Dairy Products China News

Guaranteed Exclusive Analysis

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Welcome to the July issue of Dairy Products China News.

China continues to prove difficult for many exporters, despite the recent upturns in some of the import volumes. Cheese provides a nice example – China was still the 3rd largest non-EU cheese importer in the world in 2022 after Japan and South Korea, but it had been in 2nd place in 2021 before the lowered demand last year saw it fall below South Korea.

Its true that New Zealand's cheese exports remain led by China, which accounted for around 26% of its export volumes last year. However dairy exporters with a greater focus on cheese are finding easier pickings elsewhere – if we consider the growing US cheese export business, for example, China was only its 17th market last year and currently accounts for just 2% of US cheese export volumes YTD May vs. 4% in 2018. Even Taiwan was 15th! Meanwhile, the US has been able to grow its cheese exports in absolute volumes and share of exports terms to its largest market, Mexico (31% of export volumes YTD vs 28% in 2018) and even Australia (currently 8% vs 7% in 2018!) So, whilst China has seen growing cheese imports, its import demand has yet to reach quite the heights we have anticipated in global cheese trade analysis back in the 1990s.

The domestic dairy industry needs to diversify its overall product offer and this has not proven so easy, even in growing categories such as adult formulae, as we note this month – cheese is an obvious area of opportunity and its production will take increasing volumes of milk from the country's increasing local milk supply. Foodservice is now in recovery mode around China – the opening of the 700th Tim Hortons coffee shop in China has just been announced, for instance. Cheese exporters will need to become more and more focused on market expectations, customer requirements and product differentiation in China if they are to keep growing their sales into the market.

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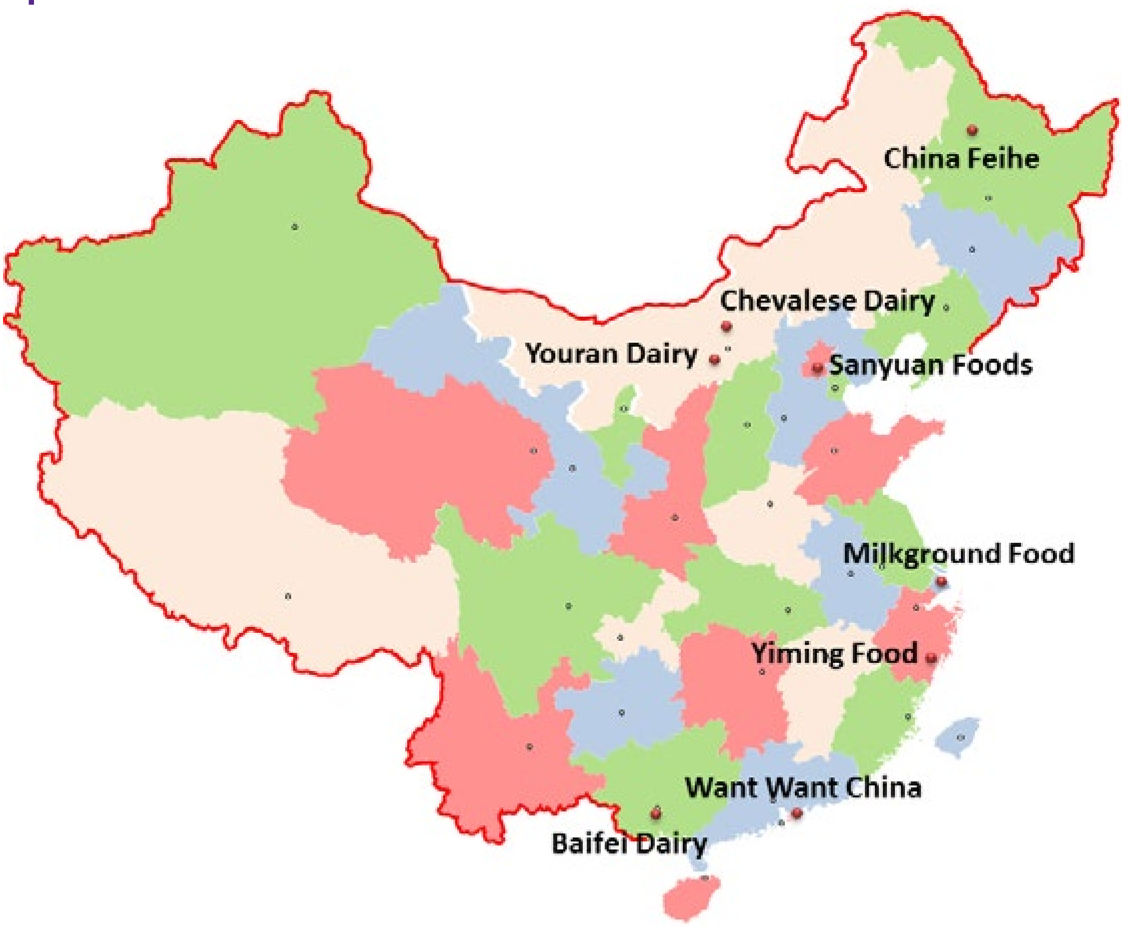
Headlines

- *Youran Dairy has announced its completion of 2 large-scale farms in Inner Mongolia Autonomous Region recently, introducing over 20,000 head.*
- *In China, oat milk is catching on with consumers, and leading brands like OATLY and the local "SupMai" have been enjoying strong sales.*
- *Formula companies are continuing to push their ranges for adults in line with demographic trends; but there remains some doubt as to whether these moves will prove to be sufficiently profitable.*
- *On 20 July, the Health Commission of Xinjiang Uygur Autonomous Region published 15 revised local food safety standards for raw milk and dairy products sourced from camels, mares, donkeys, etc., effective from 20 Dec., 2023.*
- *China has issued the Revision of Administrative Measures on Product Formula Registration of Infant Formula Milk Powder, taking effect on 1 Oct., 2023.*
- *Want Want China saw revenue down by 4.4% in FY22 (April 2022–March 2023) as it faces a challenge to grow its dairy products and beverages business.*
- *Sanyuan Foods, Milkground Food and Chevalese Dairy all predicted declines in net profits in H1 2023, particularly due to rising dairying costs.*
- *In Feb., Yakult revealed its first new product in China in 7 years – "Yakult 50 Billion Light" – and announced that it has recently completed its new plant construction in Wuxi.*
- *China Feihe and Mengniu have recently completed construction of new and added capacity for dairy products including liquid baby formula, and both ambient and fresh dairy products.*
- *China's raw milk price has continued to fall in July, reflecting clear oversupply.*

Major Companies and Sites Mentioned in This Issue



Market Analysis

Youran Dairy Completes Large Dairy Farms in Inner Mongolia

Summary: *Youran Dairy has announced its completion of 2 large-scale farms in Inner Mongolia Autonomous Region recently, introducing over 20,000 head.*

China Youran Dairy Group Ltd (Youran Dairy, Stock Code: 09858.HK) announced its completion of 2 large-scale farms in Inner Mongolia Autonomous Region on 20 June and 13 July, projects led by its subsidiaries Hohhot Jinhe Youran Dairy Co., Ltd. (Jinhe Youran) and Kailu Youran Dairy Co., Ltd. (Kailu Youran) respectively, both registered in Oct. 2022. Details of these projects are as follows.

