

# Dairy Products China News

## Guaranteed Exclusive Analysis

Vol. 14 Issue 9 2022

Welcome to the September issue of Dairy Products China News.

As China's 20<sup>th</sup> National People's Congress approaches, it will be on the leaders' minds that the country faces immense challenges looking forward. To name just two, these include how to counter core economic problems (slowing growth rates, Evergrande) and how to address huge emerging health problems. Predictably, the former is concerning a world which has become over-reliant on China's growth. The latter was predictable long ago also, with veritable "epidemics" of non-communicable diseases set to have an even greater impact on the country in the future than the recent pandemic. Some forecast the 1.4 billion population shrinking to 1 billion by 2100.

As one economist has noted, health problems mean economic problems – and we know that both are issues that politicians worldwide like to defer for future generations. Nevertheless, throw in food security and that's three enormous talking points for the conference, without even getting to climate change, war etc.

The Chinese dairy sector continues to do its bit in respect of food security – this month's weakening milk price which will mean problem for the smaller milk producers especially comes after 8.4% growth in milk production in H1 and the ongoing costly imports of additional dairy cattle. However, it also follows a period of weak demand and dramatically sagging import volumes. As we can see in their recent financial reports, lower demand has had a clear impact on some of the recent results of China's dairy businesses, with the country's infant formula sales down by 4% in H1 by Nielsen data. Sales and import trends provide a sobering counter-narrative to the 5% growth in local FMCG sales and 9% growth in E-commerce sales in the 12 weeks to 12<sup>th</sup> August 2022 recorded by Kantar.

Richard Field, Editor  
richard.field@orrani.com

## Publishers



Guangzhou CCM Information  
Science & Technology Co., Ltd

17<sup>th</sup> Floor,  
Huihua Commercial & Trade Building,  
No.80 Xianlie Zhong Road,  
Guangzhou, 510070, P.R.China  
Tel: +86-20-3761 6606  
Fax: +86 20 3761 6968  
E-mail: econtact@cnchemicals.com



### UK Head Office

Orrani Consulting  
12 Lower Camden Place  
Bath, BA1 5JJ, United Kingdom  
Tel: +44 (0) 1225 318 222  
Fax: +44 (0) 1225 430240

### Contents

▶ Headlines	2
▶ Market Analysis	3
Yantan Dairy's H1 Results	3
Project Progress by Inner Mongolia Shengmu and Anmu Dairy	4
H1 Performance of Three Listed IMF Firms	5
▶ Governmental Direction	7
China Issues 3 Year Action Plan for Cheese	7
Jilin Publishes Subsidy Schedules for Local Dairy Sector	8
▶ Company Dynamics	9
Yili Announces Record H1 Results	9
China Shengmu Reports Slower Profit Growth for H1	10
Mengniu & Yashili Report Formulae Slump for H1	11
H1 Performance of Two Regional Enterprises—New Hope Dairy & Bright Dairy	12
▶ Raw Milk Price	14
Milk Prices Remain Low	14
▶ News in Brief	16
Dairy Imports in August 2022	16
Revised Bacterium Strain Lists for Food and Infant Food	17
Ruoergai Treasure of Plateau's Yak IF Plant Starts 2 <sup>nd</sup> Phase Construction	18
Nestlé Promises to End Promotion of Stage 1 Formula in 2023	18
Babemax Reports Topline Growth in H1	19
China's Barred Dairy Products in August	19
Chobani Yoghurt Debuts in China	19
Nine Yili IMF Registrations Approved	20
Two Dairy Cattle Batches Arrived China in Sept.	20
Weiyang Dairy Receives Approval for New Production Lines	20

## Headlines

- ▶ On 28 Aug., Yantang Dairy published its H1 financial results with revenue down 5.16% slightly, and net profit down 48.19%.
- ▶ Late August saw updates on new dairy plant construction projects by Inner Mongolia Shengmu and Anmu Dairy.
- ▶ In H1, a2 Milk Company, Beingmate reported better-than-expected results while Ausnutria noted markdowns in both revenue and net profit.
- ▶ On 5 Sept., the Dairy Association of China issued an ambitious plan for the cheese sector
- ▶ On 13 Sept., the Jilin Animal Husbandry Bureau published subsidy schemes for supporting local dairy cattle imports and construction of new dairy production lines.
- ▶ Yili reports double-digit growth in both revenue and net profit for H1, taking both to record highs.
- ▶ On 23 Aug., China Shengmu's interim report shows slower growth in profits for H1.
- ▶ For H1, Mengniu reported growth in key financials but Yashili reported profits turning into loss; both faced depressed formulae sales.
- ▶ In H1, Bright Dairy achieved 1.03% and 7.83% increases in revenue and net profit; meanwhile New Hope Dairy also enjoyed strong net profit growth of 29% YoY.
- ▶ The average milk price has remained low YTD, under the pressure of ever-rising local supply and slack demand.

## Major Companies and Sites Mentioned in This Issue



## Market Analysis

### Yantang Dairy's H1 Results

**Summary:** On 28 Aug., Yantang Dairy published its H1 financial results with revenue down 5.16% and net profit down 48.19%.

On 30 Aug., Guangdong Yantang Dairy Co., Ltd. (Yantang Dairy, Stock Code: 002732) issued its report for H1 2022 with key data as follows:

- Revenue: USD130.58 million (RMB898.67 million), down 5.16% YoY
- Net profit attributable to parent's shareholders: USD8.39 million (RMB57.75 million), down 48.19% YoY

Yantang Dairy has maintained its business with new distribution channels, dairying expansion, product launches in the face of repeated COVID-19 infection cases, shrinking dairy consumption, and higher operating costs.

Operation Summary in H1:

- **Market and Distribution Exploration:**
  - Sales of USD15.40 million (RMB106 million) were made via Tmall.com, JD.com,

Wechat, Douyin, community group buying, and other E-commerce platforms

- Offline distributors represented 67% (=USD87.49 million or RMB602.14 million) of the firm's total revenue.
- Campus marketing in Guangdong Province achieved 40% growth in sales
- 3 new company-operated stores and 3 new franchised stores were opened in Guangdong
- As of 30 Jun. the company had 541 distributors, down 10 over the previous year end: 331 are in Guangdong's Pearl River Delta region (Guangzhou, Foshan, Zhaoqing, Shenzhen, Dongguan, Huizhou, Zhuhai, Zhongshan, Jiangmen), 162 are in other regions of Guangdong, and 48 are outside Guangdong

- **Core product:**

- Its "Yantang Ambient Fermented Milk" range continued to grow, with sales up 3.28% YoY to USD36.33 million (RMB250 million)

- **Product launches:**

- New products, including fresh and ambient Jersey milk, 0-sucrose and 0-fat flavoured fermented milk, 0-sucrose fresh milk pudding, AD calcium lactobacillus drink, all disappointed – monthly sales of each item via its online stores on Taobao.com and Tmall.com and other such platforms were less than 300 units on average

- **Farm operation:**

- Its corn planting area grew to 7,689.5 ha, playing a positive role in securing stable milk production
- It completed its new farm after an investment of USD29.06 million (RMB200 million); this has 6,000 dairy cattle including 3,000 reproductive head, and started operation at the end of Aug.; it is expected to produce 28,000 t/a of milk and generate 20,000 t/a of organic fertiliser and 20,000 t/a of organic liquid fertiliser.

**TABLE I: Yantang Dairy's Revenue Split by Category and Region, H1 2022 vs H1 2021**

Item	H1 2021		H1 2022		YoY Change
	Revenue, USD million	Proportion	Revenue, USD million	Proportion	
<b>Total revenue</b>	<b>137.69</b>	<b>100%</b>	<b>130.58</b>	<b>100%</b>	<b>-5.16%</b>
<b>By category</b>					
Milk beverages	51.87	37.67%	50.9	38.98%	-1.88%
Lactobacillus drinks	33.11	24.05%	27.33	20.93%	-17.48%
Liquid dairy	50.43	36.62%	49.45	37.87%	-1.93%
Ice cream and ice milk	0.91	0.66%	0	0.00%	-100.00%
Other	1.37	0.99%	2.9	2.22%	112.72%
<b>By region</b>					
Guangdong's Pearl River Delta region	102.72	74.60%	94.63	72.47%	-7.88%
The rest of Guangdong Province	32.11	23.32%	33.9	25.96%	5.56%
Outside Guangdong Province	2.85	2.07%	2.05	1.57%	-28.07%

Source: Yantang Dairy

Note: Yantang Dairy closed production and sales of ice cream and ice milk in H1.

