

Dairy Products China News

Guaranteed Exclusive Analysis

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Welcome to the July issue of Dairy Products China News.

With this year's combination of reducing imports and a changing local product mix, China has posed a serious strategic challenge for dairy exporters and investors.

For so many years China has been THE market that ambitious international marketers must at the very least have a position on – either “we have to be there” (because of its huge potential) or “we have to avoid it” (because of the risks and challenges it poses). We're currently in the process of advising a customer to put their eggs in other baskets, as it were – for them, the promotional spend required in China is just too great given the uncertain returns in their category – they'll save a lot of money and optimize their resources by focusing their efforts elsewhere. Few can afford to keep funding a potential opportunity for years in case it comes good. It seems to me that marketers are typically aspirational, so pulling away from a huge market seems counter-intuitive – but they should also be insightful and realistic. Many of our most rewarding and successful consulting projects have involved reaching “no-go” conclusions on customers' ambitions.

China's dairy market is certainly not a case of “cancel that investment” – far from it, and in some cases quite the opposite. But the present situation does pose multiple challenges. Thinking through the market proposition is more important than ever, especially as customers are now in crisis mode. The situation should really bring focus on the classic marketing conundrum when it comes to customers, acquisition vs. retention. This year, especially, it seems key to recognise that taking care of your existing accounts is the absolute priority – stick with them and help them through their current challenges and they'll be much more likely to stick with you, ensuring the sustainability of your business – and giving you a great case study for that website reboot your head of comms is planning!

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Headlines

- ▶ Recently, Hongxingtai Food and Herds Dairy Longzhou completed construction projects for milk powders and goat formulae, respectively.
- ▶ In July, environmental approvals have been issued for Qinwang Dairy's 5,000 t/a goat milk powders line and Junlebao Juncheng Dairy's 18,000 t/a whipped cream and 16,000 t/a SMP lines.
- ▶ In July, Juneyao Health, Yiming Food, Sanyuan Foods, Zhuangyuan Pasture and other public dairy firms released performance forecasts for H1 2022 which made for gloomy reading.
- ▶ Two standards for the detection of goat/sheep milk ingredients were launched on 22 June and took effect on 1 July.
- ▶ On 28 June, the Hebei Government Office issued a Notice of Supporting Policy for Further Promoting the Revitalisation of the Dairy Industry.
- ▶ On 4 July, Ausnutria issued a profit warning, anticipating declines in revenue and net profit in H1 2022, affected by market challenges and its adjusted distribution strategy.
- ▶ On 5 July, Adopt A Cow issued its prospectus for an IPO on the Shanghai Stock Exchange (SSE)'s main board.
- ▶ On 30 June, Chevalese Dairy's IPO application was accepted by the Beijing Stock Exchange.
- ▶ On 1 July, Jule Food filled its 3rd IPO prospectus with the Shenzhen Stock Exchange.
- ▶ China's raw milk price has fallen slightly in July following the general downward trend seen in H1; the rush to spray dry for some months has diminished, with many regions reporting heat stress in cattle due to record-breaking temperatures.

Major Companies and Sites Mentioned in This Issue



Market Analysis

Hongxingtai Food and Herds Dairy Longzhou Complete Powders Projects

Summary: Recently, Hongxingtai Food and Herds Dairy Longzhou completed construction projects for milk powders and goat formulae, respectively.

On 30 June, Tangshan Hongxingtai Food Co., Ltd. (Hongxingtai Food) completed an upgrade on its milk powder production line and its Environmental Protection Acceptance was posted on the national platform recording this data on construction projects.

The plant with the upgraded line was originally built by Tangshan Xinlu Dairy Plant and producing 5,000 tonnes of WMP annually but shut down in July 2007 due to the depressed market. In 2011, Hongxingtai Food rented the plant and equipment, setting up to produce up to 6,000 t/a capacity of soybean powder and soybean milk powder; in the recent upgrade, it has converted the facility into a 15,000 t/a milk powders and AMF line.

Project Overview:

- Total investment: USD3.74 million (RMB25 million), 4.88% (=USD0.18 million or RMB1.22 million) of which are for environmental protection
- Location: Luannan County, Tangshan City, Hebei Province
- Site & floor areas: 41,690 m² & 8,000 m²
- Designed product and capacity: SMP – 5,000 t/a; WMP – 5,000 t/a; AMF – 5,000 t/a
- Raw material and consumption for the company's overall operations:
 - Raw milk – 102,000 t/a

- Demineralised whey powder – 445 t/a
- WPC – 55 t/a
- Fructo-oligosaccharide (FOS) – 25 t/a

Hongxingtai Food was incorporated in 24 Oct., 2012 with a registered capital of USD2.24 million (RMB15 million).

On 5 July, Shaanxi Herds Dairy Group (Longzhou) Co., Ltd. (Herds Dairy Longzhou) also received environmental clearance for its expansion to add production lines for goat milk formulae for special medical purpose and IMF.

Project Overview:

- Total investment: USD38.59 million (RMB258 million), 1.74% (=USD0.67million or RMB4.5 million) of which are for environmental protection
- Location: Longxian County, Baoji City, Shaanxi Province

- Site area: 404,709 m²
- Main construction content:
 - Expand original powders workshop to 18,300 m², quality inspection centre to 1,200 m²
 - Add new lines, one for goat milk formulae for special medical purposes (10,000 t/a) and one for goat IMF (10,000 t/a)
- Environmental impact assessment period: April 2021
- Commencement of construction: May 2021
- Commissioning time: April 2022
- Site acceptance test: 23-24 May, 2022

Herds Dairy Longzhou was founded in Sept. 2016 with a registered capital of USD7.48 million (RMB50 million) and is wholly-owned by Shaanxi Herds Holdings Co., Ltd.

TABLE I: Main Raw Materials of Herds Dairy Longzhou's Project

No.	Item	Annual Consumption, t/a
1	SMP	5.8
2	D90 (demineralised whey powder)	1,160
3	WPC35	4,060
4	WPC75	580
5	WPC70	29
6	Goat WPC 50%	1,740
7	D70 (demineralised whey powder)	1,160
8	Lactose	2,900
9	D90 (demineralised whey powder)	580
10	Goat D90 (demineralised goat whey powder)	1,740
11	Cow colostrum	12

Source: Herds Dairy Longzhou

Qinwang Dairy and Junlebao Juncheng Dairy Construct New Milk Powders Lines

Summary: In July, environmental approvals have been issued for Qinwang Dairy's 5,000 t/a goat milk powders line and Junlebao Juncheng Dairy's 18,000 t/a whipped cream and 16,000 t/a SMP lines.

On 4 July, Shaanxi Qinwang Dairy Co., Ltd. (Qinwang Dairy) received the environmental approval on its completion of conversion and expansion work on a 5,000 t/a goat milk powders line.

Project Overview:

- Total investment: USD5.98 million (RMB40 million), 0.1% (=USD5,982 or RMB40,000) of which is for environmental protection
- Location: Sanyuan County, Xianyang City, Shaanxi Province
- Site area: 121,413 m²
- Construction content: one 5,000 t/a goat milk powders line, production workshop (4,000 m²), warehouse (1,000 m²), R&D centre (400 m²), and other supporting equipment and facilities
- Designed product and capacity: goat WMP – 2,000 t/a and goat WMP (sweetened) – 3,000 t/a
- Main material and annual consumption for the company overall:
 - Raw goat milk – 46,200 t/a
 - Goat SMP – 60 t/a
 - Demineralised whey powder – 60 t/a
- Start of construction: March 2019
- EIA (environmental impact assessment) period: Jan. 2021
- Commissioning time: March 2022
- On-site monitoring: 18 April – 19 April, 2022

Incorporated in June 2003 with a registered capital of USD0.77 million (RMB5.18 million), Qinwang Dairy produces goat WMP and formula products, with goat milk-based powder brands "Run Nai Baby" (colostrum probiotic powder), "Shengshiyouyuan" (high calcium and selenium goat milk powder), "Xianling" (pure goat WMP). It also produces as an OEM for other dairy firms.