10,000 Cow Farm – Jinhe Youran

- Construction nature: New construction
- Total investment: USD36.9 million (RMB266.1 million), USD4.3 million (RMB30.8 million) of which for environmental protection
- Site area: 720,797 m^2 for dairy farming and 103,721.19 m^2 for silage planting
- Location: Saihan District, Hohhot City, Inner Mongolia Autonomous Region
- Main construction content: Cattle shed, milking room, hay barn, silage silo, concentrates storeroom, manure treatment zone, other structures / equipment / facilities
- Dairy herd size: 4,800 milking cows, 1,200 dry cows, 2,700 replacement heifers (aged 7-24 months), 1,900 calves (aged 0-6 months)
- Product plan:
- Milk production —73,364 t/a (60,976 t/a for sale and 12,389t/a for raising calves);
- Annual culling rate —1,380 mature cow, 85 replacement heifers and 67 heifer calves
- Construction period: April 2021 – Feb. 2023
- Site acceptance test: May 2023

12,000 Cow Farm – Kailu Youran

- Construction nature: New construction
- Total investment: USD71.6 million (RMB516.3 million), USD8.1 million (RMB58.6 million) of which for environmental protection
- Site area: 120 ha
- Location: Kailu County, Tongliao City, Inner Mongolia Autonomous Region
- Main construction content: Cattle shed, milking room, hay barn, silage silo, concentrates storeroom, manure treatment zone, other structures / equipment / facilities
- Dairy herd size: 7,200 mature cows, 4,800 replacement heifers
- Production plan scheme:
  - Raw milk—88,038 t/a
  - Cows for sale— 360 head/year mature cows and 2,873 head/year of young bulls
  - Annual culling rate —2,188 mature cows, 119 heifer calves, 290 heifers
- Construction period: June 2021 – July 2022
- Site acceptance test: May-June 2023

As of 31 Dec., 2022, Youran Dairy owns 78 dairy farms and 15 feed production sites, 14 grass production sites and 3 core dairy breeding bases in China, with around 500,000 dairy cows, yielding 11.4 tonnes of milk in 2022 on average (excluding the Jerseys' output). The group produced 2.38 million tonnes of milk in total in 2022.

On 24 April 2023, Youran Dairy renewed its procurement framework agreement with Yili, which agreed to produce formula, milk powders for feed use and others for Youran Dairy within the period from 1 Jan. 2024 to 31 Dec. 2026. Youran Dairy's sales of milk to Yili accounted for 91.8% and 96.6% of its total milk sales in 2021 and 2022 respectively.

China's Growing Taste for Oatmilk

Summary: *In China, oat milk is catching on with consumers, and leading brands like OATLY and the local "SupMai" have been enjoying strong sales.*

China's oat milk market has been expanding, enabled by factors such as increasing public recognition of the benefits of oat-derived products, concern over lactose intolerance cases, the growing coffee and tea sectors and rising interest in plant-based diets. This is according to the *"2023 China Oat Milk Industry Development White Paper"*, published by the Ministry of Agriculture and Rural Affairs' Institute of Food and Nutrition Development and the China Green Food Association on 14 June.

Oat Milk, the Fastest-Growing Dairy Alternative

- In the Asian-Pacific region, sales of oat milk reached USD165 million in sales value in 2022, the fastest-growing dairy-free milk product category, led by China
- Based on data from DBStack (part of Alibaba)
  - Last year, sales of plant-based beverage on Alibaba's shopping platforms (Taobao.com, Tmall.com, etc.) came to USD173.2 million (RMB1.3 billion); oat milk accounted for about 28% of this total (=USD48.6 million/RMB351 million)
  - In March 2023, plant-based beverage sales on Alibaba's shopping platforms grew by 23% MoM and oat milk grew by 26%, outpacing the overall plant-based beverage category

New Entrants

In 2018, the Swedish business Oatly Group AB (OATLY) entered China with its signature brand OATLY, having a revolutionary impact on the country's oat milk consumption, and it has become the key player, with a market share of around 18% at present. Subsequent entrants to the category have included Oatoat/Beijing Zhibenle Food Technology Co., Ltd., Plantag/Sirun (Jiangsu) Health Technology Co., Ltd., and Liuyang/Suzhou Liuyang Plant Technology Co., Ltd. In 2021, Yili and Mengniu launched their own oat milk ranges – *"Plant Selected"* and *"Oatist"* respectively – and the non-dairy creamer producer Jiahe Foods Industry Co., Ltd. (Stock Code: 605300) also introduced the *"SupMai"* range.

The number of oat milk brands had reached 50 by 2021 and the leaders' growth continues:

- OATLY's total sales on Alibaba's platforms from April 2022 to March 2023 hit USD26 million (RMB187.9 million), with a 3.4% MoM rise in March
- *"SupMai"* made sales of USD12.2 million (RMB88.1 million) in 2022, up by 23.41% YoY, and USD3.4 million (RMB24.8 million) of sales in Q1 2023, up by 35.55% YoY

Penetration in the Coffee Channel and the Consumer Market

There have been increasing cooperations between oat milk brands and coffee chains in recently years:

- In April 2022, OATLY was added to the Starbucks menu nationwide
- In 2022, Plantag rolled out a series of collaborative initiatives with Tim Hortons
- In May 2023, Yili started to cooperate with 8 standalone cafe shops offering a summer range – *"Plant Selected Icy Oat Milk Latte"*.

Foreign brands have focused on large E-commerce platforms like Tmall.com, while local brands have concentrated on their strengths in offline marketing, cooperating with local supermarkets and restaurants. As oat milk becomes more popular among Chinese consumers, brands are being spurred to innovate in terms of taste, specification and application, to meet the diverse customer base:

- Oatoat launched an oat-based cream product, and is promoting the combination of 'oat milk+breakfast food" in FamilyMart outlets and the online grocery platform DingDongFresh
- OATLY launched an assortment of oat ice milk and ice lollies last year, selling over 400,000 units
- Shannxi Thirteen, a chain business in Xi'an City known for its creative Chinese-style deserts and pastries targeting youngsters, started selling freshly-made oat milk ice cream in its locations in April 2023

Uncertain Outlook of China's Expanding Adult Formula Segment

Summary: *Formula companies are continuing to push their ranges for adults in line with demographic trends; but there remains some doubt as to whether these moves will prove to be sufficiently profitable.*

The IMF market has suffered from China's reducing number of newborns – falling to 9.56 million in 2022, a drop of 1.06 million vs. 2021. The country's total fertility rate (births per woman) was down to 1.07 in 2022 from 1.52 in 2019. However, the adult formula category grew at a CAGR of 6% from 2016 to 2020, with an increasing aging population and growing consumer awareness of health management.

"The Second Growth"

China's formula companies have targeted this category as a result to respond to the changing demographics, seeing it as offering potetial for *"the second growth"*. Date published by Tmall shows 100+ adult formula brands and 2,500+ SKUs on the platform as of early 2023.

There have been pushes into the category by several significant brands over the last 12 months:

- Danone Nutricia launched its first such range – *"Dare to Stride"* – for the middle-aged and elderly in China in Sept. 2022
- Junlebao upgraded its the *"Legai"* formula series for the same target consumers with double calcium content and a low GI (glycemic index) level in Oct. 2022
- Mead Johnson China announced the brand *"AGIJOY"* targeting the over-50s in Dec. 2022, moving from the maternal and infant segments to whole lifecycle nutrition
- Botora – a leading sheep milk formula brand, owned by Qingdao Botora Nutrition Food Co., Ltd. – launched 2 new formula products for sugar-conscious and sleep-deficient consumers in June 2023.