**TABLE 2: Yantang Dairy's Production and Sales by Product, H1 2022 vs H1 2021**

Category	Item	H1 2021	H1 2022	Change
Milk beverages	Sales volume, tonnes	24,706.60	20,590.17	-16.66%
	Output, tonnes	25,228.28	20,369.60	-19.26%
	Ending inventory, tonnes	2,209.18	1,418.42	-35.79%
Lactobacillus drinks	Sales volume, tonnes	41,841.76	42,258.83	1.00%
	Output, tonnes	42,334.19	43,250.82	2.17%
	Ending inventory, tonnes	2,851.11	2,915.83	2.27%
Liquid dairy	Sales volume, tonnes	34,487.88	34,709.53	0.64%
	Output, tonnes	34,435.35	35,060.24	1.81%
	Ending inventory, tonnes	1,668.96	2,110.70	26.47%
Ice cream and ice milk	Sales volume, tonnes	444.87	–	-100.00%
	Output, tonnes	572	–	-100.00%
	Ending inventory, tonnes	128.97	–	-100.00%

Source: Yantang Dairy

Note: Yantang Dairy closed production and sales of ice cream and ice milk in H1.

## Project Progress by Inner Mongolia Shengmu and Anmu Dairy

**Summary:** Late August saw updates on new dairy plant construction projects by Inner Mongolia Shengmu and Anmu Dairy.

On 25 Aug., Inner Mongolia Shengmu Low-temperature Dairy Co., Ltd. (Inner Mongolia Shengmu) passed the local Ecology and Environment Bureau's review of its report on the environmental impact of its plan to build a 150,000 t/a dairy plant, meaning the project is ready to proceed.

### Project Details:

- Total Investment: USD32.11 million (RMB220.96 million), 0.32% (=USD101,713 or RMB700,000) of which is for environmental protection
- Location: Horinger County, Hohhot City, Inner Mongolia Autonomous Region
- Areas: 67,458.39 m<sup>2</sup>
- Main construction items: one plant with 13 dairy production lines
- Product mix (all fresh products):
  - Greek yoghurt: – 15,000 t/a
  - Stirred organic yoghurt – 9,000 t/a
  - Stirred yoghurt – 30,000 t/a

- Drinkable yoghurt – 12,000 t/a
- Organic milk – 51,000 t/a
- Standard milk – 30,000 t/a
- Cheese – 3,000 t/a
- Raw materials:
  - Raw milk – 156,750 t/a
  - Yogurt cultures – 11,250 t/a
- Construction period (estimated): Sept. 2022 to Sept. 2024

Inner Mongolia Shengmu was registered in April 2015 with USD8.72 million (RMB60 million) in capital.

In addition, on 26 Aug., Anmu Dairy (Jiangsu) Co., Ltd. (Anmu Dairy) finished its environmental internal inspection of its completed 60,000 t/a dairy plant, meaning it is now ready for operation.

### Project Details:

- Total Investment: USD7.27million (RMB50 million), 5% (=USD0.36 million or RMB2.5 million of which for environmental protection
- Location: Economic Development Zone of Jinhu County, Huai'an City, Jiangsu Province

- Area: 2.53 ha
- Product mix:
  - UHT milk – 38,400t/a
  - Fermented milk – 6,912 t/a
  - Fresh milk – 3,456 t/a
- Raw materials:
  - Raw goat milk – 42,416 t/a
  - Raw cow milk – 5,080 t/a
  - Condensed milk – 213 t/a
- Construction period: Jan. 2021–March 2022
- Commissioning: April 2022
- Site acceptance test: 14 July–15 July, 2022
- Anmu Dairy was founded in Jan. 2020 with a registered capital of USD5.99 million (RMB41.24 million).

## H1 Performance of Three Listed IMF Firms

**Summary:** In H1, a2 Milk Company, Beingmate reported better-than-expected results while Ausnutria noted markdown in both revenue and net profit.

On 29 Aug., rather mixed reports for H1 2021 were issued by a2 Milk Company, Beingmate Co., Ltd. (Beingmate, Stock Code: 002570) and Ausnutria Dairy Corp. (Ausnutria, Stock Code: 1717.HK).

**Ausnutria** ascribed the downturn in its IMF products to 2 factors: rapid delivery of formula products to consumers with streamlined distribution to release inventory and financial pressure among distributors and channel partners, and increased support to distribution partners to address the challenges posed by the pandemic.

### Key results and activities in H1

- Sales of its branded IMF: USD0.43 billion (RMB2.95 billion), down 21.2% YoY
  - Cow IMF: USD0.19 billion (RMB1.28 billion), down 37.6%
  - Goat IMF (Kabrita brand):
    - China: USD0.23 billion (RMB1.58 billion), down 1.5% – this fell short of expectations due to supply shortages
    - Overseas: sales fell to USD12.93 million, as the logistics were disrupted by the Ukraine war

- Sales of private label formula products and other businesses: USD87.21 million (RMB600.2 million), up 30.1%
  - This accounted for 16.5% of Ausnutria's total revenue in H1
  - In this period MEA and Asian markets were ramping up orders due to eased pandemic conditions and rising prices and demand for dairy products
- Sales of nutritionals increased 15.4% YoY to USD11.45 million (RMB78.8million), driven by the launch of a series of new probiotics products

At present, Ausnutria is looking to firm up its supply for Kabrita by accelerating construction of a new plant in the Netherlands to provide 35,000 t/a capacity of IMF base powders.

**Beingmate's** H1 revenues soared 43.95% YoY.

- Milk formulae sales hit around USD0.17 billion (RMB1.19 billion), up 18.20% YoY, with gross margin reaching 48.9%
- This accounted for 73.74% of the total revenue
- Both output and sales volume in this category were up 30%+, resulting from the growing sub-contract services which Beingmate has been actively focusing on in order to expand

**TABLE 3: Key Financials in H1 2022**

Company	Revenue		Net profit	
	Value, USD million	YoY Change	Value, USD million	YoY Change
<b>a2 Milk Company</b>	874.31	19.80%	69.34	42.30%
<b>Ausnutria</b>	527.46	-15.10%	31.97	-62.90%
<b>Beingmate</b>	234.52	43.95%	6.24	28.00%

Source: Company Reports

**TABLE 4: Beingmate's Category Status in H1 2022**

Category	Item	H1 2021	H1 2022	Change
Milk formulae	Sales volume, tonnes	7,957.72	10,396.19	30.64%
	Output, tonnes	8,326.80	10,921.96	31.17%
	Inventory, tonnes	1,901.36	2,004.66	5.43%
Rice cereal	Sales volume, tonnes	222.77	137.68	-38.20%
	Output, tonnes	223.87	172.78	-22.82%
	Inventory, tonnes	110.34	124.12	12.49%
Other	Sales volume, tonnes	139.69	59.17	-57.64%
	Output, tonnes	141.88	91.96	-35.18%
	Inventory, tonnes	4.56	10.02	119.70%

Source: Beingmate's H1 Report

**a2 Milk Company's** growth in revenue and net profits are mainly the results of its management action against overstocking IMF products since last year, allowing it to keep channel inventory at the target level.