In 2021, the company made sales revenue of USD6.88 million (RMB46million) and profits of USD0.45 million (RMB3 million). These figures are expected to reach USD11.96 million (RMB80 million) and USD0.75 million (RMB5million) respectively this year.

On 11 July, Hebei Junlebao Juncheng Dairy Industry Co., Ltd. (Junlebao Juncheng Dairy) passed the environmental checks on its converted and expanded whipped cream and SMP production facilities.

Project Overview:

- Total investment: USD5.1 million (RMB34.1 million), 0.03% (=USD1,495 or RMB10,000) of which is for environmental protection
- Location: Luquan District, Shijiazhuang City, Hebei Province
- Construction content and production process change:
 - A new whipped cream line with cream separators, skimmed milk transfer line, etc., set up in the existing milk powders workshop
 - The currently operating milk powders lines will be used for producing SMP, with its IMF production being halted
- Designed product and capacity: Whipped cream – 18,000 t/a and SMP – 16,000 t/a
- Raw cow milk usage: 54,000 t/a
- EIA period: Aug. 2020
- Start of construction: Aug. 2020
- On-site monitoring: 25 March-26 March, 2022
- End of construction: April 2021

Founded in Dec. 2018 with a registered capital of USD22.43 million (RMB150 million), Junlebao Juncheng Dairy processes 352 t/d of raw milk and had reportedly produced up to 50,000 t/a of IMF with one running production line after receiving approval for production of modified milk powders in 2021. Its sales revenue was about USD 702.93 million (RMB4,700 million) last year.

Multiple Public Dairy Firms Expect Net Profits to be Slashed in H1

Summary: In July, Juneyao Health, Yiming Food, Sanyuan Foods, Zhuangyuan Pasture and other public dairy firms released performance forecasts for H1 2022 which made for gloomy reading.

Clearly China's economy is not in a good place. During H1 this year growth was 2.5%, way below the 5.5% annual target set by the government. In Q1 this year it exceeded expectations to record GDP growth of 4.8%. In Q2, however, the corresponding figure was just 0.4% – China's worst quarterly performance since its 6.8% contraction in Q1 2020 when the COVID pandemic struck.

During the economic downturn, dairy firms are currently suffering a variety of pressures, mainly caused by growing costs of raw materials and depressed demand. In July, many posted their performance forecasts for H1 with declining figures and even losses, as these examples illustrate.

Hubei Juneyao Great Health Drinks Co., Ltd. (Juneyao Health, Stock Code: 605388)

Juneyao Health's signature products are "Werdery Lactobacillus Drinks" and "Juneyao Sweetened Milk Beverages". On 12 July, it announced its earnings estimates for H1 as follows:

- Revenue: USD76.87 million (RMB514 million)–USD84.95 million (RMB568 million), up 7.75%–19.09% YoY, equating to USD5.53 million (RMB36.95 million)–USD13.62 million (RMB91.04 million)
- Net profit attributable to shareholders of the listed company: USD6.57 million (RMB43.91 million)–USD7.26 million (RMB48.54 million), down 61.01%–64.73% YoY, equating to USD11.36 million (RMB75.96 million)–USD12.05 million (RMB80.58 million)

Its explanations for the decline in H1 2022:

- Higher production costs including substantial rises in its main raw material prices – these surged, due in part to international factors

- Disruptions due to temporary shutdowns of its subsidiaries' operations and regional logistics induced by waves of the pandemic

Zhejiang Yiming Food Co., Ltd. (Yiming Food, Stock Code: 605179)

Yiming Food has two product categories of dairy products including "Yadian Greek-style Yoghurt", "INM Fresh Milk", "INM Mediterranean-style Yoghurt", "INM Fresh Egg Milk" (milk beverages) and "Youyichang Lactobacillus Drink" and bakery products including half-baked cheesecake and yogurt cheesecake.

Its performance estimates for H1 2022 released on 13 July are as follows:

- Revenue: USD173.49 million (RMB1,160 million) vs. USD164.67 million (RMB1,101 million) in H1 2021, so +37.83% YoY
- Net profit attributable to shareholders of the listed company: -USD9.72 million (-RMB65.00 million), a loss in contrast to the positive result of USD8.97 million (RMB60 million) in H1 2021
- Net loss attributable to shareholders of the listed company excl. extraordinary gains/losses: -USD10.47 million (-RMB70 million)

Note: the company listed in Dec. 2020, with financial results before that remaining undisclosed.

It provided these explanations for the loss in H1 2022:

- Sales through its own chain of physical stores slumped, especially those located in busy areas and close to schools, which saw much quieter customer footfall under extensive lockdowns in Shanghai, Jiangsu, Zhejiang and other markets. This aspect was even worse for the company as it had expanded its store chain to 915 locations by the end of H1 2022 vs. 522 of H1 2021
- The value of its fixed assets decreased and its financial costs jumped. Two new projects in Changzhou City,

Jiangsu Province have entered operation gradually since H2 2021 – a plant (with capacities of 500 t/d dairy products and milk beverages, and 1.2 million t/d bakery products) and an integrated dairy farm (with 3,000 dairy cattle producing 18,000 t/a milk)

- Costs rose in marketing on social media and E-commerce platforms and in promotion of courier services

Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429)

On 14 July, the capital's main dairy processor Sanyuan Foods reported key data for H1 2022:

- Revenue: USD637.12 million (RMB4,260 million) vs. USD598.54 million (RMB4,002 million) in H1 2021 and USD509.10 million (RMB3,404 million) in H1 2020
- Net profit attributable to shareholders of the parent company: USD13.14 million (RMB87.87 million)–USD14.94 million (RMB99.87 million), down 31.54%–39.77% equating to USD36.79 million (RMB246 million)–USD8.68 million (RMB58.02 million) vs. USD21.84 million (RMB146 million) in H1 2021 and the loss of USD15.11 million (RMB101 million) in H1 2020
- Net profit attributable to shareholders of the parent company excl. extraordinary gains and losses: USD12.77 million (RMB85.39 million)–USD14.48 million (RMB96.84 million), down 30.37%–38.60% equating to USD6.32 million (RMB42.25 million)–USD8.03 million (RMB53.70 million)

It cited:

- Higher dairying costs during the reporting period, especially feeds such as soybean meal, corn and alfalfa, affecting its consolidated profit after its takeover of Beijing Sunlon Livestock Development Co., Ltd. in Jan. 2022
- Reduced foodservice sales due to the pandemic

Lanzhou Zhuangyuan Pasture Co., Ltd. (Zhuangyuan Pasture, Stock Code: 002910.SZ, 01533.HK)

On 14 July, Zhuangyuan Pasture's financial data were posted as follows:

- Net profit attributable to shareholders of the listed company: USD1.2 million (RMB8 million)–USD1.65 million (RMB11 million), down 64.99%–51.87%

- Net loss attributable to shareholders of the listed company excl. extraordinary gains/losses: -USD1.2 million (-RMB8 million) – -USD1.65 million (-RMB11 million)

Its explanations for the loss in H1 2022:

- Cost surges in almost all aspects of its operations due to severe COVID outbreaks in Lanzhou, Xi'an, Xining and other cities and provinces

- Higher costs for its main raw material prices, due in part to international factors
- Currency factors – its net figures were worse due to FOREX losses incurred when exchanging HKUSD to RMB.

Governmental Direction

China Issues Testing Standards

Summary: Two standards for the detection of goat/sheep milk ingredients were launched on 22 June and took effect on 1 July.