Recent moves:

- Yili's *"Xinhuo"* functional milk powder products for adults and seniors have been upgraded in terms of packaging and ingredients over recent years in line with the category's potential. In 2022, the company's share in adult formula market grew by 1.1 percentage points to 25.3%, after its indication that it would be investing further in such products in 2021
- Mengniu introduced *"Yourui"*, its first premium formula series for the middle-aged and elderly, in 2018. This achieved sales growth of 21.5% in 2021, and the company confirmed that it would be focusing further R&D efforts on this category in the future
- China Feihe registered the premium formula brand *""AIBEN"* in 2014, covering products for all age. In its 2022 financial report, adult nutrition, pregnant women & babies, children & adolescents, and healthy food are prioritised as its 4 key business areas.

Success Debatable

It is noteworthy that even though the adult formula market keeps growing in China, to an estimated valued of USD2.8 billion (RMB20 billion) by 2022, this still compared with an IMF market of USD23.6 billion (RMB170 billion). The much sought-after *"second growth"* has still led to limited growth for formula businesses to date.

As an example, China Feihe made 93.5% (=USD2.8 billion/RMB19.9 billion) of its total revenue from IMF sales and only 5.4% (=USD159.8 million/RMB1.2 billion) from other dairy products (incl. adult formula) in 2022, although it is true that the latter sales were up by 16.4%.

There are several reasons why adult formula has grown at such a slow pace:

- It is a discretionary or optional purchase item. Data from Taobao.com and Tmall.com showed that 62% of the platform buyers prefer products adding particular nutritional ingredients to meet their functional needs, which means that in reality the competition extends beyond the adult formula producers to other nutritional supplements
- Consumer needs have evolved very rapidly, arguably becoming too diverse. Adult formula can include whole-family nutritional milk powders, milk powders for middle-aged and elderly, milk powders for women, etc., and meanwhile the market is calling for higher protein levels, lower fat, or functionalities to improve sleep quality, digestion, etc. This prevents companies from making significant profits from any single item
- As it is a less regulated sector and there is more room to innovate, the marketing required means higher costs. Currently, China only has one national standard applicable to adult formula products: the National Food Safety Standard: Milk Powder (GB19644-2010)— on 10 May, the National Food Safety Standards Review Committee issued a draft update to replace that 2010 version. Still, these regulations are less restrictive for adult formula than for IMF in terms of how they impact product R&D and marketing. In this sense, brands usually have more flexibility and also invest more in product innovation and building customer networks of all kinds

It seems that although China's expanding adult formula category aligns with the demographic and national health trends, whether the investments required will lead to sufficient actual profits remains a question worthy of significant debate.

Governmental Direction

Xinjiang Updates 15 Local Food Safety Standards for Niche Animal-Sourced Dairy Products

Summary: *On 20 July, the Health Commission of Xinjiang Uygur Autonomous Region published 15 revised local food safety standards for raw milk and dairy products sourced from camels, mares, donkeys, etc., effective from 20 Dec., 2023.*

On 20 July, the Health Commission of Xinjiang Uygur Autonomous Region published 15 revised food safety standards (as listed below) for raw milk and dairy products mainly sourced from camel, mare and donkey milks, effective from 20 Dec., 2023. Such products are commonly available in shops in XUAR and Inner Mongolia as well, so these are the only regions/provinces which have launched such standards.

Camel milk/dairy:

- Local Food Safety Standards – Raw Camel Milk (DBS65/010-2023)
- Local Food Safety Standards – Camel Milk Powers (DBS65/014-2023)
- Local Food Safety Standards – Modified Camel Milk Power (DBS65/023-2023)
- Local Food Safety Standards – Pasteurised Camel Milk (DBS65/011-2023)
- Local Food Safety Standards – Sterilised Camel Milk (DBS65/012-2023)
- Local Food Safety Standards – Fermented Camel Milk (DBS65/013-2023)

Horse milk/dairy:

- Local Food Safety Standards – Raw Horse Milk (DBS65/015-2023)
- Local Food Safety Standards – Horse Milk Powers (DBS65/016-2023)
- Local Food Safety Standards – Modified Horse Milk Power (DBS65/024-2023)

Donkey milk/dairy:

- Local Food Safety Standards – Raw Donkey Milk (DBS65/017-2023)
- Local Food Safety Standards – Donkey Milk Powers (DBS65/019-2023)
- Local Food Safety Standards – Modified Donkey Milk Powers (DBS65/025-2023)
- Local Food Safety Standards – Pasteurised Donkey Milk (DBS65/018-2023)

Others (also including products sourced from cow milk): Local Food Safety Standards – Fermented Milk Powders (DBS65/020-2023) and Local Food Safety Standards – Milk Tablets (DBS65/021-2023)

Major revisions:

- The 15 Standards are now subject to the National Food Safety Standard – Maximum Levels of Contaminants in Foods (GB2762-2022)
- Modified camel, mare and donkey milk powders are further defined in the separate standards from the previous standards for these products
- Detailed definitions (revised/new content is highlighted in bold):
    - Modified donkey milk powder: Powdered product made from donkey milk and/or **whole donkey milk (or skimmed or partially skimmed)** processed products, with the addition of one or more kind(s) of other raw materials **(excluding milk and dairy products from other animal sources, animal- and plant-based proteins and fats)**, food additives and nutrition enhancer, with solid **donkey** milk content of not less than 70%
    - Modified camel milk powder: Powdered product made from camel milk and/or **whole camel milk (or skimmed or partially skimmed)** processed products, with the addition of one or more kind(s) of other raw materials **(excluding milk and dairy products from other animal sources, animal- and plant-based proteins and fats)**, food additives and nutrition enhancer, with solid **camel** milk content of not less than 70%
    - Modified horse milk power: Powdered product made from horse milk and/or **whole camel milk (or skimmed or partially skimmed)** processed products, with the addition of one or more kind(s) of other raw materials **(excluding milk and dairy products from other animal sources, animal- and plant-based proteins and fats)**, food additives and nutrition enhancer, with solid **horse** milk content of not less than 70%
- The revision for donkey milk powder lowers the standard's level for fat content from ≥8.0% to ≥2.5%

TABLE 1: Maximum Levels of Contaminants in Milk and Dairy Products

Item	Raw milk	Milk Powders and Modified Milk Powder	Pasteurised Milk	Sterilised Milk	Modified milk	Fermented Milk
Lead (Pb), mg/kg≤	0.02	0.2	0.02	0.02	0.04	0.04
Total arsenic content (As), mg/kg≤	0.1	0.5	0.1	0.1	0.1	0.1
Total chromium content (Cr), mg/kg≤	0.3	2	0.3	0.3	0.3	0.3
Total nitrite content (NaNO2), mg/kg≤	0.4	2	–	–	–	–

Source: National Food Safety Standard – Maximum Levels of Contaminants in Foods (GB2762-2022)

TABLE 2: Composition Indicators for Camel, Horse and Donkey Milk Powders

Item	Camel Milk Powders	Horse Milk Powders	Donkey Milk Powders
Protein, g/100g≥	≥34% of non-fat milk solids	≥18% of non-fat milk solids	≥18% of non-fat milk solids
Fat, g/100g≥	28	10	2.5
Lactose, g/100g≥	–	58	56
Acidity of reconstituted lactic acid, °T≤	24	10	6
Impurity, mg/kg≤	16	16	16
Water, g/100g≤	5	5	5

Source: DBS65/014-2023, DBS65/ 016-2023, DBS65/ 019-2023

Note: 1. Non-fat milk solids percentage = 100%- FAT percent – Water percent 2. The fat content index applies only to whole milk powders.