**Product Sales:**

- China Label a2 Milk "Zhichu"® Infant Formulae: USD0.27 billion (RMB1.89 billion), up 12.2% YoY, with the volume up 12.2%, achieving a record market share
- a2 Platinum® English and Other Label Infant Formulae, sold via cross-border E-commerce platforms: USD0.16 billion (RMB1.07 billion), up 53.3% YoY, with the sales volume up 11.6%

**Channel Sales:**

- The market share of a2 Milk "Zhichu" products on online platforms was up to 2.5% vs. 2.0% at the end of June 2021

- The market share of the company's products in mother and baby stores was up to a record 3.0% vs. 2.2% at the end of June 2021
- Distribution coverage to offline retail stores increased to 26,500 as of June 2022 vs. 22,800 at the end of June 2021

**Total China/Asia sales:**

- Total: USD0.44 billion (RMB3.03 billion), up 24.5% YoY, with EBITDA at USD87.98 million (RMB605.46 million), up 92.0%
- Liquid milk: USD6.73 million (RMB46.32 million), up 34.4%
- Other nutrition: USD13.40 million (RMB92.22 million), up 19.7%

## Governmental Direction

### China Issues 3 Year Action Plan for Cheese

**Summary:** On 5 Sept., the Dairy Association of China issued an ambitious plan for the cheese sector.

At the China Cheese Development Summit Forum held on 5 Sept., the Dairy Association of China issued a *Three-year Action Plan for Cheese Innovation and Development to Help the Dairy Industry Improve Competitiveness (2023–2025)*.

For the past few years, China's cheese market has been growing rapidly, providing a new driver for the dairy industry, but the cost of local cheese production remains high due to weak technological and processing knowhow. This situation has fuelled cheese imports, which hit 176,200 tonnes in 2021, up 36.3% vs. 2020. This Plan expresses the commitment to the industry achieving a better product mix and supply chain, with the overall goal of higher competitiveness.

#### General targets of the Plan

- By 2025, national cheese production will reach 500,000 tonnes, and the retail cheese market will be worth at least USD4.36 billion (RMB30 billion)
- Significant improvements should be made in the country's cheese supply / competitiveness – technology/ R&D capabilities, use of modern technologies, product mix and branding

#### Major tasks set by the Plan

Build high-quality milk sources and promote local cheese specialties:

- Select key focus areas for development of high-quality milk sources
- Support processors with high-yield dairy breeds like Holsteins as well

as other ruminants such as water buffalo, yak, sheep/goat, to ensure supply of various milks and development of featured cheese products in different regions.

Raise innovation capacity:

- Encourage companies to strengthen collaboration between enterprises, universities and research institutes to attain breakthroughs in core technology and processing techniques that will improve production efficiency and quality, including for domestic enzymes and fermentation agents, and whey processing equipment
- Develop use of cheese by-products such as whey in applications such as base powders for IMF

Expedite digital connectivity between various points in the supply chains:

- Encourage companies to accentuate data-sharing across all operations through to whey processing and utilisation in further processed products

Promote brand building activities to motivate market growth:

- Set up promotion platform for domestic cheese products through the Dairy Industry Association or other 3<sup>rd</sup>-party organisations
- Encourage regional companies to apply for Geographical Indication Registrations for their products and increase brand value

Optimise product mix and explore new marketing channels:

- Seek product innovations combining domestic cheese with local traditional foods that fit Chinese people's tastes
- Study new consumption trend

and demand, target audience in niche markets, and exploit new-type marketing modes like "Internet Plus" offering convenience, personalisation and functionalisation

Develop consumers' knowledge of cheese to boost consumption:

- Hold activities like cheese culture festivals, cheese factory open days
- Spread knowledge about cheese nutrition and direct scientific and healthy consumption
- Create cuisine with cheese in Chinese restaurants

Uphold green development and corporate social responsibility initiatives:

- Prioritise growing low-carbon dairy forages and build green workshop and plants
- Adopt processes and equipment enabling lower energy consumption, and push classification recycling of product packaging and strictly comply with the standards and restrictions for waste discharge

Promote international exchanges and cooperation:

- Encourage companies to study advanced technologies and related policies, standards and regulations from overseas cheese industries
- Encourage healthy competition with international brands and cultivate local industry talents
- Improve operation flows and integrate industrial chains, attract capital investment from home and abroad.

## Jilin Publishes Subsidy Schedules for Local Dairy Sector

**Summary:** On 13 Sept., the Jilin Animal Husbandry Bureau published subsidy schemes for supporting local dairy cattle imports and construction of new dairy production lines.

On 13 Sept., Jilin Animal Husbandry Bureau issued an Action Plan for Dairy Cattle Importation and a Work Plan of Subsidised Loans for New Construction of Dairy Product Production Lines.

By the end of H1, Jilin Province had 126,000 head of dairy cattle which had produced 158,000 tonnes of milk in the period. There are 5 dairy farms of 1,000+ head in the province which hold 37,000 head in aggregate, up 14.15% YoY. Most of the local dairy farms are located in the central and western areas of the province, such as Changchun, Siping, Songyuan and Baicheng cities, with Holsteins as the primary breed.

The industry in Jilin produces liquid milk, formula and powdered milk products, cheese and milk beverages, and is home to the China well-known brands "Guangzhe" 广泽 (owned by Ground Dairy Industry Co., Ltd. which owns cheese brand Milkground and a wide range of dairy products) and Jilin trademark "Chunliu" 春柳 (owned by Jilin City Chunguang Dairy Co., Ltd.)

Jilin has the solid foundation for dairy industry development, therefore, nevertheless, these plans recognise that more needs to be done to make the sector more competitive.

### Main content of the Action Plan for Dairy Cattle Importation

#### I. Subsidy subjects:

Farming enterprises, cooperatives, household producers ("the subjects") importing bulls and productive cattle (Holstein, Jersey or other breeds) used for dairy and beef purposes from abroad, or bringing such stock in from other provinces, from 12 July, 2022 to 31 Dec., 2025.

#### II. Subsidy levels:

- Imports from abroad:
  - USD1,453 (RMB10,000) per bull
  - USD436 (RMB3,000) per productive cow for up to 50 head within 12 months; the maximum subsidy to each subject is USD0.73 million (RMB5 million)
- Introduction from other provinces:
  - USD145 (RMB1,000) per cow after each calving for up to 50 head; the maximum subsidy to each subject is USD0.29 million (RMB2 million)

#### III. Implementing procedure

- Imports from abroad:
  - Application materials: Copies of signed contract between the subject and the import company; dairy breed certificate for export issued or genealogy records validated by related institution or organisations in the country of origin; China Customs Import

Declaration Form; China Inspection and Quarantine (CIQ) certificate; invoices and other supporting documentation

- Application procedure: declare to the local county-level departments of animal husbandry before importation/introduction — receive examination and approval from the provincial bureau of animal husbandry — declare to the Ministry of Agriculture and Rural Affairs for approval — start imports — submit the relevant supporting/proving materials
- Introduction from other provinces:
  - Application materials: Copies of sales contract, approved inspection and quarantine certificate issued by the province of origin, invoices and other supporting documentation, likewise for new calves of introduced cattle
- Determination of the import/introduction time:
  - Imports from abroad: the date of the end of inspection and quarantine
  - Introduction from other provinces: the date of a cow's entry to the destination farm

### Main content of the Work Plan of Loan Interest Discount for New Construction of Dairy Product Lines

This applies to long-term bank loans required to finance investment projects:

#### I. Subsidy subjects:

- Enterprise completing construction of new production lines for dairy products from 12 Jul., 2022 to 31 Dec., 2025
- Applies to projects requiring investments of up USD14.53 million (RMB100 million) and bank loans to the same level, and where the interest on the loans is repaid in full on schedule

#### II. Subsidy level:

- The subsidy for 12 months is 30% of the chargeable interest (calculated based on the loan prime rate set on 31 Dec. of the year) on the new loan
- Each subsidy subject should only receive this type of subsidy once

#### III. Application and Implementing procedure

- Enterprises apply with the county/district/city-level departments of animal husbandry and departments of finance with completed Application Form for Loan Interest Discount, along with supporting documentation for the construction project, investment, loan contract, interest payment receipt, outstanding amount of the loan for fixed assets (later to be reviewed by the county-level departments and recorded by the provincial departments)
- The approved subsidy will be distributed as a part of funds for provincial-level rural revitalization.



## Company Dynamics

### Yili Announces Record H1 Results

**Summary:** Yili reports double-digit growth in both revenue and net profit for H1, taking both to record highs.

On 30 Aug., Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) released its report for H1 2022 with key data as follows:

- Total revenue: USD9.22 billion (RMB63.46 billion), up 12.31%
- Net profit attributable to parent's shareholders: USD0.89 billion (RMB6.14 billion), up 15.40%

Yili cites increased sales, optimised product mix and its merger with Ausnutria as 3 primary growth drivers during the reporting period, amid the currently sluggish dairy market.