Two standards co-drafted by Kabrita's R&D team in China and the Chinese Academy of Inspection and Quarantine (CAIQ) were launched on 22 June, effective as of 1 July:

- Group Standard for Qualitative Detection of Bovine (*Bos Taurus*, *Bubalus Bubalus* and *Bos Grunniens*) and Ovine (*Ovis Aries* and *Capra hircus*) Derived Ingredients in Milk and Dairy Products—Real-time PCR Method
- Group Standard for Qualitative Detection of Bovine Milk Casein in Milk and Dairy Products by Capillary Gel Electrophoresis Method

Adulteration of cheaper cow milk or milk from goat, sheep, yak and water buffalo, is usually difficult to detect just by tasting or general tests and can lead to food safety risks like allergy. These 2 standards have been tailored for more accurate testing in order to confirm milk content and quality. In the example of goat milk, the Real-time PCR Method can be used for primary screening of cow milk ingredients; and the Capillary Gel Electrophoresis Method can be used to verify the casein sources of any sample which has tested positive with cow DNA in the first screening.

Real-time PCR (polymerase chain reaction) Method

- Application scope: Qualitative detection of the ingredient(s) of origin(s) of bovine (*Bos Taurus*, *Bubalus Bubalus* and *Bos Grunniens*) and ovine (*Ovis Aries* and *Capra hircus*) species in milk and dairy products
- Applicable products: Dairy products, IMF, etc.

Detection steps:

- Sample preparation: 3 samples (test sample, sample for duplication check and one for storage only); each weighing 3 g–6 g for powdered milk samples or 30 mL–60 mL for liquid milk
- DNA extraction
- DNA concentration and purity measurement
- PCR Amplification: establish a parallel reaction system with 3 parallel controllers, i.e. sample's DNA solution containing target primers and probes as a positive control group, DNA solution containing non-target components as a negative control group and sterile water as a blank control group; monitor the amplification process of target genes and endogenous control genes and the average Ct (Cycle threshold) value which is recognised as the result indicator

Determination of result:

- Ct Value ≤ 30 = positive result (meaning sample contains XX animal's DNA)
- Ct Value ≥ 35 = negative result (meaning sample does not contain XX animal's DNA);
- Ct Value $>30 \leq 35$ = a repeated PCR test should be taken; if this shows the value staying below 35, it is finalised as positive; if finds the Ct value is above 35, the test result is finalised as negative

Capillary Gel Electrophoresis Method

- Application scope: Qualitative detection of bovine milk casein in milk and dairy products
- Applicable products: Dairy products, IMF, etc.

- **Detecting steps:**
 - Preparation and volume of powdered milk sample:
 - > Milk formula and WMP—500 mg
 - > Whey powder, SMP and cheese—135 mg, containing about 15 mg/mL of protein
 - Preparation of reaction solution: Prepared sample solution or liquid milk (pasteurised milk, ultra pasteurised milk, etc.)
 - Boiling water bath
- Time limit for sample inspection: within 24h
- Electrophoresis procedures
- Quality control: Cow milk sample as positive control group, goat milk sample as negative control group, water as blank control group
- Determination of result: If 2 protein peaks from the test sample and bovine milk casein are identical, the test result is positive (meaning sample product contains cow's casein); if not, the test result is negative (meaning sample product does not contain cow's casein).

Hebei Government Increases Support for Local Dairy Industry

Summary: On 28 June, the Hebei Government Office issued a Notice of Supporting Policy for Further Promoting the Revitalisation of the Dairy Industry.

Hebei Government Office issued a Notice of Supporting Policy for Further Promoting the Revitalisation of the Dairy Industry on 28 June, accelerating its implementation of the Guidelines for Revitalisation of the Dairy Industry of Hebei Province (2019-2025) which have helped the province's producers and processors to grow over the past three years.

The province has increased its milk production from 4.29 million tonnes in 2019 to 4.83 million tonnes in 2020 to 4.98 million tonnes in 2021, a CAGR of 9%. In 2021, local dairy firms with annual revenue above RMB20 million produced 3.98 million tonnes of dairy products, up 6.5% YoY; this exceeded the provincial target of 3.80 million tonnes and topped the national rankings in this regard.

Main subsidy scheme of the Notice:

Dairy Breeding

- Whole genome sequencing test for each high-yield dairy cow of the nucleus herd is subsidised @ USD29.91 (RMB200); A2 genotyping testing for each A2 dairy cow @ USD7.48 (RMB50)
- Nationally certified core breeding farms receive USD74,779.77 (RMB500,000) and provincially

certified core breeding farms receive USD29,911.91 (RMB200,000); dairy cattle breeding hubs that develop technologies for improved variety cultivation, in-vitro fertilisation, embryo transfer, etc. receive USD1.5 million (RMB10 million)

- Importation of the top 100 world-class dairy cattle breeds is supported @ USD14,955.95 (RMB100,000) per head; 50% of importation fees for each embryo of good dairy breeds is to be subsidised, adjusted from the original fixed subsidy scheme, and each dose of frozen dairy semen is to be subsidised @ USD22.43 (RMB150)

Dairy Farming

- Subsidies for each transplanted sexing embryo are increased to USD373.9 (RMB2,500) and for each dose of frozen sexing semen for dairy cattle reproduction to USD11.22 (RMB75); while subsidies for milking performance testing per cow remain USD10.47 (RMB70)
- For new and expanded family farms, construction of each cattle pen receives USD149.56 (RMB1,000), whilst on corporate farms, each new cattle pen receives USD299.12 (RMB2,000); purchases of smart equipment and facilities in farms with 300+ herd, 500+ herd and 1000+ herd are supported @ rates of up to USD44,867.86 (RMB300,000), USD74,779.77 (RMB500,000) and USD0.15

million (RMB1 million) respectively

- Purchases of silage corn and alfalfa are supported @ USD8.97 (RMB60) per tonne
- Every 1,000 m² planting of Alfalfa is subsidised @ USD59.82 (RMB400) by provincial government and @ USD134.6 (RMB900) by the central government
- 30% of purchases of liquid manure transfer pipes and tanks is to be subsidised @ up to USD29,911.91 (RMB200,000) payment
- 30% or below of purchases of agricultural machines approved by the central government for dairy farming and fodder cultivation, storage and processing is covered by the scheme
- Farms that obtain their first certificate with GLOBAL GAP are awarded @ USD4,486.79 (RMB30,000)
- Farms that are certified as Quality Dairy Engineering Demonstration Farm by the Technology Innovation Alliance of National Dairy Industry are granted USD1,495.6 (RMB10,000)

Dairy Processing and Acquisition

- New capacity construction of
 - 10,000 t/a IMF, 500 t/a cheese/butter, 50t/d fresh milk will be subsidised @ USD5.98 million (RMB40 million), USD2.99 million (RMB20 million) and USD1.5 million

- (RMB10 million) by provincial government up to 30% of the total construction investment
- 100 t/d UHT milk or chilled yoghurt @ USD1.5 million (RMB00 million) by city/county governments
- Dairy projects with investments above USD74.78 million (RMB500 million) or above USD149.56 million (RMB1,000 million) will be subsidised @ USD0.75 million (RMB5 million) or USD1.5 million (RMB10 million)
- Provincial and city/county governments offer USD74.78/t (RMB500/t) and USD44.87/t (RMB300/t) respectively in buying spray dried milk when dairy firms are faced with sales difficulties or the governments are overbuying raw milk
- Dairy firms that win their first provincial-level quality award, national quality award nomination and national quality award receive USD74,779.77 (RMB500,000), USD0.15 million (RMB1 million) and USD0.3 million (RMB2 million), respectively; those with Global Food Awards, Gold Award of Monde Selection, World Branding Awards receive USD74,779.77 (RMB500,000)

Financial Supports

- Hebei supports financial institutions to expand coverage of credit for live dairy cattle and farming equipment and facilities, and encourages insurance institutions to roll out different types of insurance that cover dairy farming and silage growing and target prices for raw milk.

Company Dynamics

Ausnutria Issues Profit Warning for H1 2022

Summary: On 4 July, Ausnutria issued a profit warning, anticipating declines in revenue and net profit in H1 2022, affected by market challenges and its adjusted distribution strategy.