China Updates Administrative Measures for Infant Formula Registration

Summary: *China has issued the Revision of Administrative Measures on Product Formula Registration of Infant Formula Milk Powder, with tightened rules on product production and labelling, taking effect on 1 Oct., 2023.*

On 10 July, the State Administration for Market Regulation (SAMR) issued the Revision of *Administrative Measures on Product Formula Registration of Infant Formula Milk Powder* (Decree No.80), effective as of 1 Oct., 2023., to replace the 2016 version (Decree No.26). Sale of products made before the implementation date is allowed up to their expiry dates.

Major changes:

9 Specified Barriers to Registration:

- False claims – to qualify as registered IMF, the products must be made by manufacturers which are able to complete the entire manufacturing and packaging process and are not simply packaging base powders (see DPCN202211 *"Detailed Rules for the Review of Production Licensing of Infant Formula Milk Powder (2022 version)"*)
- False application documents
- Insufficient scientific and safety evidence for the formula
- The applicant lacks capabilities for developing, producing or testing the formula
- The applicant fails to submit supplementary documents (if there are missing / incorrect documents in their first submission) within the prescribed time limit, or the resubmitted documents do not meet the requirements.
- The applicant fails to confirm the date of on-site inspection within the time limit, or refuses / fails to

cooperate with on-site or sampling inspections (on-site inspection is to verify the consistency between application documents and the actual production situation. sampling inspection involves taking samples of IMF products during the on-site inspection and sending these to the food inspection agency to confirm product compliance with the new national standards)

- Conclusion of on-site inspection report or sampling inspection report does not meet the registration requirements
- The formulae have no evident differences from the applicant's registered products in the same age category
- Other situations that do not meet the registration requirements of national laws, regulations, rules and food safety standards

7 Situations Requiring On-site Inspections

- New formula products (the maximum number of formulae that can be registered by a company is 9, with no more than 3 product series for each of the 1-3 stages)
- Significant changes in product formulation
- Significant changes in production process which are not included in the registered information of the formula products within the validity period
- Change of production site
- Issues found during technical review to require on-site verification
- Provision of false documents, concealing facts in the previous registration
- Other situations requiring on-site inspection

3 Practices Prohibited on Product Labels

- Ambiguous descriptions, such as *"imported milk source", "sourced from foreign farm", "natural farm", "imported ingredients", "natural milk origins", "pollution-free milk origin"*
- Use of images of babies or patients, and expressions such as *"humanised milk", "breast milk"* etc
- Other content that fails to comply with China's laws, regulations, rules and national food safety standards

The Revision also aims to improve business environment:

- If a group company has an independent R&D organisation, its subsidiaries can share the group's R&D capabilities when they apply for registration
- Parent companies and their subsidiaries may share the same formula according to the Revision

Company Dynamics

Want Want China Faces Growth Challenge

Summary: *Want Want China saw revenue down by 4.4% in FY22 (April 2022–March 2023) as it faces a challenge to grow its dairy products and beverages business.*

On 27 June, Want Want China Holdings Ltd. (Want Want China, Stock Code: 0151.HK) issued its annual report for FY22 (April 2022–March 2023).

- Total revenue: USD3.2 billion (RMB22.9 billion), down 4.4%, with gross margin down by 0.9 percentage point to 43.9%
- Net profit attributable to equity shareholders: USD467.3 million (RMB3.4 billion), down by 19.8%

Representing almost half its turnover, its sales of dairy products and beverages fell by 13.5%, although beverages alone grew by single digits. Its flagship product *"Hot-Kid Milk"* – a reconstituted flavoured milk introduced to China in 1996, which has long made up over 90% of the company's sales of dairy products and beverages – suffered a double-digit decline. The restriction on gatherings and leaving home during the pandemic period was the primary reason, the company claims.

However, sales of *"Hot-Kid Milk"* have been volatile in recent years: their growth dropped from 10% in FY17 to 1.9% in FY19, and then rose by 11.3% in FY20 and 18.4% FY21, before this new fall, the first in the last five years. The company indicates recovering results in Q1 2023 thanks to its push into E-commerce.

Overall, though, the flavoured milk market in China is shrinking, valued USD14.4 billion (RMB103.6 billion) in 2014 but only USD8.4 billion (RMB60.4 billion) in 2020. In the 2022 Spring Festival period, the share of flavoured milk in overall liquid milk sales fell by 4.9 percentage points to 11.9%.

TABLE 3: Want Want China's Sales by Category in FY21-22, USD million

Category	FY21	FY22	Change	Share in FY22
Rice crackers & extruded snacks	775	809.8	4.50%	25.50%
Dairy products & beverages (UHT/chilled flavoured milk and yoghurt, lactobacillus drinks, RTD coffee, juice drinks, etc.)	1,784.10	1,542.50	-13.50%	48.50%
Leisure snacks (candy, ice cream & popsicle, biscuits, etc.)	748	806.6	7.80%	25.40%
Others (mainly alcohol)	16.9	18.6	9.90%	0.60%

Source: Want Want China's Annual Report for FY22

Note: FY21 = April 2021–March 2022 FY22 = April 2022–March 2023

Want Want China has been addressing the challenge by diversifying its portfolio to target a wider age range of consumers, including infants and children, woman, middle-aged and the elderly. Products that were launched in the last 5 years under the category of dairy products and beverages, contributed over USD97 million (RMB700 million) to sales. In FY22 the repackaged classic red Hot-Kid Milk PET-bottle achieved sales of USD11.1 million (RMB80 million) vs. new flavours (nut, chocolate, etc) at USD27.7 million (RMB200 million).

The company has also focused on developing new sales channels and overseas expansion. In FY22, its sales through traditional channels (eg. supermarkets and convenient stores) and the emerging channels (eg. E-commerce platforms) were widely affected by the pandemic, but performance in overseas markets fared better, with snacks, dairy products and beverages all showing growth.

Key measures/goals for the company are to:

- Increase penetration in convenience stores
- Explore content E-commerce platforms, social platforms and other new online business channels
- Improve sales in South Asia, the Americas and the Europe, with the support of its new plant in Vietnam

Production Costs Eroding Dairy Firms' H1 Profits

Summary: Sanyuan Foods, Milkground Food and Chevalese Dairy all predicted declines in net profits in H1 2023, particularly due to rising dairying costs.

Among the many corporate earnings forecasts for H1 2023 released this month, Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429), Shanghai Milkground Food Tech Co., Ltd. (Milkground Food, Stock Code: 600882) and Inner Mongolia Chevalese Dairy Group Co., Ltd. (Chevalese Dairy) have all marked down their profit figures, citing underperforming dairying operations and rising costs.