Category performance in H1:

- Liquid dairy: sales were up 1.14% YoY, accounting for 67.59% of total revenue; its leading market share increased by 0.1 percentage points
- Powdered milk products and other dairy products: sales surged 58.28% to make up 19.02% of total revenue, its retail market shares were up 3.5 percentage points in IMF, up 1.3 percentage points in formulae for adults, and up around 4 percentage points in cheese
- Ice cream and popsicles: sales rose 31.71%

New products were key, delivering 12.48% of its total sales in H1. The new "Ambrosial (AMX) O-sucrose Drinkable Yoghurt" (pineapple and

strawberry flavours) provided sales of USD0.17 billion (RMB1.2 billion) in the period. Other new products which did well included "Satine Pro" UF milk, "Satine" organic A2 Jerseys pure milk, "QQ Star" natural A2 $\beta$ -casein pure milk for growing children, Golden Collar Crown IMF (stages 1-3) containing OPO and organic A2 milk, "Yili Golao Set Yoghurt" and new flavours in the "Yili Qiaolezi" range.

Widened distribution network also played its part. As of 30 June, Yili had 18,878 distributors, an increase of 4,879 in H1 alone; these provided 97.03% (=USD8.81 billion or RMB60.61 billion) of the company's sales, with DTC (direct to consumer) sales making up the remaining 2.97% (=USD0.27 billion or RMB1.86 billion).

**TABLE 5: Yili's Revenue Split by Main Business, H1 2022**

Product category	Revenue, USD billion
Liquid dairy (UHT/fresh milk, modified milk, chilled and ambient yoghurt, etc.)	6.23
Powdered milk products and other dairy products (cheese, cream, etc.)	1.75
ice cream/popsicles	1.06
Others (bottled water, plant-based dairy substitutes, functional dairy, new business e.g. beef)	0.03
<b>Total</b>	<b>9.08</b>

Source: Yili's Report for H1 2022

**TABLE 6: Yili's Distributor Numbers by Region in H1**

Region	Total at 30 June	Increase
North China (Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia Autonomous Region)	4,993	1,197
South China (Guangdong, Guangxi, Hainan, Hong Kong and Macao)	5,405	1,336
Central China (Henan, Hubei and Hunan)	4,012	1,178
East China (Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong and Taiwan)	3,029	716
Other	1,439	452
<b>Total</b>	<b>18,878</b>	<b>4,879</b>

Source: Yili's Report for H1 2022

## China Shengmu Reports Slower Profit Growth for H1

**Summary:** On 23 Aug., China Shengmu's interim report shows slower year-on-year growth in profits for H1.

On 23 Aug., China Shengmu Organic Milk Ltd (China Shengmu, Stock Code: 01432) issued its report for H1 2022, with key financial figures as follows:

- Revenue: USD0.23 billion (RMB1.55 billion), up 7.1% YoY, mainly as a result of increased sales as milk yield per cow rose and its herd size expanded
- Profit attributable to parent company: USD33.13 million (RMB228 million), down 11.7% YoY
- Gross margin: down 4.7 percentage points to 33.1%, mainly due to the surge in feed costs

Confronted by rising costs and low margins, the company focused on cost efficiency and avoided sharp declines in profitability by raising its milk production and refining its procurement methods.

### Operating status of China Shengmu in H1:

- Sales of raw milk:
  - Sales volume rose by 8.2% YoY to 311,565 tonnes, worth USD0.23 billion (RMB1.55 billion), vs. USD14.88 million (RMB102.4 million) in H1 2021
  - As the market prices fell back to the level seen in the same period last year, its milk sold at an average of USD722.16/t (RMB4,970/t), down 1.1% YoY; this decrease was lower than the sector average for H1
- Costs of production went up to USD479.50/t (RMB3,300/t), with feeds accounting for USD392.32/t (RMB2,700/t), representing an increase of 6.6% YoY
  - To mitigate rising costs, China Shengmu has been investing in strengthening cooperation with

forage suppliers and expanding its procurement coverage, securing better price for buying large quantity of feeds from COFCO Corporation, Inner Mongolia Ai Yang Niu Technology Co. Ltd., Beijing Dabeinong Technology Group Co., Ltd., and other major sources in China.

- In addition, the dairy feed rations were improved to be more cost-efficient
- Milk production:
  - In H1, China Shengmu upgraded one of its farms to be organic; the site has produced 1,364 t/day, up about 203 tonnes YoY
  - Milk yield per cow was up by some 0.24 tonnes to 10.53 tonnes along with improved quality on average — pass rates in tests on the somatic cell counts (<200,000/ml) and microorganisms (<30,000 CFU/ml) reached historical highs
- Scale:
  - As of 30 June, it had 130,802 dairy cows in all, up by 6.8% or 8,284 from its last year-end total; the figure includes 86,578 cows on organic farms, a number up by 8.7% from last year
  - The increased cattle number and the reproductive rate of 5.4% in herds are at the highest levels so far for the company
- New investment:
  - In H1, around USD94.45 million (RMB650 million) was dedicated to establishing a dairy farm park in Ulan Buh Desert in Inner Mongolia; this facility will include a 10,000+ cow farm and a largescale organic farm; these farms have target production volumes of 80,000 t/a milk and 20,000 t/a respectively once in operation

**TABLE 7: China Shengmu's Dairying Operations in H1**

Date	No. of Farms	No. of Adult Milking Cows	No. of Calves & Heifers	No. of Finished Cattle	Total
30 June, 2022	33	61,384	58,914	10,504	<b>130,802</b>
31 Dec., 2021	33	60,154	54,007	8,357	<b>122,518</b>

Source: China Shengmu

## Mengniu & Yashili Report Formulae Slump for H1

**Summary:** For H1, Mengniu reported growth in key financials but Yashili reported profits turning into loss; both faced depressed formulae sales.

On 24 Aug., China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319) posted its report for H1

2022 with key financials as follows:

- Revenue: USD6.93 billion (RMB47.72 billion), up 4% YoY
- Net profit attributable to the parent: USD0.54 billion (RMB3.75 billion), up 27.3% YoY

Despite the ongoing impacts of the pandemic, the growing liquid dairy division remained the core of the business, whereas milk formulae proved a problem category.

**TABLE 8: Mengniu's Division Sales in H1 2022**

Division	Revenue, USD million	YoY Change	Proportion	Profit Margin
Liquid dairy	5.76	0.55%	83.12%	5.73%
Ice cream	0.57	29.93%	8.18%	13.09%
Milk powder products	0.28	-25.64%	3.97%	-19.48%
Other businesses	0.33	149.34%	4.73%	-1.86%
<b>Total</b>	<b>6.93</b>	<b>3.96%</b>	<b>100%</b>	<b>4.97%</b>

Source: Mengniu

Note: Liquid dairy – fresh/UHT milk, milk beverages, yoghurt, etc. Other Businesses – cheese, raw and auxiliary materials for dairy products, and trading

On the same day, its subsidiary Yashili International Holdings Ltd. (Yashili, 51.04% owned by Mengniu; Stock Code: HK.01230) also revealed its H1 data:

- Revenue: USD0.27 billion (RMB1.89 billion), down 12.5% YoY, hit by the pandemic as well as weaker demand for its main IMF products
- Net loss: -USD23.10 million (-RMB159 million), in contrast to a profit of USD6.42 million (RMB44.15 million) of H1 2021
- Gross profit: USD86.75 million (RMB597 million), down 26.81% YoY, due to increased raw material costs and larger shares of sales of

formulae for adults and WMP with relatively low gross margins

Operations of Yashili's primary business in H1:

- Sales of formulae for adults and infants fell more sharply than in its other product categories, reflecting weaker demand due in part to the reduced birth rate, as well as intense competition
- Instant foods (soymilk powder, rice cereal, and oatmeal) – a product segment the company has been looking to diversify into – suffered declining sales as well, while other businesses were hit by lower levels of contract manufacturing

• On the other hand, its rising milk powders figure was boosted by the growth of Yashili New Zealand

• Notably, heavy stocks also dragged down its primary figures. By 30 June, Yashili's accounts receivable stood at USD 65.82 million (RMB453 million) compared to USD60.16 million (RMB414 million) last year; inventory was valued at USD0.18 billion (RMB1.23 billion), up 50.9% or USD118.57 million (RMB816 million) YoY – this included large quantities of WMP and formula products.

