> “Chinese Milk Scam Duo Face Death,” *BBC News*, January 22, 2009, <http://news.bbc.co.uk/2/hi/7843972.stm>, accessed February 1, 2012.

<sup>26</sup> “China Dairies Offer Text Apology,” *BBC News*, January 2, 2009, <http://news.bbc.co.uk/2/hi/7807637.stm>, accessed December 22, 2010.

<sup>27</sup> Simon Elegant, “China’s Milk-poisoned Scandal: Is Sorry Enough?,” *Time News*, September 23, 2008, [www.time.com/time/world/article/0,8599,1843536,00.html](http://www.time.com/time/world/article/0,8599,1843536,00.html), accessed December 22, 2010.

<sup>28</sup> Simon Elegant, “China’s Milk-poisoned Scandal: Is Sorry Enough?,” *Time News*, September 23, 2008, [www.time.com/time/world/article/0,8599,1843536,00.html](http://www.time.com/time/world/article/0,8599,1843536,00.html), accessed December 22, 2010.

<sup>29</sup> Debasish Roy Chowdhury, “Nothing is Scarier Than the China Scare,” *Asia Times*, August 4, 2007, [www.atimes.com/atimes/China\\_Business/IH04Cb01.html](http://www.atimes.com/atimes/China_Business/IH04Cb01.html), accessed February 1, 2012;

Louise Story, “Lead Paint Prompts Mattel to Recall 967,000 Toys,” *New York Times*, August 2, 2007, [www.nytimes.com/2007/08/02/business/02toy.html](http://www.nytimes.com/2007/08/02/business/02toy.html), accessed February 1, 2012.

contained 20 per cent fermented grape juice, with the bulk of ingredients consisting of sugar water mixed with chemicals. They were also suspected of misrepresenting their products as famous brands, including the Great Wall Wine manufactured by the China National Cereals, Oils, and Foodstuffs Import and Export Corporation (COFCOA).<sup>30</sup>

The government seized 5,114 boxes of wine that were falsely labeled, 19 templates for forging brand labels and 280 unlabeled bottles. While this move by the government was welcomed by the parties affected (i.e., the original brands such as COFCOA), the fact that such incidents continued to bring China into the spotlight revealed that the problem lay deeper — it was rooted in an organizational culture that fostered institutionalized corrupt behaviour.

A news article in June 2011 reported that “insiders warned that little has changed since the Chinese Milk Scandal of 2008” since China’s standards for fresh milk remained among the lowest in the world: it allowed two million bacteria per milliliter of raw milk, while the maximum in the United States and Europe was 100,000 bacteria.<sup>31</sup> In February 2011, yet another milk contamination incident was discovered. Instead of melamine, leather-hydrolyzed protein was used to boost the protein content of milk. Although China announced that it was closing about half of its dairies to resolve this issue, other food safety scandals have been reported. These include toxic bean sprouts, pesticide-drenched beans, aluminum dumplings and glow-in-the-dark pork.<sup>32</sup> More recently, in April 2012, China was plagued with a pharmaceutical capsule crisis, when it was found that medicines were packed into capsules that were tainted with chromium.<sup>33</sup>

## FINAL THOUGHTS

As the world becomes more globalized and countries engage in international trade relations, agencies, government institutions and private corporations need to understand the culture, economic environment and intricacies surrounding economic transactions that prevail in emerging economies such as China. While acknowledging that a culture that allows corruption to exist helps us to understand the countries better, it is also important to analyze *why* such a culture prevails.

What factors motivate individuals and businesses to resort to questionable means for economic gain? Why do governments allow unethical behaviours through their cover-up attempts? How did the parties involved justify their decisions? Were their attempts to rationalize their actions justifiable? How does a more global and wired world affect businesses’ decisions to engage in questionable actions? What role does social media play in curbing corruption? These questions are worthy of discussion as international businesses increasingly expand into emerging economies.

<sup>30</sup> Liu Linlin, “Fake Wine Stuns Nation,” *Global Times*, December 27, 2010, [www.globaltimes.cn/china/society/2010-12/604367.html](http://www.globaltimes.cn/china/society/2010-12/604367.html), accessed February 1, 2012.

<sup>31</sup> Gus Lubin, “Insiders Warn of Another Chinese Milk Scandal Waiting to Happen,” *Business Insider*, June 21, 2011, [www.articles.businessinsider.com/2011-06-21/news/29973916\\_1\\_raw-milk-watered-down-milk-global-times](http://www.articles.businessinsider.com/2011-06-21/news/29973916_1_raw-milk-watered-down-milk-global-times), accessed February 1, 2012.

<sup>32</sup> Peter Foster, “Top 10 Chinese Food Scandals,” *Telegraph*, April 27, 2011, [www.telegraph.co.uk/news/worldnews/asia/china/8476080/Top-10-Chinese-Food-Scandals.html](http://www.telegraph.co.uk/news/worldnews/asia/china/8476080/Top-10-Chinese-Food-Scandals.html), accessed February 1, 2012.

<sup>33</sup> “Capsule Crisis Stirs Stock Market,” *China Daily*, May 14, 2012, [www.china.org.cn/business/2012-05/14/content\\_25379520.htm](http://www.china.org.cn/business/2012-05/14/content_25379520.htm), accessed August 14, 2012.

## Exhibit 1

## TIMELINE OF EVENTS

Time	Event
March 2008	Sanlu Group received complaints from consumers whose babies, after consuming baby formula, had a change in urine colour and/or crystals in their urine.
July 2008	Up to this point, a local hospital had identified an increase in the incidence of kidney ailments among babies and noted that most victims had consumed Sanlu's baby formula. A rare occurrence of kidney stones in children — all causally traced to Sanlu milk formula — was flagged.
August 2008	Sanlu received results from tests indicating that 15 out of 16 samples contained melamine. Fonterra pushed hard for a full public recall. Although there was an immediate trade recall, Fonterra said that local administrators refused an official recall.
September 2008	Fonterra notified the New Zealand government, and New Zealand Prime Minister Helen Clark alerted Beijing officials. Between July and September in Gansu province, 14 babies fell ill after consuming Sanlu's milk powder. World Health Organization was notified. Sanlu Group admitted that its milk powder was contaminated with the toxic chemical melamine. The board chairwoman and general manager of Sanlu Group, Tian Wenhua, was fired. Four local officials in North China Hebei Province were also fired. Milk powder from 22 of China's 109 infant formula producers tested positive for melamine; Sanlu topped the rankings. The country's most trusted brands, including Olympic sponsor Yili Industrial and Meng Niu Group, were found to have produced tainted formula. Tainted dairy products were removed from retail outlets across China. Countries across Asia started either to test Chinese dairy products or withdraw them from retail shelves. Countries affected included Hong Kong, Indonesia, Japan, Taiwan and the Netherlands. Companies affected included Cadbury, Lipton, Heinz baby food and Koala's March Cookies.
October 2008	The Chinese government announced that it was going to overhaul the dairy industry. New food safety draft laws were reviewed.
November 2008	The United States issued a nationwide "import alert" for Chinese-made food products.
December 2008	China's Ministry of Health revised the number of victims to more than 290,000, of whom 51,900 were hospitalized; four deaths (out of 11 deaths reported in the provinces) were confirmed. Sanlu filed for bankruptcy. The trial of four Sanlu company executives began.
January 2009	China said a total of 296,000 children had fallen ill from consuming milk products tainted with melamine. Sentences were handed out to Sanlu executives following their trial. They ranged from two death sentences to long jail terms.
April 2009	Sanlu's 95 per cent equity was sold to its competitor Sanyuan for RMB49 million (US\$7.75 million).