On 4 July, Ausnutria issued a profit warning for its H1 results, expecting revenue to be down 18.0%–21.6% YoY to around USD501.02 million (RMB3,350 million)–USD523.46 million (RMB3,500 million), and net profit down 73.1%–84.0% YoY to about USD14.21 million (RMB95 million)–USD23.93 million (RMB160 million).

Revenues by segment, H1 2022 vs. H1 2021

- Branded cow milk formulae (Hyproca 1897, Oz Farm, Allnutria, Neolac, Puredo, etc.): USD161.52 million (RMB1,080 million)–USD176.48 million (RMB1,180 million) vs. USD307.02 million (RMB2,052.8 million), down 42.5%–47.4%
- Branded goat milk formulae (Kabrita): USD236.30 million (RMB1,580 million)–USD251.26 million (RMB1,680 million) vs. USD252.49 million (RMB1,688.2 million), down 0.5%–6.4%
- Others (nutritional and probiotics products): USD92.73 million (RMB620 million)–USD104.69 million (RMB700 million) vs. USD79.19 million (RMB529.5 million), up 17.1%–32.2%

Ausnutria attributed the declines in H1 to the following factors:

- Lower cow milk formulae sales: Since the birth rate has fallen and businesses have faced increasingly stringent prevention and control measures against COVID infection, the whole IMF industry has faced unprecedented challenges. Data from AC Nielsen for

H1 showed IMF sales revenue down 4.4% YoY and sales volume down 6.2% YoY, indicating the all-around market slide. Despite this, Ausnutria's cow milk formula brands have achieved a past 5-year CAGR of 34.1%, and for Hyproca 1897 this figure was 61.7%

- Strategic adjustment: To lower inventory pressure on distributors and maintain its long-term competitiveness, Ausnutria made a series of adjustments to its sales strategy for Hyproca 1897 products and has slowed its distribution of cow milk formulae since the end of 2021
- These changes caused sales to fall by over 18% during the H1 period

However, Ausnutria pointed out that despite the downturn, its two core brands, Hyproca 1897 and Kabrita performed well. By April 2022, Hyproca 1897's market share had improved by 0.5 percentage points and Kabrita achieved double-digit growth in Jan.–May, according to AC Nielsen.

At present, domestic and foreign dairy firms are entering the goat milk IMF market at speed:

- In July 2021, China Feihe acquired Shaanxi Xiaoyang Milk Co., Ltd. and launched 3 pure goat formula brands — "Xiaoyang Milk", "Ruijia Milk" and "Love +"
- This February, Friso launched a pure goat milk formula (cross-border version)
- In March, Danone took in 95% stake in Eurbest, in doing so acquiring the pure goat IMF brand "YangCC"

These moved underline the segment's promise but also the level of competition which will be faced by all players, no matter how well-established.

Adopt A Cow Issues IPO Prospectus

Summary: On 5 July, Adopt A Cow issued its prospectus for an IPO on the Shanghai Stock Exchange (SSE)'s main board.

On 5 July, Adopt A Cow Holding Group Co., Ltd. (Adopt A Cow) issued a prospectus for an IPO on Shanghai Stock Exchange (SSE)'s main board. This shows the company has grown rapidly during the last 3 years:

- Total assets reached USD613.5 million (RMB4,102.1 million) by the end of 2021, up 351.47% from 2019

- Net assets hit USD413.4 million (RMB2,763.9 million), up 549.49% from 2019

Founded in 2016 by a real estate millionaire, Adopt a Cow presents itself as taking extra special care of its cows with imported fodder, deep well water, spa treatment, classical music and herbal baths. It literally offers 3 cow adoption models: cloud adoption (online only), joint adoption (online but with your cow's milk delivered to your door) and real adoption (including participation in farm activities and the right to name new calves).

According to the prospectus, the company is looking for USD276.8 million (RMB1,851 million) funding for the development of a smart dairy farm project in Haiborige Town of Songyuan City, Jilin Province, for online branding and marketing campaigns and upgrade of its supporting digital systems and tools.

The farm is important: in 2019 and 2020, 90%+ of the company's milk was externally sourced, mainly from Bright Dairy, although the company claims that this proportion will decrease to 36% in 2022.

TABLE 2: Adopt A Cow's Proposed Uses of IPO Proceeds, USD million

No.	Project	Total Project Investment
1	Smart Dairy Farm Construction Project in Haiborige Town of Songyuan City, Jilin Province	146.10
2	Brand Building and Marketing Campaigns	77.77
3	Digital System Upgrading Projects	8.14
4	Replenishment of Working Capital	44.87
Total		276.87

Source: Adopt A Cow

Note: all project invest sums are to be 100% funded via the IPO proceeds

Company Background

Currently Adopt A Cow comprises several areas of operation:

- 7 GAP (good agricultural practices)-certified modern dairy farms (Grade A) in Hebei, Heilongjiang and other major milk producing regions. Of these, 5 are its own and 2 are contracted out; they have 60,000+ dairy cattle, including 37,000+ on its own farms – these produce high-quality milk containing on average protein @ 3.3g/100g, SCC below 200,000 cells/mL, total bacteria below 30,000 cells/mL and viable

microorganisms below 20,000 CFU/mL

- 9 pure milk and yoghurt production lines set up in Pingyi County, Linyi City, Shandong Province, representing collectively 815 t/d of production capacity, supplemented by production outsourced to Bright Dairy, Junlebao, Beingmate and other dairy firms due to its current production limits
- 14 direct subsidiaries, such as Hangzhou Adopt A Cow Biotechnology Co., Ltd. registered with USD54.4 million (RMB364

million) in capital and Hebei Bobo Animal Husbandry Co., Ltd. registered with USD10.5 million (RMB70 million)

- 3 indirect subsidiaries (i.e. owned through its subsidiaries), including Shandong Kangyuan Animal Husbandry Co., Ltd. registered with capital of USD3 million (RMB20 million) and Hangzhou Adopt A Cow Intelligent Technology Co., Ltd. registered with capital of USD0.15 million (RMB1 million)

TABLE 3: Adopt A Cow's Revenue Split by Main Business, 2019–2021

Item	2019		2020		2021	
	Revenue, USD million	Proportion	Revenue, USD million	Proportion	Revenue, USD million	Proportion
Pure milk	213.6	56.85%	112.41	46.74%	36.39	28.74%
Yoghurt	108.92	28.99%	92.06	38.28%	52.8	41.70%
Milk powders (IMF, whole/skimmed milk formulae)	27.41	7.29%	6.62	2.75%	–	–
Raw milk	16.77	4.46%	18.8	7.82%	33.55	26.50%
Other	9.06	2.41%	10.59	4.40%	3.88	3.07%
Total	126.63	100.00%	240.48	100.00%	375.75	100.00%

Source: Adopt A Cow

TABLE 4: Adopt A Cow's Capacity and Output, 2019–2021

Item		2019	2020	2021
Pure milk	Own capacity, t/a	–	8,813.19	89,166.75
	Total output, t/a	23,366.85	74,041.73	121,053.70
	Outsourced production, t/a	23,366.85	67,994.41	43,609.62
	Own production, tonnes	–	6,047.32	77,444.08
	Sales, tonnes	23,172.70	65,561.71	113,763.22
	Capacity utilisation rate	–	68.62%	86.85%
	Sales/production	99.17%	88.55%	93.98%
Yoghurt	Own capacity, t/a	–	2,851.91	83,089.61
	Total output, t/a	28,028.33	47,869.90	53,059.35
	Outsourced production, t/a	28,028.33	45,897.06	18,503.98
	Own production, tonnes	–	1,972.85	34,555.37
	Sales, tonnes	27,260.46	44,975.22	51,639.07
	Capacity utilisation rate	–	69.18%	41.59%
	Sales/production	97.26%	93.95%	97.32%

Source: Adopt A Cow

In 2021, the company's revenue exceeded USD373.9 million (RMB2,500 million), representing a 2019-2021 CAGR of 72.27%.