**TABLE 9: Yashili's Divisional Sales, H1 2022 vs H1 2021**

Division	H1 2022	H1 2021	Trend
Formulae	223.52	270.5	-17.40%
Milk powders	34.22	21.78	57.10%
Instant foods	12.38	13.24	-6.50%
Other businesses	4.02	7.89	-49.00%
<b>Total</b>	<b>274.15</b>	<b>313.41</b>	<b>-12.50%</b>

Source: Yashili

Note: Milk powders – Milk/whey base powders, WMP. Instant foods – soymilk powder, rice cereal, and oatmeal. Other businesses – production and sale of raw materials and contract manufacturing.

## H1 Performance of Two Regional Enterprises—New Hope Dairy & Bright Dairy

**Summary:** In H1, Bright Dairy achieved 1.03% and 7.83% increases in revenue and net profit; meanwhile New Hope Dairy also enjoyed strong net profit growth of 29% YoY.

Bright Dairy & Food Co., Ltd. (Bright Dairy, Stock Code: 600597) and New Hope Dairy Holdings Co., Ltd. (New Hope Dairy, Stock Code: 002946) are listed regional dairy businesses focusing on different geographic markets.

- Bright Dairy markets mostly in East China, with Shanghai alone accounting for about 27% of its total revenue in H1,

and has been expanding to the south and the north; the company has a 14 % market share in the fresh milk sector

- New Hope Dairy is strong in the southwestern regions which account for 39.47% of its total revenue in H1; since 2021, the company has committed to its "fresh Cube" strategy aiming to reinforce brand power and competitiveness in the fresh milk sector.

**TABLE 10: Key Financial Data of Bright Dairy and New Hope Dairy in H1 2022**

Company	Revenue, USD million	YoY Change	Net profit attributable to parent company, USD million	YoY Change
Bright Dairy	2,093.98	1.03%	694.56	7.83%
New Hope Dairy	40.83	10.76%	27.46	29.42%

Source: H1 Reports of Bright Dairy and New Hope Dairy

According to the report for H1 released on 29 Aug., Bright Dairy proved resilient, achieving growth in revenue and net profit despite the challenging market conditions.

Operation Summary of Bright Dairy in H1:

- Production and distribution:
  - Faced with the measures to combat COVID, Bright Dairy readjusted its sales method to focus on community group buying. In April–May, 46,000 orders were made by community groups, totalling 13 million units (cartons/bottles) of fresh/UHT milk
  - In Q2 when Shanghai announced China's biggest citywide lockdown since the start of the pandemic, the company made arrangements for 1,445 workers to stay in its local plants to maintain production and market supply
- Milk supply:
  - In June, Bright Animal Husbandry, a wholly-owned subsidiary of Bright Dairy, proposed a plan for a dairy farm centre in Anhui Province involving an estimated

investment of USD0.36 billion (RMB2.49 billion), expected to begin operations in 2025. This farm will supply its plants in Sheyang county of Jiangsu, Wuhan, Nanjing and other neighbouring regions, shortening the time spent on transport. It also engaged in forage planting and innovation in feeds to improve its core strength in animal husbandry

- Overseas operation:
  - Synlait Milk, its subsidiary based in Canterbury, New Zealand, focuses on bulk milk powders, IMF, cheese and liquid milk; it has become key to Bright Dairy's growth. In 2021, Synlait reported revenue of USD0.54 billion, up 20.14%, and made a net profit of USD18.60 million, overturning the loss in the previous year

**TABLE 11: Bright Dairy's Revenue Split by Category, Region and Distribution Chanel, H1 2022 vs H1 2021, USD million**

Item	H1 2021	H1 2022	YoY Change
<b>By category</b>			
Liquid milk	1,203.17	1,128.10	-6.24%
Other dairy products	584.08	641.46	9.82%
Dairying products	178.96	210.11	17.41%
Other	79.52	93.12	17.10%

Item	H1 2021	H1 2022	YoY Change
<b>By region</b>			
Shanghai	570.63	567.99	-0.46%
Others regions in China	1,023.98	961.58	-6.09%
Overseas	451.13	543.22	20.41%
<b>By distribution</b>			
DTC (direct-to-consumer)	552.68	513.92	-7.01%
Distributor	1,479.88	1,547.61	4.58%
Other	13.17	11.26	-14.47%

Source: H1 Report of Bright Dairy

On 29 Aug., New Hope Dairy announced strong growth in its report for H1, with notable increases in sales of fresh milk and in eastern sales regions.

Operating Summary of New Hope Dairy in H1:

- Fresh milk sales grew almost 20%; currently, New Hope Dairy holds 3<sup>rd</sup> place in this segment after Yili (1<sup>st</sup>) and Mengniu (2<sup>nd</sup>)
- Conversely, sales in formula lines dropped 6.63% YoY, reflecting the reduced number of births and the implementation of stricter national standards for milk formulae
- New launches including various fresh dairy products: "24-hour Platinum Full Quality Milk" (delivered onto retail shelves within 24 hours of production), "Zhaori Weipin Organic Milk" and "Today's Fresh Milk Shop" (high calcium) and yoghurt "Weipin"; new products accounted for 13% of the company's total revenue in H1
- At 30 June, it owned 13 dairy farms, 10 accredited for school milk supply and 3 certified organic; in all these contained 45,969 dairy cattle
- It has partnered with 3,381 distributors, a decrease of 588 during the reporting period; most are located across the Southwest (1,155) and East China (977)
- In cost terms, distribution expenses were up 0.6% YoY, equal to 14.1% of the total; however administrative expenses were down 0.5% YoY, equal to 5.1% of the total

**TABLE 12: New Hope Dairy's Revenue by Product Category and Region, H1 2022 vs H1 2021**

Item	H1 2021		H1 2022		YoY Change
	Revenue, USD million	Proportion	Revenue, USD million	Proportion	
<b>Total revenue</b>	<b>627.1</b>	<b>100%</b>	<b>694.56</b>	<b>100%</b>	<b>10.76%</b>
<b>By category</b>					
Liquid dairy (fresh milk, chilled yoghurt, etc.)	577.62	92.11%	623.4	89.75%	7.93%
Milk formula	5.42	0.86%	5.06	0.73%	-6.63%
Other	44.07	7.03%	66.1	9.52%	50.00%
<b>By region</b>					
East China (Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong and Taiwan)	148.32	23.65%	171.86	24.74%	15.87%
North China (Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia)	62.98	10.04%	59.23	8.53%	-5.96%
Northwest (Xinjiang Uygur Autonomous Region, Qinghai, Gansu, Ningxia, West of Inner Mongolia, Shaanxi)	105.71	16.86%	110.44	15.90%	4.47%
Southwest (Sichuan, Tibet, Yunnan, Guizhou)	250.05	39.87%	274.13	39.47%	9.63%
Other regions	60.04	9.57%	78.91	11.36%	31.42%

Source: H1 Report of New Hope Dairy

**TABLE 13: New Hope Dairy's Sales by Main Distribution Channel in H1 2022**

Channel	Revenue, USD million	Proportion	Gross Margin Ratio	YoY Change of Gross Margin
Distributor	294	53.22%	22.03%	2.79%
DTC (direct to consumer)	334.45	46.78%	31.86%	-1.81%
<b>Total</b>	<b>628.46</b>	<b>100.00%</b>	<b>26.63%</b>	<b>0.48%</b>