Sanyuan Foods

Reported on 14 July, Sanyuan Foods's predicts its revenue to remain largely unchanged in H1 2023 from the same period last year, despite the sales of its dairy products and ice cream rising by 10.7% YoY, but expects a lower profit:

- Revenue: USD589.99 million (RMB4.25 billion)
- Net profit attributable to equity holders of the parent company: USD26.3 million (RMB190 million)–USD31.2 million (RMB225 million), up by 104%–142% YoY
- Net profit excl. extraordinary gains/losses: USD1.8 million (RMB13 million)–USD2.5 million (RMB18 million), plunging by 80%–86% YoY

Factors explaining this forecast:

- Beijing Sunlon Livestock Development Co., Ltd (Sunlon Livestock) – Sanyuan Foods' dairying business – selling milk at lower prices whilst facing high costs, making a loss of USD9.3 million (RMB67 million) in H1 (a loss offset by growing sales of dairy products and ice cream)
- To help alleviate pressure on its contracted suppliers, Sanyuan Foods increased production of bulk milk powders using the milk surplus; meanwhile, it said that the value of its inventory of bulk milk powders

dropped by around USD15.2 million (RMB110 million) in H1, whilst expecting the net profit from its dairy products and ice cream business to jump by 80% YoY, countering the loss on the raw milk operation

- In May 2023, Sanyuan Foods sold part of its shareholding in Sunlon Livestock, achieving an (extraordinary) income USD26.3 million (RMB190 million) in doing so raising *"net profit attributable to equity holders of the parent company"*, but not affecting *"net profit excl. extraordinary gains/losses"*

Milkground Food

Reported on 14 July, Milkground Food's net profit is expected to fall by double digits.

- Net profit attributable to equity holders of the parent company: USD3.6 million (RMB26 million)–USD4.7 million (RMB34 million), down by 74.24%–80.3%
- Net profit excl. extraordinary gains/ losses: USD277,173 (RMB2 million)–USD554,346 (RMB4 miliion), down by 96.55%–98.27%

Factors explaining this forecast:

- In H1, the company's cheese business income and its overall operating income declined YoY, due to the slow consumption recovery at home and macro business environment factors
- Climbing costs of its main raw materials also hit cheese profit margins, including imported materials, as the Yuan depreciated

Chevalese Dairy

Reported on 12 July, Chevalese Dairy's revenue is expected to increase but net profits to contract:

- Revenue: USD68.1 million (RMB491.4 million)–USD68.6 million (RMB495.1 million), up 32.8%–33.8%
- Net profit attributable to equity shareholders of the listed company: USD5.6 million (RMB40.1 million), down 13.26%–22.78%
- Net profit attributable to equity shareholders excl. extraordinary gains/losses: USD5.4 million (RMB39.1 million)–USD6.1 million (RMB44 million), down 3.83%–14.61%

Factors explaining this forecast:

- The lower milk price and higher costs in dairying reduced net profits in H1: the company's selling price of raw milk averaged USD666.6/t (RMB4,810/t) in the period, down by 5.69 YoY; meanwhile the prices of corn and forage grass increased significantly, it notes

Yakult's Continuing Expansion in China

Summary: *In Feb., Yakult revealed its first new product in China in 7 years – "Yakult 50 Billion Light" – and announced that it has recently completed its new plant construction in Wuxi.*

On 14 July, the Japanese dairy firm Yakult completed the construction of its new plant in Wuxi, Jiangsu Province. Built on a site of 67,000 m^2 at a cost of USD300 million, the plant has 12 production lines for *"Yakult 50 Billion Light"* – giving a total capacity of 900,000 bottles per day. It will serve the key markets in East and Central China and support other regions as well. It is the firm's 2nd plant in the city, so making Wuxi its largest production base in the world. Yakult entered the market with a sales office in Guangzhou and then another in Shanghai; it now has 7 plants (2 in Guangzhou, 2 in Wuxi, 1 in Shanghai and 1 in Tianjin) and 51 offices across China.

"Yakult 50 Billion Light" was launched eariler this year, its 1st new product in China in the past 7 years. It is a high bacteria count, high value-added fermented milk drink, zero-fat and zero-sugar. It sells in a golden pack at a slightly higher price than the company's earlier launches in China (the red-bottle Yakult Original and the blue-bottle Yakult Light).

Yakult entered China in 2002 with a single probiotic drink product in its classic – Yakult Original (100ml) – and has led China's chilled probiotic drink market ever since. The country's probiotics sector has developed massively over years, especially benefitting from the recent health food trend:

- In 2018–2022, China's probiotics market value grew from USD9 billion (RMB64.8 billion) to USD15.2 billion (RMB109.4 billion), at a CAGR of 14%, according to data from Health Products Association China (HPA China)
- In 2021, the International Probiotics Association (IPA) reported that China had become the world's 2nd largest probiotics market after the US

Yakult has benefited from the rapid market growth – and played a part in driving it as well. From 2002 to 2016, its sales volume surged from 59,000 to 5,825,000 bottles per day, it launches enabling it to accelerate its growth to a CAGR of 39%. The daily sales volume reached 7,526,000 in 2018 before a downturn in 2020:

- In 2021, Yakult daily sales volume fell to 6,980,000 bottles; from August 2021 to August 2022, its turnover in China was down by 16.2%, with penetration rates down by 3.4%

- In 2023:
  - January: daily sales averaged 5,320,000 bottles, only 83.1% of the figure in Jan. 2022
  - February: daily sales were 119.1% of those in Feb. 2022, despite slipping to 4,250,000 bottles
  - March: daily sales improved slightly to 5,060,000 bottles (=87.1% of Mar. 2022)

Recent sales declines and rising material costs pushed Yakult to raise the prices of Yakult Original and Yakult Light at the beginning of this year, in a bid to improve profitability; it clearly hopes that the continuous expansion will turbocharge the overall performance.

But the probiotic drinks category has a relatively low entry bar, so competitors have been proliferating over the years:

- In 2009, Mengniu launched the yoghurt drink brand *"YoyiC"* with a proprietary Lactobacillus Paracasei, which it continues to target mainly at the 3rd- and 4th-tier cities
- In 2012, Yili introduced the *"MeiYiTian"* series, selling in different specifications (100ml, 330ml, 350ml and 900ml) and containing various probiotic strains
- In 2014, Wahaha and Qiaqia Food launched their own probiotic drinks, both in 100ml bottles
- In 2020, Juneyao Health launched on the Shanghai Stock Exchange and became known as the *"first lactic acid bacteria beverages stock"* (Stock Code: 605388)
- Junlebao, Wei-Chuan Foods, Master Kong and other large food enterprises have also joined the market

It is telling that whilst Yakult reported its market shares in China as 59.8%, 62.9%, 62.6%, 62.8%, 63.2%, 63.1% for the months from Oct. 2018 to March 2019, it has not published such figures since then.