It opened its online store on Alibaba's B2C Tmall platform in 2018, and has prioritised E-commerce platforms over store/offline sales in growing the business. By April 2022, the company was the no.3 dairy

seller on all of Alibaba's ecommerce platforms, behind Yili and Mengniu. Adopt a Cow has fully embraced not only all the major ecommerce platforms, but also livestreaming, short video, and

various other platforms, selling through Taobao.com, Tianmao.com, Douyin Shop (Chinese version of Tiktok Shop), JD.com, lovehaituan.com, Meituan.com.

Offline sales include KA (key account) supermarkets such as Yonghui Superstores, new retailers like Hema Fresh and Xianfeng Fruit, plus new-style tea drink chains like Goodme and Hero Tang Tea.

On Tmall the company's flagship online store had accumulated 10 million fans by 2021. However, the company noted that its marginal CAC (customer acquisition cost) has been climbing because growth of online consumers on the big E-commerce platforms has flattened out – its marketing costs have increased a lot here, to 18.8% of total revenue. If it cannot find lower-cost

alternative channels to reach customers, the proposed IPO-funded investments would not achieve their desired effects – a risk to its overall future business performance. This must be a concern especially when considered alongside its premium prices compared with Yili and Mengniu.

Chevalese Dairy's IPO Application Accepted

Summary: On 30 June, Chevalese Dairy's IPO application was accepted by the Beijing Stock Exchange.

On 30 June, Inner Mongolia Chevalese Dairy Group Co., Ltd. (Chevalese Dairy) was accepted for its application for an IPO on the Beijing Stock Exchange.

Nearly 70% of Chevalese Dairy's sales derive from sales the Inner Mongolia Autonomous Region, and this proportion has been increasing. Nevertheless, it has been growing well in recent years:

- Revenue: USD95.12 million (RMB636million) in 2019, USD105.74 million (RMB707 million) in 2020, USD131.01 million (RMB876 million) in 2021
- Net profit attributable to parent company: USD5.6 million (RMB37.41 million) in 2019, USD3.42 million (RMB22.88 million) in 2020, USD8.33 million (RMB55.73 million) in 2021

The IPO proceeds are expected to fund the development of a 25,000 dairy farming project by its wholly-owned subsidiary Ordos Chevalese Kubuqi Animal Husbandry Co., Ltd., which has already received its pre-construction environmental approval.

Project Detail:

- Proposed total investment: USD61.16 million (RMB408.94 million)
- Use of IPO proceeds USD39.09 million (RMB261.35 million)

- Location: Zhaojun Town, Dalad Banner, Ordos City, Inner Mongolia Autonomous Region
- Site & floor areas: 64.8 ha & 17.4 ha
- Farming size: 3,500 head of milking Holsteins, each producing around 38kg/d or 11.45 t/a, so 40,000 t/a for the farm overall
- Estimated annual sales: USD31.83 million (RMB212.8 million)

Chevalese Dairy comprises:

- 4 standard dairy cow farms and 12,900 head of dairy cows (4,600 milking cows) producing over 150 t/d of milk
- 15 liquid milk production lines and 8 milk powder lines, giving a milk processing capacity of 500 t/d
- A product portfolio including fresh milk, chilled yoghurt, UHT pure milk, milk beverages, milk powders and powdered milk tea

Its raw organic milk makes up most of its revenue, with Mengniu its main customer. These sales have grown well over the last 3 years since the company scaled up its farming scale, also boosted rising milk prices over the period.

The top selling items from its product range are chilled yoghurt (60% of revenue from its dairy products) and formulae for children and adults (13%).

TABLE 5: Chevalese Dairy's Business Performance, 2019–2021

Item	2019		2020		2021	
	Revenue, USD million	%	Revenue, USD million	%	Revenue, USD million	%
Raw organic milk	22.57	88.05%	27.69	94.78%	37.40	94.18%
Cattle sales	3.06	11.95%	1.53	5.22%	2.31	5.82%
Total Dairying	25.64	100.00%	29.21	100.00%	39.71	100.00%
Chilled yoghurt	18.76	65.19%	18.80	65.60%	19.39	60.22%
Milk formulae (for children and adults)	4.47	15.54%	4.18	14.59%	4.20	13.04%
Bulk milk powders	2.50	8.70%	2.67	9.30%	3.46	10.76%
Fresh milk	1.67	5.80%	1.85	6.46%	2.22	6.91%
UHT milk	0.58	2.01%	0.45	1.56%	2.11	6.56%
Milk beverages	0.70	2.44%	0.71	2.48%	0.80	2.49%
Others	0.09	0.33%	0.00	0.00%	0.01	0.02%
Total Dairy Products	28.78	100.00%	28.66	100.00%	32.19	100.00%

Source: Chevalese Dairy

TABLE 6: Chevalese Dairy's Sales Revenue by Region, 2019–2021

Item	2019		2020		2021	
	Revenue, USD million	%	Revenue, USD million	%	Revenue, USD million	%
Inner Mongolia	54.50	57.75%	66.99	64.37%	89.44	69.44%
Other	39.88	42.25%	37.08	35.63%	39.36	30.56%
Total	94.38	100.00%	104.07	100.00%	128.79	100.00%

Source: Chevalese Dairy

TABLE 7: Chevalese Dairy's Production of Raw Milk and Dairy Products, 2019–2021

Item	2019	2020	2021
Raw milk, tonnes	33,609.51	38,761.65	57,676.00
Dairy products, tonnes	27,140.80	26,948.34	26,201.60

Source: Chevalese Dairy

Jule Food's Third Bid for IPO

Summary: On 1 July, Jule Food filed its 3rd IPO prospectus with the Shenzhen Stock Exchange.

Third time round, Sichuan Jule Food Co., Ltd. (Jule Food) achieved acceptance on 1 July for its prospectus for IPO on the SMEs board of Shenzhen Stock Exchange (SSE). This follows its first IPO prospectus in 2019 and 2 revisions made in Aug. 2019 and June 2020. On those previous occasions, the applications failed after findings of branch companies' unreported use of capital, false statements about liquid assets, major deficiencies in its internal control systems, miscalculations of rebate, etc.

Jule Food's revenue has been growing in recent years after flatlining at around

USD89.74 million (RMB600 million) for a long period before this:

- Revenue: USD123.98 million (RMB829 million) in 2019, USD148.66 million (RMB994 million) in 2020, and USD212.52 million (RMB1,421 million) in 2021
- Net profit to parent company: USD16.60 million (RMB111 million) in 2019, USD19.44 million (RMB130 million) in 2020, and USD23.63 million (RMB158 million) in 2021
- Consolidated gross profit margin: 36.77% dropped to 29.03% from 2019 to 2021

To reduce over-reliance on Sichuan Province, it acquired Heilongjiang

Huifeng Dairy Food Co., Ltd. in Oct. 2020 to build business in Inner Mongolia Autonomous Region and Heilongjiang, Jilin, Hebei and Shandong provinces. Last year, Sichuan Province accounted for only 70% of its turnover compared to the previous average of 90%.

During 2021, it took a 55% stake in Gansu Shuhan Animal Husbandry Co., Ltd. to strengthen its own milk supply and to safeguard its profitability during the expansion in the face of fierce competition from the national dairy brands (Yili, Mengniu and Bright Dairy) and regional ones focusing on the Southwest (like New Hope Dairy, Chongqing Tianyou Dairy, Sichuan Xuebao Dairy) or on the Northeast (like Huishan Dairy and Wandashan Dairy) and the risk of lower market demand.