Source: H1 Report of New Hope Dairy

## Raw Milk Price

### Milk Prices Remain Low

**Summary:** The average milk price has remained low YTD, under the pressure of ever-rising supply and slack demand.

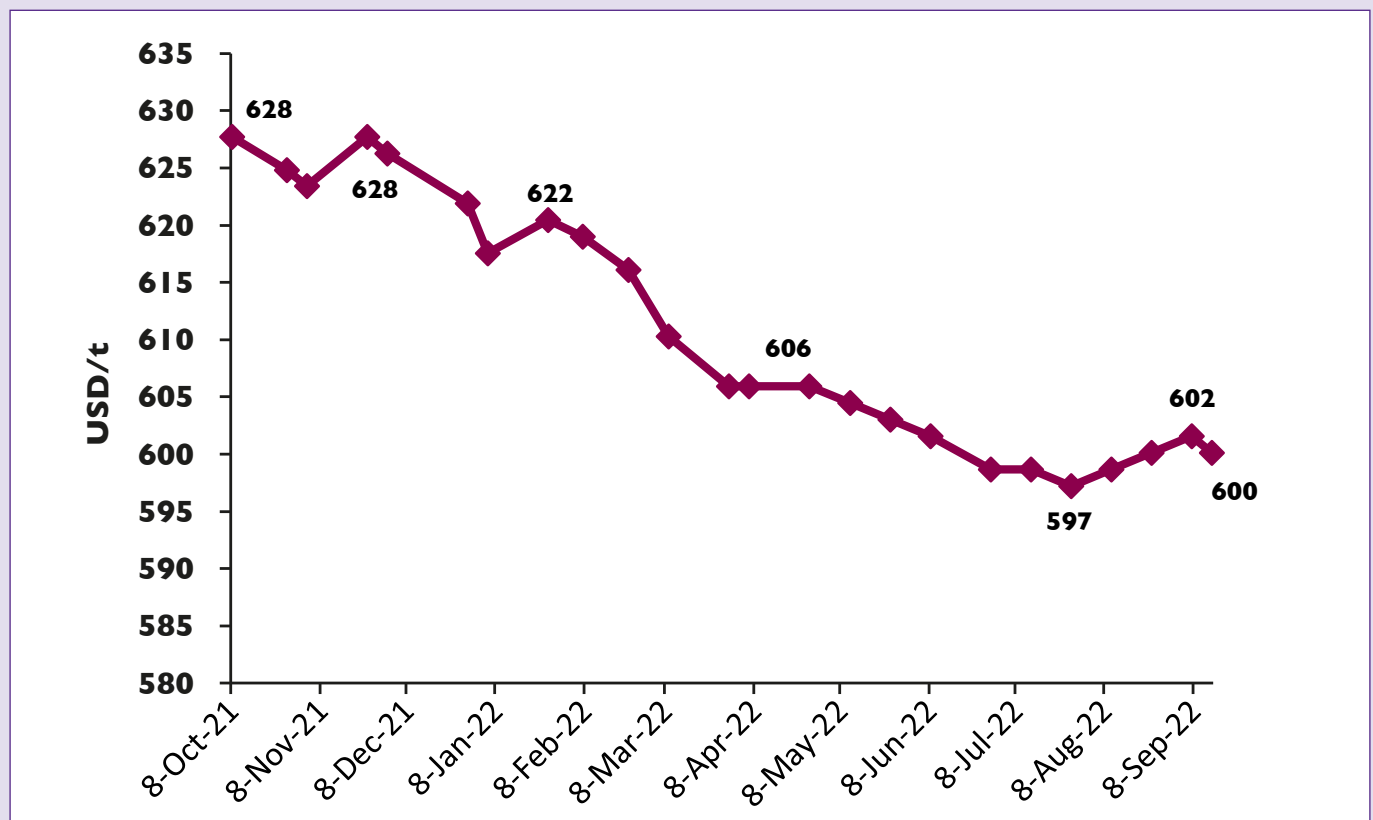
In the week ended 14 Sept., China's raw milk price averaged USD600.11/t (RMB4,130/t), down by 0.2% over the first week of Sept. and ended up in line with the average of the last week of Aug.; this price was down 4.8% YoY, and by USD19.62/t (RMB135/t) from the USD619.72/t (RMB4,265/t) seen in Jan.2022.

This downtrend has persisted since Aug. 2021. In China, the milk price usually rises in July–Sept. but last

month saw only a slight increase followed by the fallback into Sept.

Song Liang, a local dairy industry analyst, projects that current milk prices both in China and the international market will remain depressed, and overseas could stay low until March or April next year, due to overall weak demand – this would likely impact China's price and be a severe blow to domestic dairy farming. Over the past two years, China's dairy farms have imported numerous heifers at a great cost, meaning they are now exposed to the risk of losses.

**Figure 1: Trends in China's Raw Milk Price, Oct. 2021–Sept. 2022**



Source: Ministry of Agriculture and Rural Affairs (MARA)

**There are several key factors behind the persistent decline in local milk prices:**

- **Higher production:**
  - In recent years, new largescale dairy farms have launched, providing increasing supply. China's milk production rose 8.4% YoY to 16.69 million tonnes in H1 2022, after increasing by 7.1% to 36.83 million tonnes in 2021 and by 7.5% YoY in 2020, according to data from the National Bureau of Statistics
- **Weak consumption:**
  - For instance, in H1 2022, online sales of 4 fundamental categories (fresh milk, UHT milk, cow IMF, and goat/sheep dairy products) fell 23.7% YoY to USD10.07 billion (RMB69.32 billion); the compound growth rate was -9.7%, according to data from RuYeZiXun, the magazine China Dairy's official Wechat account
  - Reducing purchases by consumers have become evident as the rising cost of production has lead to higher instore prices; and lower prices of animal products (eg. pork beef and mutton) have also reflected this issue (earlier China's pork price fell in Q1 before rising between Apr. to the start of Sept., prompting the government to release pork reserves

8 Sept. and 18 Sept. 200,000 tonnes in all. In 22 Sept., the national price fell back to USD3,483/t, down USD7/t MOM)

- **Reduced imports:**
  - China's lower dairy imports also reflect this lower demand: this year has seen a huge decline in nearly all categories — except for yoghurt (15,600 tonnes from Jan. to Jul., up 9.7% YoY — suggesting a supply-demand shift in the market, with demand depressed
  - In Jan.–Aug. China's imports of dairy products (LME) were 12.5 million tonnes, down 19% YoY

For dairy farmers, milk price problems are compounded by rising costs:

- The national prices of soybean meal and corn at the end of the 2<sup>nd</sup> week of Sept. were USD668.40/t (RMB4,600/t) and USD434.46/t (RMB2,990/t), up 20.4% and 1.7% YoY, respectively
- In Jan.–July, imports of alfalfa and oat hay were 871,500 tonnes at USD472.71/t CIF price and 92,100 tonnes at USD416.60/t CIF price, respectively: the former price surged 30.0% YoY and the latter was up 26.4% YoY

## News in Brief

### Dairy Imports in August 2022

The August imports were down across most HS codes with some notable exceptions – including whey (prior to government action pork prices had surged in recent months, a concern for Beijing at a time of slowing economic growth), butter, some cheeses and infant formulae. Lactose and “other” cheeses are the only codes of volume to show notable growth YTD August. Factors at play appear to be growing local milk production, high international prices and the fact that local spray drying has continued in the face of demand for liquid dairy being constrained by the measures designed to counter the pandemic in the major cities.