Latest New Plants Completed by China Feihe and Mengniu

Summary: *China Feihe and Mengniu have recently completed construction of new and added capacity for dairy products including liquid baby formula, and both ambient and fresh dairy products.*

In July, a completed expansion project by China Feihe Ltd (China Feihe, Stock Code: HK.06186) was approved by the Department of Ecology and Environment of Heilongjiang Province, project details as follows:

- Construction nature: Conversion and expansion
- Total investment: USD18.7 million (RMB136.6 million), 0.12% (=USD22,173/RMB160,000) of which for environmental protection
- Location: Kedong County, Qiqihar City, Heilongjiang Province
- Site area: the existing production site of 1,716 m^2
- Construction content: Add a production line for liquid baby formula (capacity: 10,000t/a) and upgrade a packing line for infant formula powder (capacity: 5,000t/a)
- Working system: 35 employees working in two 8-hour shifts for 300 days per year
- Start of construction: May 2020
- Commissioning time: April 2023
- On-site monitoring: 20 June–21 June 2023

Also in July, Mengniu received approval for the following 2 construction projects:

1st Project:

- Construction nature: Conversion
- Total investment: USD5.8 million (RMB42.2 million), 8.3% (=USD485,441/RMB3.5 million) of which for environmental protection
- Location: Inner Mongolia Horinger Economic Development Zone
- Site area: the existing production site
- Construction content: Replace the original UHT milk line with a new line for fresh milk (capacity: 375,000 t/a)
- Working system: 8 new employees working in three 8-hour shifts for 365 days per year
- Start of construction: Sept. 2021
- Commissioning time: April 2022
- On-site monitoring: April 2022

2nd Project:

- Construction nature: New construction
- Total investment: USD145.5 million (RMB1.1 million), 2.83% (=USD4.1 million/RMB29.7 million) of which for environmental protection
- Location: Economic and Technological Development Zone of Meishan City, Sichuan Province
- Total building areas: 41,080.4 m^2
- Main construction content: 7 smart ambient production lines for fermented milk and milk beverages (total capacity: 240,000 t/a)
- Working system: 310 people working in three 8-hour shifts for 365 days per year
- Start of construction: Dec. 2020
- Commissioning time: Sept. 2021
- On-site monitoring: 13 Dec.–14 Dec.2022; 10 July–11 July 2023

TABLE 4: Production Plan of Mengniu's Smart Ambient Production Lines

Product Range	Category	Pack size, g	Designed capacity, t/a
"Just Yoghurt"	Fermented Milk	200	80,000
"Zhenguoli" Fruit Milk Drink	Milk beverage	250	80,000
Mengniu Breakfast Milk	Milk beverage	250	40,000
Mengniu Fermented Milk	Fermented Milk	250	40,000
Total			**240,000**

Source: Environmental report on the completed construction of Mengniu

Raw Milk Price

Raw Milk Price Still on the Slide

Summary: China's raw milk price has continued to fall in July, reflecting clear oversupply.

In the week ended 12 July, China's raw milk price averaged USD521.1 (RMB3,760) per tonne, down 0.3% from the first week of the month and down 8.7% YoY.

Feeds market:

- The national price of corn averaged USD411.6/t (RMB2,970/t), up 0.3% from the first week but down 1.3% YoY; the average in major production regions (Heilongjiang, Jilin and Liaoning) was up 0.7% to USD377/t (RMB2,720/t) compared with the first week; and the price in the main demand area (Guangdong) rose by 1.3% to USD428.2/t (RMB3,090/t) from the first week
- The national price of soybean meal averaged USD608.4/t (RMB4,390/t), up 0.7% from the first week of the month but down 0.7% YoY

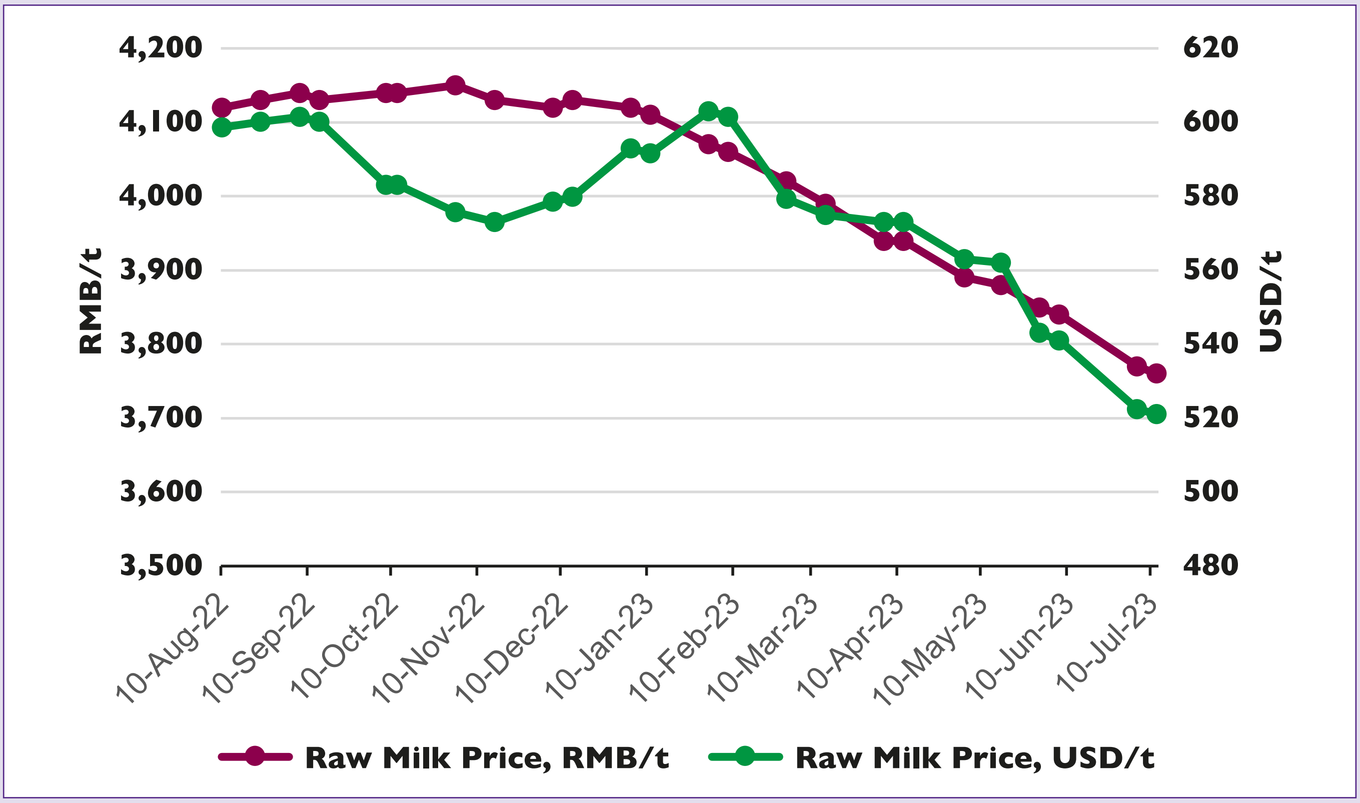
Factors pushing milk prices down:

- **Uncertain market demand:** Taking the market leader Yili as an example: in 2022, itss sales of liquid dairy products fell 0.6% YoY. Its sales of ambient products edged up by 0.5%, mainly driven by increased purchased volumes per customer and expanded consumer groups; however, its chilled product sales fell 4.9% as per customers' purchase frequency dropped, and sales of adult formula products fell for the same reason
- **Recovering imports:** in June, China imported 260,000 tonnes of dairy products, up 8.2% YoY; year to June, 1.55 million tonnes of dairy products were imported. This took some market share from local brands, leading to lower demand for local milk to process finished products
- **Accelerating growth in milk supply:** In 2022, 201 farming projects (new/expansion) started up in China, with a combined designed cattle number of 1,470,000 head; in H1 2023, China's national raw milk production of 17,940,000 tonnes was up by 1,250,000 tonnes or 7.5% YoY