TABLE 8: Jule Food's Proposed Allocation of IPO Proceeds

No.	Project	Total investment, USD million
1	Dairying Construction Project (Phase I)	50.76
2	Transformation and Expansion Project of Dairy Product Production Base	41.65
3	Upgrading Project of Internet Marketing Centre	26.84
4	120,000 t/a Dairy Product Production Base Construction Project (Phase II)	25.73
5	Upgrading Project of R&D Centre	8.27
6	Construction Project of Digital Information System	5.75
7	Replenishment of Working Capital	44.87
Total		203.86

Source: Jule Food

Details of the investment projects:

- Dairying Phase I in Gulang County, Wuwei City, Gansu Province: On completion, the farm is expected to produce 39,680 t/a of milk, giving annual revenue of USD27.61 million (RMB184.6 million) and profits of USD6.94 million (RMB46.4 million), with a 7.29 year payback period
- Conversion and expansion of its dairy plant in Wenjiang District, Chengdu City, Sichuan Province: On completion, the facility is expected

to produce 14,000 t/a of fresh milk, 5,700 t/a of chilled yoghurt, 2,300 t/a of ambient yoghurt, 33,000 t/a of UHT milk, 2,500 t/a of modified milk, 60,000 t/a of milk beverages and 2,500 t/a of compound protein drinks, providing annual revenue of USD139.85 million (RMB935.07 million) and profits of USD9.57 million (RMB63.96 million)

- Upgrading of its Internet Marketing Centre: including expansion of cold chain logistics and distribution system and channels, upgrade of

its sales management system, and improvement in inputs for branding and marketing online and offline, over 3 years

- Construction Project (Phase II) on its 120,000 t/a plant in Xinjin County, Chengdu City, Sichuan Province: the project will improve production efficiency and provide capacity for an additional 60,000 t/a of milk beverages, based on the established equipment and facilities in the plant, over 2 years

Jule Food's reported growth in revenues and profits in the last three years were led by various categories:

- Milk beverages: "Jule Swanle Milk" is the company's core line, its top-seller for 20+ years
- Fermented dairy products: "Chewy Yoghurt" (flavoured yogurt with

fruit pulp / oatmeal), the flagship products of Heilongjiang Huifeng Dairy Food Co., Ltd. acquired in 2020

- Fresh milk: the launch of "Da Niunai Luo" (meaning "Come and Get Milk") containing 3.6g/100ml of protein and in a creative pack

design has attracted many young consumers in particular

- UHT milk products: The profitability here grew due to increases in sales volume and prices overall; organic pure milk took a growing share of its UHT milk sales.

TABLE 9: Jule Food's Sales Breakdown by Product Category, 2019–2021

Product category	2019		2020		2021	
	Revenue, USD million	%	Revenue, USD million	%	Revenue, USD million	%
Milk beverages	91.42	73.91%	96.82	65.31%	109.54	51.68%
Fermented milk	6.73	5.44%	15.17	10.23%	56.61	26.70%
Fresh milk	6.37	5.15%	11.43	7.71%	15.76	7.43%
UHT milk	15.78	12.75%	22.33	15.06%	28.01	13.21%
Other dairy products	3.39	2.74%	2.51	1.69%	1.83	0.86%
Non-dairy products	–	–	–	–	0.23	0.11%
Total	123.68	100.00%	148.26	100.00%	211.97	100.00%

Source: Jule Food

TABLE 10: Jule Food's Output and Sales by Main Category, 2019–2021

Product category	Item	2019	2020	2021
Milk beverages	Output, tonnes	91,691.40	97,750.71	107,298.58
	Sales, tonnes	91,763.28	96,832.51	107,919.89
Fermented Milk	Output, tonnes	3,617.01	10,283.19	40,787.74
	Sales, tonnes	3,555.54	10,069.30	40,545.73
Fresh milk	Output, tonnes	4,577.90	7,702.92	10,548.63
	Sales, tonnes	4,498.80	7,628.85	10,511.84
UHT milk	Output, tonnes	15,416.30	18,700.58	23,745.07
	Sales, tonnes	14,710.40	19,141.20	23,110.97

Source: Jule Food

Note: Output here is the sum of its own and outsourced production.

TABLE 11: Jule Food's Sales Breakdown by Distribution, 2019–2021

Item	2019		2020		2021	
	Revenue, USD million	%	Revenue, USD million	%	Revenue, USD million	%
Sichuan Province	121.29	98.07%	135.71	91.53%	158.38	74.72%
Heilongjiang, Jilin and Liaoning Provinces	–	–	5.53	3.73%	29.98	14.14%
E-commerce Platforms*	0.62	0.50%	3.24	2.19%	5.68	2.68%
Other	1.77	1.43%	3.78	2.55%	17.94	8.46%
Total	123.68	100.00%	148.26	100.00%	211.97	100.00%

Source: Jule Food

Note: * = Taobao.com, Tianmao.com, JD.com, Douyin Shop, etc.

Raw Milk Price

July Milk Price Dips

Summary: China's raw milk price has fallen slightly in July following the general downward trend seen in H1; the rush to spray dry for some months has diminished, with many regions reporting heat stress in cattle due to record-breaking temperatures.

In the week ended 13 July, China's raw milk price averaged USD616.19/t (RMB4,120/t), down by 0.2% over the first week of July and on par with the average of the last week of June; this represented a drop of 4.4% YoY and a decrease of USD38.89/t (RMB260/t) from the most recent peak of USD655.07/t (RMB4,380/t) in Aug. 2021.

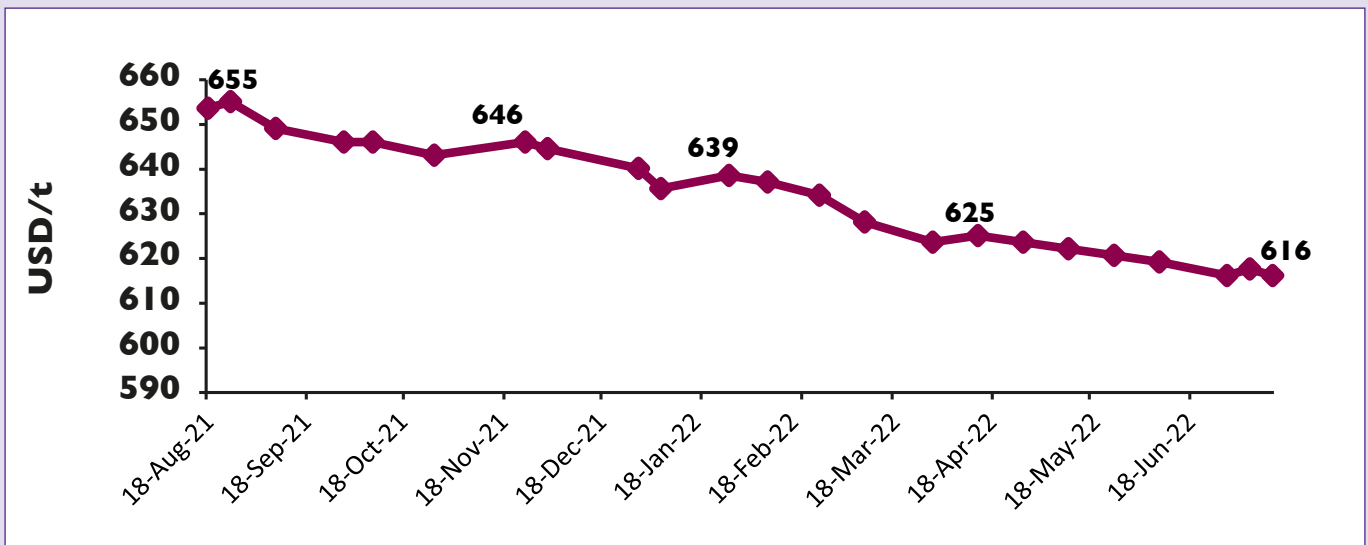
Since late June – when record high temperatures were reported across the country, triggering cows' heat stress response – dairy processors have slowed spray drying. On the face of it, there seems to be no shortage of raw milk supply or upward pressure on prices at present.