**TABLE 14: 2022 August Imports, tonnes**

HS code	Product	202108	202207	202208	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	11,714.5	7,289.8	6,854.7	-6.0%	-41.5%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	83,254.5	49,323.0	49,344.2	0.0%	-40.7%
04014000	Milk & cream, 6%	10.2	3.2	0.0	-100.0%	-100.0%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	21,600.7	16,444.8	13,583.3	-17.4%	-37.1%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	33,802.8	27,394.9	32,982.3	20.4%	-2.4%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	73,930.9	36,865.0	29,959.0	-18.7%	-59.5%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	292.8	94.1	104.0	10.6%	-64.5%
04041000	Whey and modified whey	62,125.5	54,222.7	62,818.9	15.9%	1.1%
04049000	Products consisting of natural milk constituents, nes	531.9	446.5	827.9	85.4%	55.7%
04051000	Butter	5,456.7	9,252.5	7,203.4	-22.1%	32.0%
04059000	Other fats & oils derived from milk	4,084.9	5,761.6	4,445.5	-22.8%	8.8%
04061000	Fresh cheese, incl. whey cheese, curd	8,038.1	5,631.9	5,645.4	0.2%	-29.8%
04062000	Grated or powdered cheese	1,937.0	1,031.1	1,179.3	14.4%	-39.1%
04063000	Processed cheese, not grated or powdered	2,753.0	1,730.2	1,636.1	-5.4%	-40.6%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	12.6	7.8	7.1	-9.8%	-43.8%
04069000	Cheese, nes	2,917.8	3,151.6	5,622.5	78.4%	92.7%
17021100	Anhydrous lactose, lactose wt. ≥99%	9,387.9	15,286.1	12,684.8	-17.0%	35.1%
17021900	Lactose syrup & other lactose	630.4	201.9	25.0	-87.6%	-96.0%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	21,388.7	22,002.1	26,318.0	19.6%	23.0%
35011000	Casein	1,449.1	1,769.3	1,633.2	-7.7%	12.7%
35019000	Caseinates	2,095.4	2,312.5	1,457.0	-37.0%	-30.5%
35022000	WPC80/WPI	2,813.1	2,640.2	2,466.1	-6.6%	-12.3%

Source: China Customs



## Revised Bacterium Strain Lists for Food and Infant Food

On 25 Aug., the National Health Commission updated the List of Bacterium Strains that Can be Used for Food and the List of Bacterium Strains that Can be Used for Food for Infants and Young Children (above 12 months only), adjusting the classification and names of bacterial cultures and strains to be more in line with international practices and trade. A 2 year transitional period will be allowed if manufacturers need to adjust to the classifications and names of the strains they use, with both the original and the new name being permissible during the transitional period.

**TABLE 15: Renewal of the List of Bacterium Strains Permitted for Use in Food**

No	Latest name	Original name
1	<b>Bifidobacterium</b>	<b>Bifidobacterium</b>
1.1	Bifidobacterium animalis subsp. animalis	Bifidobacterium animalis (Bifidobacterium lactis)
1.2	Bifidobacterium animalis subsp. lactis	
1.3	Bifidobacterium longum subsp. longum	Bifidobacterium longum
1.4	Bifidobacterium longum subsp. infantis	Bifidobacterium infantis
2	<b>Lactobacillus</b>	<b>Lactobacillus</b>
2.1	Lactobacillus delbrueckii subsp. bulgaricus	Lactobacillus delbrueckii subsp. bulgaricus
3	<b>Lacticaseibacillus</b>	<b>Lactobacillus</b>
3.1	Lacticaseibacillus casei	Lactobacillus casei
3.2	Lacticaseibacillus paracasei	Lactobacillus paracasei
3.3	Lacticaseibacillus rhamnosus	Lactobacillus rhamnosus
4	<b>Limosilactobacillus</b>	<b>Lactobacillus</b>
4.1	Limosilactobacillus fermentum	Lactobacillus fermentum
4.2	Limosilactobacillus reuteri	Lactobacillus reuteri
5	<b>Lactiplantibacillus</b>	<b>Lactobacillus</b>
5.1	Lactiplantibacillus plantarum	Lactobacillus plantarum
6	<b>Ligilactobacillus</b>	<b>Lactobacillus</b>
6.1	Ligilactobacillus salivarius	Lactobacillus salivarius
7	<b>Latilactobacillus</b>	<b>Lactobacillus</b>
7.1	Latilactobacillus curvatus	Lactobacillus curvatus
7.2	Latilactobacillus sakei	Lactobacillus sakei
8	<b>Streptococcus</b>	<b>Streptococcus</b>
8.1	Streptococcus salivarius subsp. thermophilus	Streptococcus thermophilus
9	<b>Lactococcus</b>	<b>Lactococcus</b>
9.1	Lactococcus lactis subsp. lactis	Lactococcus lactis subsp. lactis
9.2	Lactococcus lactis subsp. lactis biovar diacetylactis	Lactococcus lactis subsp. diacetylactis
9.3	Lactococcus cremoris	Lactococcus lactis subsp. cremoris
10	<b>Acidipropionibacterium</b>	<b>Propionibacterium</b>
10.1	Acidipropionibacterium acidipropionici	Propionibacterium acidipropionici
11	<b>Weizmannia</b>	<b>Bacillus</b>
11.1	Weizmannia coagulans	Bacillus coagulans
12	<b>Mammaliococcus</b>	<b>Staphylococcus</b>
12.1	Mammaliococcus vitulinus	Staphylococcus vitulinus

Source: List of Bacterium Strains that Can be Used for Food

**TABLE 16: Renewal of the List of Bacterium Strains Permitted in Food for Infants and Young Children**

No	Latest name	Original name
1	Bifidobacterium animalis subsp. lactis Bb-12	Bifidobacterium animalis Bb-12
2	Bifidobacterium animalis subsp. lactis HN019	Bifidobacterium animalis HN019
3	Bifidobacterium animalis subsp. lactis Bi-07	Bifidobacterium lactis Bi-07
4	Lactocaseibacillus rhamnosus GG	Lactobacillus rhamnosus LGG
5	Lactocaseibacillus rhamnosus HNOOI	Lactobacillus rhamnosus HNOOI
6	Lactocaseibacillus rhamnosus MP108	Lactobacillus rhamnosus MP108
7	Limosilactobacillus reuteri DSM17938	Lactobacillus reuteri DSM17938
8	Limosilactobacillus fermentum CECT 5716	Lactobacillus fermentum CECT5716
9	Bifidobacterium longum subsp. Infantis R0033	Bifidobacterium infantis R0033

Source: List of Bacterium Strains that Can be Used for Food for Infants and Young Children (above 12 months only)

### Ruoergai Treasure of Plateau's Yak IF Plant Starts 2<sup>nd</sup> Phase Construction

On 29 Aug., Ruoergai Treasure of Plateau Yak Dairy Co., Ltd. initiated the 2<sup>nd</sup> phase construction work on its yak milk infant nutritionals centre in the Ruoergai Poverty Alleviation Industrial Park, Aba (Ngawa) Tibetan and Qiang Autonomous Prefecture, Sichuan Province.

This project is a cooperation with the local government, with a 2<sup>nd</sup> phase investment of USD65.39 million (RMB450 million). The site covers 80.94 ha and will include a yak farm, a processing plant, plus an area for farm tourism.

Expected to start operations in H1 2024, the 2<sup>nd</sup> phase will produce UHT organic yak milk, IMF and series of yak dairy products, with a milk processing capacity of 10,000 t/a and annual product output valued at around USD87.18 million (RMB600 million).

The company was established in July 2005 and owns 4 farms in Lhasa Tibet, Sichuan, Qinghai, and Gansu, containing 187,000 dairy yaks in all. Its product range spans formulae for infants, pregnant and lactating women, UHT organic whole milk, UHT milk for growing-up children, milk barley biscuits, milk probiotics powder and butter, all produced with yak milk.

### Nestlé Promises to End Promotion of Stage 1 Formula in 2023

Nestlé published its annual compliance report on its policy on the responsible marketing of breastmilk substitutes (BMS) on 23 Aug. This highlighted its commitment to improve its marketing practices in light of its global influence, and specifically to end promotion of Stage 1 milk formula in all countries from 1 Jan, 2023.

Nestlé Stage 1 IMF in China comprise the following:

- NAN LF ("安儿宁能恩", lactose free, for infants of 0-12 months, 400g/can)
- Pre NAN PDF ("早启能恩", DHA formula, for preterm & low-birth weight infants of 0-12 months, 400g/can)
- NAN H.A. ("超启能恩", partially hydrolysed, imported from Germany, for infants of 0-12 months, 380g/800g per can)
- NAN ("能恩", with probiotics, for infants of 0-6 months, 400g/900g per can)
- Zhuochun NAN ("卓淳能恩", organic and with probiotics, for infants of 0-6 months, 400g/900g)
- NAN OPTIPRO ("瑞铂能恩", a2 formula, for infants of 0-6 months, imported in original packaging, 400g/can)
- Lactogen® LUV ("犛宝力多精", for infants of 0-6 months, 900g/can)

**PICTURE 2: Nestlé Stage 1 IMF Products**



Source: nestle.com

## Babemax Reports Topline Growth in H1

On 17 Aug., the mother and baby retail chain Shanghai Aiyingshi Co., Ltd. (Babemax, Stock Code: 603214) issued its report for H1 2022, showing growth in revenue after two consecutive years of decline.