Reference trading prices for raw milk for Q3/H2 2023:

- Shanghai Municipality: USD572.4/t (RMB4,130/t), effective H2 2023
- Shandong Province: USD512.8/t (RMB3,700/t)–USD554.3/t (RMB4,000/t), effective Q3 2023

FIGURE 1: Trends in China's Raw Milk Price, August 2022–July 2023



Source: Ministry of Agriculture and Rural Affairs (MARA)

News in Brief

Dairy Imports in June 2023

This year's June imports show broadly healthy trends for most exporters to China when compared to the volumes recorded in June 2022 – for example with volumes for cream, butter and cheese all reflecting the recovery of demand in foodservice/bakery channels. Milk powders also grew, although whey permeates and powders were quite flat and there were declines in some segments, notably liquid milk, AMF, *"other"* cheeses and infant nutritionals. Overall, YTD June imports are still down 10% YoY in LME terms, with WMP demand much down given local spray drying, but traded volumes have proven positive for SMP/NFDM, whey permeate / powder, several cheese tariff groupings, lactose, infant nutritionals and casein over H1 2023.

TABLE 5: 2023 June Imports, tonnes

HS code	Product	202206	202305	202306	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	9,592.7	5,668.5	6,906.9	21.8%	-28.0%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	54,341.3	43,690.3	46,127.0	5.6%	-15.1%
04014000	Milk & cream, 6%	3.9	0.3	3.5	999.7%	-10.3%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	17,661.9	20,239.9	26,811.1	32.5%	51.8%
04021000	Milk & cream in solid forms,fat ≤1.5%, concentrated/ sweetened	23,975.3	32,068.5	28,838.7	-10.1%	20.3%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	35,462.3	52,512.9	48,804.7	-7.1%	37.6%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	118.6	57.4	13.0	-77.3%	-89.0%
04041000	Whey and modified whey	51,295.8	57,034.4	52,284.8	-8.3%	1.9%
04049000	Products consisting of natural milk constituents, nes	378.2	634.9	445.1	-29.9%	17.7%
04051000	Butter	5,973.5	7,397.9	8,780.5	18.7%	47.0%
04059000	Other fats & oils derived from milk	3,527.0	1,370.7	3,363.0	145.4%	-4.6%
04061000	Fresh cheese, incl. whey cheese, curd	4,127.3	4,958.7	7,357.2	48.4%	78.3%
04062000	Grated or powdered cheese	1,401.2	5,589.4	4,703.4	-15.9%	235.7%
04063000	Processed cheese, not grated or powdered	900.4	1,679.1	2,045.2	21.8%	127.2%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	11.9	9.0	5.2	-42.5%	-56.5%
04069000	Cheese, nes	3,172.1	3,783.8	2,566.1	-32.2%	-19.1%
17021100	Anhydrous lactose, lactose wt.≥99%	10,389.4	17,178.7	20,027.8	16.6%	92.8%
17021900	Lactose syrup & other lactose	99.9	0.5	6.9	1284.0%	-93.1%
19011010	For infant food retail packaging formula,the defatted cocoa content < 5%	22,299.1	22,819.8	13,556.4	-40.6%	-39.2%
35011000	Casein	1,218.6	1,466.0	1,933.3	31.9%	58.7%
35019000	Caseinates	1,161.3	1,843.4	2,519.9	36.7%	117.0%
35022000	WPC80/WPI	3,166.6	2,055.5	4,354.8	111.9%	37.5%

Source: China Customs

Fengcao Dairy's New Plant Approved

On 10 June, the local Ecology and Environment Bureau in Xinjiang Uygur Autonomous Region approved the environmental impact assessment statement on a new plant project for Ili Fengcao Dairy Co., Ltd. (Fengcao Dairy).

Project overview:

- Construction nature: New construction
- Location: Huocheng Economic Development Zone, Qingshui River Town, Huocheng County
- Site area: 59,447,54 m^2
- Total investment: USD20.8 million (RMB150 billion), 0.65% (=USD135,815/RMB980,000) of which for environmental protection
- Main construction content: A 2,000t/a milk powder line and a 8,000t/a liquid milk line, plus supporting facilities
- Raw milk consumption: 12,000 t/a for the powders (self-supplied) and 8,000 t/a for liquid milk (outsourced)
- Staffing: 148 people, composed of 15 administrators, 37 technical workers and 96 production workers
- Working system: The plant is scheduled to run 8 hours per day for 250 days annually
- Construction duration: 5 months starting from 26 April 2023

Fengcao Dairy was founded in May 2022 with a registered capital of USD6.92 million (RMB50 million). It is the 3rd plant of Xuelian Dairy Group, after Shannxi Kaida Dairy Co., Ltd. and Ili Xuelian Dairy Co., Ltd. Xuelian Dairy Group focuses on camel dairy products – with a flagship camel formula brand *"Alpine Pasture"* – complemented by products produced from goat, mare and donkey milks. It has 3 organic camel farms in Keketuohai town, Tuohulasu Prairie and Nalati Grassland in Xinjiang with over 300 million m^2 of alpine and desert pastures and about 20,000 camels in all. It has 200 t/d raw milk processing capacity and 9,000 t/a milk powders capacity.

Heilongjiang Moves to Stabilise Milk Market

On 21 June, Heilongjiang Province's Department of Agriculture and Rural Affairs, together with the province's finance, market supervision administration and other departments, issued the *"Opinions on Stabilising the Current Raw Milk Market"*, providing guidelines for local subordinate offices on raw milk trading up to 31 Dec., 2023.

Key takeaways:

- Arrange fortnightly checks on local farms' production status and work out solutions when sales difficulties arise, with the provincial and local governments working together; prohibit unjustifiable rejections or reductions in contracted raw milk purchases
- Establish an emergency response mechanism to prevent such rejections or reductions, abnormal culling levels or farm / business closures
- Initiate a USD16.6 million (RMB120 million) subsidy scheme for raw milk purchase, providing up to USD13.9 (RMB100) per tonne traded, and a USD4.2 million (RMB30 million) subsidy scheme for increased purchases, offering up to USD27.7 (RMB200) per tonne of annual increments— the subsidies will be given by the provincial department (50%) and county-level department (50%)
- Launch financial services and credit products for farmers, such as mortgage plans for *"big data + dairy farming"* projects, dairy animals, dairy farms, and large farming machinery and equipment

During H1 this year, China's milk price across the main producing regions has been on the slide. The minimum reference price in Heilongjiang dropped from USD547.4/t (RMB3,950/t) in Q1 to USD540.5/t (RMB3,900/t) in Q2, and the province has spray dried 1,600-1,700 tonnes milk per day on average, suggesting ongoing inventory pressure for businesses.

Baifei Dairy Starts Pre-Listing Tutoring

On 26 June, Guangxi Baifei Dairy Co., Ltd. (Baifei Diary) started pre-listing tutoring, aiming to go public on the main board of Shanghai Stock Exchange (SSE). The business was set up in Dec. 2017 with registered capital of USD22.9 million (RMB165.5 million) by Guangxi Baifei Investment Co., Ltd. (Guangxi Baifei, previously known as Guangxi Baiqiang Buffalo Group Co., Ltd). It sells a range of buffalo dairy products including pure (UHT) milk, fresh milk and yoghurt, and school milk, and markets a premium buffalo range – *"Bonus"*.