The recent weak milk prices and the overall downswing dating back to Aug. last year provide a contrast to the surging international prices which have limited China's dairy imports, acting in combination with lower domestic demand and various pandemic-related factors. It's notable that whilst YTD May, China's dairy imports of 1.41 million tonnes were down 16.62% YoY, the value was up 4.08% YoY to USD5.82 billion.

Several major explanations are apparent for these diverging price trends:

- International dairy prices have risen due to many well-known factors particularly commodity inflation, labour shortages and the impact of the pandemic and the Ukraine war, as well as the requirement for many leading exporters to curb their production
- China's milk price has fallen in line with growing milk supply capacity in the country. Since 2020, there has been a stronger emphasis on building new dairy farms. The National Dairy Industry and Technology System (NDITS) forecasts that China's dairy herd will exceed 6.2 million head by 2023 with daily milk production increasing 15,000 tonnes or more from the 2021 level (Note: The NDITS is approved by the Ministry of Agriculture and Rural Affairs and the Ministry of Finance, and developed by China Agricultural University and other research centres specialising in various aspects of the dairy sector)
- Conversely, China's consumption of dairy products and foods in general has been constrained by the zero-COVID policy which has forced many urban industries to suspend operations, severely threatening the local economy and employment. Particularly in Q1-Q2 when there were sporadic outbreaks of infections and subsequent decline in household incomes, regional sales of dairy products took a hit

FIGURE 1: Trends in China's Raw Milk Price, Aug 2021–July 2022



Source: Ministry of Agriculture and Rural Affairs (MARA)

Reference trading prices for raw milk among major provinces for Q3/H2 2022:

- Sichuan Province: USD779/t (RMB5,210/t) with a minimum price of USD742/t (RMB4,960/t), effective H2 2022
- Hebei Province: USD627/t (RMB4,190/t) with a minimum price of USD589/t (RMB3,940/t), effective Q3 2022
- Shandong Province: USD621/t (RMB4,150/t), effective Q3 2022

- Heilongjiang Province: USD613/t (RMB4,100/t) with a minimum price of USD591/t (RMB3,950/t), for milk produced by automatic milking systems, effective Q3 2022

In H1 2022, China's milk production of 16.69 million tonnes was up 8.4% vs. 15.29 million tonnes in H1 2021, according to data issued on 15 July by the National Bureau of Statistics.

News in Brief

Dairy Imports in June 2022

The recent downward trend in volumes continued in June, with only a few YoY increases, mainly in AMF, lactose, casein and some cheese codes. In most cases the volumes were also down compared with the preceding month.

Looking at the H1 volumes overall, the overall tonnage is down 18% and the only segments showing growth this year have been natural milk constituents (HS040490) +47%, blue cheese (HS040640) +77% and anhydrous lactose (HS170211) +7%; clearly these don't move the needle overall, and are not always reflective of intrinsic local demand - for instance, the rise in lactose likely reflects higher levels of spray drying.

TABLE 12: 2022 June Imports, tonnes

HS code	Product	202106	202205	202206	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	14,353.3	9,190.5	9,592.7	4.4%	-33.2%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	56,110.0	57,507.3	54,341.3	-5.5%	-3.2%
04014000	Milk & cream, 6%	4.3	4.7	3.9	-16.3%	-8.9%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	23,709.3	26,148.9	17,661.9	-32.5%	-25.5%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	34,268.1	25,728.5	23,975.3	-6.8%	-30.0%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	67,823.7	48,161.5	35,462.3	-26.4%	-47.7%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	773.8	182.6	118.6	-35.1%	-84.7%
04041000	Whey and modified whey	55,119.6	44,579.7	51,295.8	15.1%	-6.9%
04049000	Products consisting of natural milk constituents, nes	279.4	724.9	378.2	-47.8%	35.4%
04051000	Butter	8,568.1	7,637.0	5,973.5	-21.8%	-30.3%
04059000	Other fats & oils derived from milk	2,147.7	3,138.0	3,527.0	12.4%	64.2%
04061000	Fresh cheese, incl. whey cheese, curd	6,694.3	7,938.2	4,127.3	-48.0%	-38.3%
04062000	Grated or powdered cheese	3,216.8	4,628.0	1,401.2	-69.7%	-56.4%
04063000	Processed cheese, not grated or powdered	2,075.4	1,060.7	900.4	-15.1%	-56.6%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	3.6	4.5	11.9	163.4%	228.4%
04069000	Cheese, nes	2,767.9	3,154.4	3,172.1	0.6%	14.6%
17021100	Anhydrous lactose, lactose wt.≥99%	10,221.2	9,991.1	10,389.4	4.0%	1.6%
17021900	Lactose syrup & other lactose	762.0	23.6	99.9	323.5%	-86.9%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	23,606.2	24,118.5	22,299.1	-7.5%	-5.5%
35011000	Casein	1,164.6	1,543.1	1,218.6	-21.0%	4.6%
35019000	Caseinates	2,199.3	1,307.3	1,161.3	-11.2%	-47.2%
35022000	WPC80/WPI	3,507.7	3,276.3	3,166.6	-3.4%	-9.7%

Source: China Customs

Maiquer's Pure Milk Found to Contain Propylene Glycol

On 28 June, the Qingyuan County Bureau of the Zhejiang Provincial Administration for Market Regulation revealed the results of its 4th phase of food sampling inspections this year. These included 2 non-conforming batches of pure milk produced by Maiquer Group Co., Ltd. (Maiquer, Stock Code: 002719), failing due to detection of 0.318g/kg and 0.321g/kg of propylene glycol respectively. Food-grade propylene glycol is approved for use in wet noodles and cakes and pastries and edible decorations for cakes/pastries, but is prohibited in milk products in China.

On 5 July, Maiquer indicated that the cause of this was a failure in cleaning the product tank lines of modified milk during the production switching process. Currently, the lines of the non-conforming products are suspended and these products have been pulled from sale or recalled. The company also mentioned that it would refund consumers who bought these products, carry out further inspection of its processes and make appropriate rectification measures and report these promptly to the local department.

Maiquer's financial report for Q1 2022 showed revenues of USD51.75 million (RMB346 million), up 59.54% YoY; however its net profit was down 27.62% YoY to USD0.58 million (RMB3.85 million). Its dairy herd comprises 5,200 head, 15% of which are milking cows, producing around 30 tonnes of milk per day. However its processing capacity is 400 tonnes per day, so its milk self-sufficiency rate is relatively low at this stage. In 2021, Maiquer contracted out USD62.37 million (RMB417 million) for raw milk from other producers.

Nutribén 1st Stage IMF Pulled

On 27 June, the Beijing Municipal Administration for Market Regulation issued the latest list of non-conforming foods which included "Yiluo Bo'ou" IMF product (1st stage, 0–6 months) with vanillin and low levels of vitamin D. The batch selling on JD.com was pulled as a result.

According to the National Food Safety Standard — Formula Foods for Older Infants and Young Children:

- The permitted level of vitamin D in formulae for children aged from 6–36 months is between 0.25µg/100kJ–0.75µg/100kJ and the actual content of each nutrient must be above 80% of the level shown on the label
- Use of vanillin and ethyl vanillin is permitted in 2nd/3rd stage formulae, but no food flavourings are permitted in 1st stage formulae

"Yiluo Bo'ou" is a range selling under the brand Nutribén, produced by Spain's Alter Farmacia S.A. Currently, Nutribén has 3 formula registrations in China due to expire on 26 Dec., 2022, so will lose its access to the market if it does not renew its registrations.

Panda Dairy Extends Construction Term of Sweetened Condensed Milk Plant

On 23 June, Panda Dairy Corporation (Panda Dairy, Stock Code: SZ. 300898) decided to extend the construction term of the IPO-funded 30,000 t/a sweetened condensed milk project in Cangnan County, Wenzhou City, Zhejiang Province to June 2024 instead of June 2022.