- Revenue: USD0.27 billion (RMB1.87 billion), up 63.69% YoY
- Formula products (main income source), gathered USD0.16 billion (RMB1.13 billion), up 101.92% and accounting for 60.43% of total revenue, with margin down 2.14% to 18.58%
- Net profit attributable to equity shareholders of the parent: USD6 million (RMB41.28 million), down 11.83% YoY

Operating status:

- Category sales: In H1, margins fell in its main category – formulae – leading to a downturn in gross margin overall
- Distribution: the chain's E-commerce sales jumped 384.26% with margins up 3.84% YoY, as a result of its development of diverse online channels (Tmall, JD, Pinduoduo, Babemax App, community group buying etc) and its control over its own warehouses and logistics services during the pandemic period
- Outlets: Babemax opened 5 physical stores and closed 43 to limit the Covid impacts in H1. Currently, it owns 488 physical stores in China, with key concentrations in Jiangsu (107), Shanghai (89) and Hubei (75).

## China's Barred Dairy Products in August

On 20 Sept., the Import and Export Food Safety Bureau of China Customs released the August list of food products barred from entry; this included 2 batches of cheese products which were sent back or destroyed on arrival.

**TABLE 16: China's Barred Dairy Products in August**

No.	Item	Place of origin	Manufacturer	Weight, kg	Reason of Disqualification
1	Cheese Factory Normandy Brie Cheese	France	GILLOT SAS	300	Excessive coliform group
2	France Petit Brie Cheese	France	ELVIR (ELLE & VIRE PRODUITS LAITIERS)	198	Discrepancy between the goods arrived and the declaration

Source: General Administration of Customs (GACC)

## Chobani Yoghurt Debuts in China

In early Sept., Chobani opened an official account and started selling its flavoured yoghurt on Xiaohongshu (also known as Little Red Book – a lifestyle sharing app which enables consumers to buy international brands made overseas). For the near term, offline distribution will focus on markets in East China (Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong and Taiwan), according to the company.

The initial launch is Chobani's signature product Chobani® Greek Yogurt (original, coconut, blueberry and passion fruit, mango and lemon flavours), made in Australia. Each pack (4x 70g/cups) is selling at USD20.92 (RMB144), or USD19.18 (RMB132) with discounts for purchases this month.

Chobani holds an approximate 20% share of the US yoghurt market and around 44% of the US Greek yogurt market.

**PICTURE 3: Chobani Yoghurt Launched in China**



Source: Little Red Book App Store

## Nine Yili IMF Registrations Approved

On 21 Sept, the Centre for Food Evaluation (CFE) of the State Administration for Market Regulation approved 9 IMF products (covering 3 stages from 0-36 months) in Yili's Golden Collar Crown formula range. As a result this brand now has the most approved registrations of any under the country's stricter national standards.

Approved range's key features:

- "Golden Collar Crown Jinhu" – upgraded formulation based on the original "A2 cow milk" and "Lactoferrin"
- "Golden Collar Crown Yuhu" – "5 times DHA", "4 times live probiotics", "GOS + FOS" blend
- "Golden Collar Crown Seine Mouiller" – "organic A2 cow milk", "organic OPO", "rare lactoferrin", "4 times live probiotics", "patented nucleotide mixture"

**TABLE 17: Yili's Newly Approved IMF Registrations Children**

No.	Item	Registrant
1	Golden Collar Crown® Jinhu Formula for Infants (0-6 months, stage 1)	Heilongjiang Yili Dairy Co., Ltd.
2	Golden Collar Crown® Jinhu Formula for Older Infants (6-12 months, stage 2)	
3	Golden Collar Crown® Jinhu Formula for Young Children (12-36 months, stage 3)	
4	Golden Collar Crown® Yuhu Formula for Infants (0-6 months, stage 1)	
5	Golden Collar Crown® Yuhu Formula for Older Infants (6-12 months, stage 2)	
6	Golden Collar Crown® Yuhu Formula for Young Children (12-36 months, stage 3)	
7	Golden Collar Crown® Seine Mouiller Formula for Infants (0-6 months, stage 1)	Dorbod Yili Dairy Co., Ltd.
8	Golden Collar Crown® Seine Mouiller Formula for Older Infants (6-12 months, stage 2)	
9	Golden Collar Crown® Seine Mouiller Formula for Young Children (12-36 months, stage 3)	

Source: Centre for Food Evaluation of the State Administration for Market Regulation

## Weiyang Dairy Receives Approval for New Production lines

On 29 July, Jiangsu Weiyang Dairy Co., Ltd. (Weiyang Dairy) received environmental approval on its completion of a 20,000 t/a dairy project. Details were publicized as follows:

- Construction nature: New construction
- Total investment: USD19.91.3 million (RMB137 million), 0.72% of which (=USD144,142/RMB992,00) is for environmental protection
- Location: Guangling District, Yangzhou City, Jiangsu Province
- Production capacity: totalling 20,000 t/a of dairy products
  - 5,000 t/a liquid milk, 5,000 t/a milk beverages, 3,000 t/a set yoghurt, 7,000t/a stirred yoghurt
- Construction content: Factory buildings of 35,400 m<sup>2</sup>, 5 lines
- Raw materials usage:
  - Raw milk – 8,000 t/a
  - Powdered milk – 580 t/a
  - Yoghurt cultures – 5.500 t/a
- Commencement of construction: March 2019
- End of construction: 19 Jan., 2022
- Site acceptance test: 11 July–12 July, 2022

Weiyang Dairy was incorporated in 28 June, 2018 with registered capital of USD14.53 million (RMB100 million).

## Two Dairy Cattle Batches Arrived China in Sept.

On 9 Sept., Shanxi Youran Dairy Co., Ltd. imported 2,500 Holsteins aged from 9-12 month from Australia as replacement stock. According to the company, it plans to import 5,500 dairy cattle in total this year, and expects this batch to start calving in July next year and produce around 170 t/d of milk by the end of 2023.

Shanxi Youran Dairy Co., Ltd. was founded in April 2020 with registered capital of USD18.31 million (RMB126 million). Its investment in farms amounts to USD 77.01 million (RMB530 million) including in 22 cattle sheds, each of which can accommodate up to 500 head.

Later, on 19 Sept., Lanzhou New Area Modern Agriculture Investment Group Co., Ltd. imported 2,000 Australian Holsteins, putting this batch into isolation and quarantine before sending on to its farm in Lanzhou New Area, Lanzhou City, Gansu Province. The company plans to purchase 5,000 head of heifers and scale up to 10,000 herd by local breeding. Before this imported batch, it had introduced 2,000 cattle, part of which have now completed breeding.

State-owned Lanzhou New Area Modern Agriculture Investment Group Co., Ltd. was established in April 2017 with registered capital of USD29.06 million (RMB200 million), with business in planting and breeding, processing and selling of agricultural, forestry, animal husbandry products and by-products.

# PRIORITY ORDER FORM

## Choose Type of Subscription

Single user PDF:	<input type="checkbox"/> 1 year US\$2,915	<input type="checkbox"/> 2 years US\$4,960	<input type="checkbox"/> 3 years US\$6,560
Enterprise-wide license:	<input type="checkbox"/> 1 year US\$7,290	<input type="checkbox"/> 2 years US\$12,395	<input type="checkbox"/> 3 years US\$16,405

Note: All subscriptions are invoiced in full on commencement of each subscription period

## Your Details

Name:	<input type="text"/>		
Position:	<input type="text"/>		
Company:	<input type="text"/>		
Address:	<input type="text"/>		
Tel No:	<input type="text"/>	E-Mail:	<input type="text"/>
Fax:	<input type="text"/>	Vat No. (EU only):	<input type="text"/>
Signature:	<input type="text"/>	Date:	<input type="text"/>

## To Order, Please Send Confirmation To:

Richard Field, Director, Orrani Consulting  
E-mail: [richard.field@orrani.com](mailto:richard.field@orrani.com)  
Fax: +44-1225-430240