Panda Dairy explained that the project's construction work and relocation of purchased facilities and equipment from its old plants were behind schedule due to its complying with the pandemic prevention and control policies since 2020 and the impact of disrupted supply logistics.

TABLE 13: Actual Use of IPO proceeds in Projects of Panda Dairy, USD million

No.	Project	Invested sum	Proposed funds raised to be invested	Invested amount of funds raised
1	30,000 t/a Sweetened condensed milk project in Cangnan County, Wenzhou City, Zhejiang Province	52.51	36.31	18.9
2	20,000 t/a Condensed dairy products project (phase II project) in Jiyang District, Jinan City, Shandong Province	31.78	–	–
3	60,000 t/a Condensed dairy products expansion project in Jiyang District, Jinan City, Shandong Province	5.23	5.23	1.49
4	Marketing and application centre construction	8.57	–	–

Source: Panda Dairy

Note: Condensed dairy products refer to condensed milk, whipping cream and cheese; Data are sourced as of 31 May, 2022.

Sino-Russian Border Dairy Processing Plant's Output Value Surge 300% in Jan.-May

Mudanjiang Wanding Dairy Co., Ltd. (Wanding Dairy) in Mudanjiang City in Heilongjiang Province has reported that its Sino-Russian Border Dairy Processing Plant produced 7,500 tonnes of dairy products in Jan.-May, up 227% YoY, with an output value of USD43.67 million (RMB292 million), up 309%; its products sell mainly in Guangdong, Hainan, Fujian and Jiangxi provinces.

The plant is on a 23,000 m² site and was developed by Wanding Dairy with a total investment of USD22.43 million (RMB150 million), as a part of China's 10 Billion Sino-Russia Border Agricultural and Husbandry Industrial Cluster Project. It draws milk from the city's organic dairy farm cluster (10,000+ dairy herd) as well from a similar farm cluster based in the Far East of Russia – each sides' farms are partly supplied by Russia's Far East organic crop production and grain-processing plants.

The plant's phase I construction includes 6 premium liquid milk production lines providing 500 t/d capacity once fully operational – at present, 5 lines are in place, producing daily output up to 200 tonnes.

The company mentions that it is planning to import 10,000 dairy cows for a new farming project and set up a feed factory with a processing capacity of 1 million t/a.

Wanding Dairy was registered in July 2020 with USD8.97 million (RMB60 million) in capital.

Two New Goat IMF Products Pushed onto the Market

On 3 July, Ausnutria launched its first organic line under the goat IMF brand Kabrita – "Yuebai" is 100% based on A2 goat milk produced in the Netherlands.

Pricing data from JD.com:

- Stage 1 (0-6 months), USD50 (RMB330)/800g can
- Stage 2 (6-12 months), USD60 (RMB399)/800g can
- Stage 3 (12-36 months), USD60 (RMB399)/800g can

On the same day, Junlebao pushed its first pure goat milk formula line – "Zhenweiai", which contains lactoferrin (100mg/100g) and OPO above 4.0g/100g (6.0g/100g in Stage 1 products) – in both cases these are the highest levels among the goat IMF products currently registered in China.

Pricing data from JD.com:

- Stage 1 (0-6 months) and Stage 3 (12-36 months), USD13 (RMB89)/170g can or USD73 (RMB489)/800g can.

PICTURE 1: New Goat IMF Products – "Yuebai" and "Zhenweiai"



Source: Kabrita and Junlebao official websites

9,000 Australian Dairy Cattle Arrive China in July

On 10 July, Beijing Zhuoyue Fuming Import & Export Co., Ltd. imported 9,000 dairy cattle from Australia through Tianjin Port. This batch is now undergoing a 45-day quarantine and isolation period before transfer to farms in Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region and Gansu, Jilin and Liaoning provinces for improvement of local dairy breeds.

Details of the imported cows:

- Breeds: Holsteins, Jerseys, Herefords, Angus and Simmental
- Age: 8–16 months
- Place of original: Australia
- Exporter: AUSTREX

Beijing Zhuoyue Fuming Import & Export Co., Ltd. was founded on 26 Feb., 2021 with a registered capital of USD2.99 million (RMB20 million) and has so far imported 100,000+ cattle, including around 35,000 in Jan.-May this year – equal to one-fifth of the national cattle imports during this period. It expects to import 80,000 head in 2022 overall.

Data from China Customs shows China's live cattle imports amounted to 152,800 head in Jan.-May, 35% (=53,500) of which were from Australia.

Yili Commissions New Global Smart Manufacturing Industrial Park

On 12 July, Yili celebrated the launch of its new Global Smart Manufacturing Industrial Park in Yili Future Intelligence and Health Valley, built in Hohhot City, Inner Mongolia Autonomous Region.

The park involves 4 major projects:

- Smart Liquid Milk Plant: With a total investment of USD747.80 million (RMB5.00 billion) and area coverage of 63.3 ha, its daily milk processing capacity is 6,500 tonnes, with 32 UHT production lines in all. The products here include Yili Pure Milk, Ambrosial Yoghurt, "Jindian Milk" series (premium line including pure/low-fat/organic milk) and "Shuhua Milk" series (lactose-free)
- Smart Infant Formula Plant: With a total investment of USD448.68 million (RMB3.00 billion) and area coverage of 34.7 ha, its capacity is 60,000 t/a, equivalent to an output value of USD1,196.48 million (RMB8.00 billion) – the world's largest infant formula plant
- Chilechuan Ecological Intelligent Pasture: With a total investment of USD104.69 million (RMB700 million) and site coverage of 750 ha plus forage growing area of 666.7 ha, this farm is to stock 12,000 dairy cows
- Yili Smart Manufacturing Experience Center: The area comprises an immersive architecture zone, movie theatre, shopping centre, hands-on learning centre and café for visitors.

Beingmate Reports Sustained Earnings growth in H1 2022

On 14 July, Beingmate's forecast for H1 2022 showed key data as follows:

- Net profit attributable to shareholders of the listed company: USD5.38 million (RMB36 million) – USD6.88 million (RMB46 million), up 7.38%–37.21% YoY
- Net profit excl. extraordinary gains/losses: USD2.99 million (RMB20 million) – USD4.49 million (RMB30 million), up 17.04%–75.55% YoY

Despite the multiple unfavourable factors such as rising pandemic infections and costs of raw materials, it was able to achieve growth, mainly in 2 areas:

- Organic sales growth of core categories including milk formulae for infants, children and adults, and formulae for special medical purposes
- Refined strategies focusing on cost reduction and efficiency improvement, which proved particularly effective in sales and internal administrative and finance matters.

Yakult Dairy Adds Capacity for LAB Drinks

On 19 July, Guangzhou Yakult Dairy Co., Ltd. (Yakult Dairy) Foshan Factory Construction Project (Phase II) received environmental approval with details as follow:

- Total investment: USD119.65million (RMB800 million), 1% (=USD1.2 million or RMB8 million), of which is for environmental protection
- Location: Sanshui District, Foshan City, Guangdong Province
- Main construction content: 2 production lines of Lactobacillus (LAB) drinks
- Designed capacity: original flavour – 403.2 million bottles/a, low sugar – 403.2 million bottles/a
- Main raw materials:
 - SMP – 1,004 t/a
 - Granular sugar – 2,528 t/a
 - Glucose – 223 t/a
- Commencement of construction: March 2020
- Commissioning time: Nov. 2021
- Site acceptance test: 24 June–25 June, 2022

This new Foshan Plant is scheduled to be constructed over 3 phases aimed at setting up a total of 7 LAB lines providing an aggregate 537.6 million bottles/a (original flavour) and 403.2 million bottles/a (low sugar).

Founded in Jan. 2001 with a registered capital of USD59.17 million (RMB395.6 million), Yakult Dairy is a subsidiary of Yakult (China) Investment Co., Ltd. and has key production plants in Guangzhou, Shanghai, Wuxi and Hong Kong.

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