Guangxi Baifei was founded in May 2003 and listed on the New Third Board (or National Equities Exchange and Quotations, NEEQ) in June 2018. In April 2020, the Group transferred its main business operation to Guangxi Baifei and withdrew from the New Third Board in March 2021. Before its withdrawal, Guangxi Baifei disclosed revenue of USD37 million (RMB267 million) in H1 2020, 94.6% deriving from the *"Bonus"* range.

According to Baifei Dairy, the company is valued at around USD110.9 million (RMB800 million); it is a leading producer of buffalo dairy products (the other major producers are:

- Royal Group Group Co., Ltd. (Stock Code: 002329) with a 60% market share in buffalo milk
- Junlebao (which acquired the buffalo milk firm Yunnan Royal Lesson Dairy Co., Ltd. this May)
- Guangxi Guiniu Buffalo Dairy Corp.
- Beijing Lepur Food Technology Co., Ltd.,

However, most buffalo dairy processors are regionally focused and smallscale. It is still unclear whether Baifei Dairy could make it to the main board and how to keep its revenue growing in this niche market with limited apparent space for growth.

Mengniu Privatises Yashili

On 5 July, China Mengniu Dairy Company Ltd (Mengniu, Stock Code: 02319) announced the privatisation of Yashili International Holdings Ltd (Yashili, Stock Code: 01230) at the offer price of HKD1.20 per share, the public shares in Yashili being cancelled in Hong Kong Exchanges (HKEX) for a payment, with immediate effect.

In its Privatisation Proposal of May 2022, Mengniu pointed out that Yashili's stock was not performing well, with both share price and trading volume at the low end, and in the face of intensifying market competition, contending that privatisation could make Yashili a more flexible business in responding to this challenge.

Yashili's revenue rose from USD505.7 million (RMB3.6 billion) in 2020 to USD614.6 million (RMB4.4 billion) in 2021, but 2022 saw its first revenue decline in 5 years, by 15.7% YoY to USD518.0 million (RMB3.7 billion). Meanwhile, its net profit of USD14.0 million (RMB101 million) in 2020 turned to net losses of -USD11.3 million (RMB81.4 million) in 2021 and -USD32.0 million (RMB231.0 million) in 2022.

Predictably, this hit Mengniu's overall financials: in 2022, its sales of dairy products reached USD1.2 billion (RMB8.7 billion), but formula was the only category in decline, at USD535.2 million (RMB3.9 billion), down 22% vs. 2021.

Yiming Food Returns to Profit in H1

On 13 July, the liquid dairy business Zhejiang Yiming Food Co., Ltd. (Yiming Food, Stock Code: 605179.SH) indicated a return to profitability in H1 2023:

- Net profit attributable to shareholders of the parent company: USD3.3 million (RMB24 million), compared with the loss of USD9.2 million (RMB66.3 million) in H1 2022
- Net profit after excl. extraordinary gains/losses: USD2.9 million (RMB21 million), compared with the loss of USD9.7 million (RMB69.8 million) in H1 2022

The company underlined its effective measures during the reporting period, including:

- Prioritising marketing to membership and community groups, and expansion of its own (and franchised) retail outlets across the country to boost revenue.
- Streamlining its supply chain to increase margins and promoting targeted marketing to cut marketing costs
- Optimising its staffing strategy and its expansion plan for its self-operated stores to improve their operational efficiency

Yiming Food was founded in 2005 and listed on Shanghai Stock Exchange (SEE) in late 2020. It focuses mainly on fresh milk, flavoured yoghurt and lactobacillus drinks), as well as having business in bakery and snack food products.

Xiangpiaopiao Profit Warning for H1 2023

On 11 July, Xiangpiaopiao Food Co., Ltd. (Xiangpiaopiao, Stock Code: 603711.SH) issued a profit warning for H1 2023, but alongside this suggested signs of improvement:

- Revenue: USD162.1 million (RMB1.2 billion), up 36.05% YoY
- Net loss attributable to parent company: -USD6.1 million (-RMB44.0 million), a loss reduced by USD11.8 million (RMB85.2 million) compared with the same period last year
- Net loss attributable to parent company excl. extraordinary gains/losses: -USD11.1 million (-RMB80.0 million), a loss reduced by USD9.9 million (RMB71.1 million) compared with the same period last year

Xiangpiaopiao noted that in H1 consumer demand was recovering, albeit at a slow rate. To mitigate the pressure from the situation, the company has re-established its powdered drinks business and conducted marketing campaigns to boost ready-to-drink (RTD) beverage sales, with new products' sales going well, it indicates, enabling it to post the lower loss in H1 2023 as a result – a relative success in a difficult situation.

China's Latest Holstein Imports

Recently, several batches of Holsteins have been imported from New Zealand and Australia to China:

- In mid-May, 3,000 were imported from Australia, arriving at the farm run by Heilongjiang Tianmuran Organic Animal Husbandry Co., Ltd. in Kedong County of Qiqihaer, Heilongjiang on 7 July, after their 45-day inspection and quarantine. It is a part of that company's project to build a farm for 8,000 cows in total on a site of 380,000 m^2, to produce 57,000 tonnes milk per year, with an investment of USD70.7 million (RMB510 million). So far, the 1st-phase construction work has been completed, including introduction of 5,000 cows. Tianmuran Husbandry was founded in Aug. 2020, with a registered capital of USD5.5 million (RMB40 million)
- In late June, 2,049 head (aged 12-13 months) were imported from New Zealand by Inner Mongolia Xiugang Agriculture and Animal Husbandry Co., Ltd. (Xiugang Husbandry). This batch is to be transferred to Xiugang Husbandry's farm in Ulanhot, Hinggan League, on which construction work started in Sept. 2022 – the facility is due to finish in Oct. 2023 with total dairy herd of 3,500. Xiugang Husbandry was set up in Sept. 2020, with a registered capital of USD6.9 million (RMB50 million), a wholly-owned subsidiary of Beijing Xiugang Animal Husbandry Technology Co., Ltd.
- Also in late June, 606 were imported from Australia by Heqing Xiongrui Animal Husbandry Co., Ltd. (Xiongrui Husbandry). This is the first batch to be transferred to Xiongrui Husbandry's farm in Heqing County, Dali Bai Autonomous Prefecture, southwest Yunnan Province, which is still under construction. It is designed to hold 3,000 head and produce 12,000 tonnes milk per year, worth around USD6.9 million (RMB50 million). Xiongrui Husbandry was founded in Sept. 2020, with a registered capital of USD4.2 million (RMB30 million).

Bubs Australia Lowers Forecast For China Operation

Bubs Australia Ltd (ASX: BUBS) is curtrently operating without a CEO and with its China strategy in a mess – *"Clearly our China strategy has failed…..Our daigou business was overly reliant on rebates and discounts"* stated said an independent non-executive director early this month.

It has cut its China revenue forecast to a low-end range of USD13.5 million – 13.8 million in its latest statement on 30 June. It attributed this to the lower-than-expected level of distribution achieved in market. The Bubs Supreme A2 baby formula series designed for the market saw poor sales during Sept. 2022–March 2023, due to a failure to optimise its planned online-to-offline (O2O) business model. The poor sales have created a bulk raw material inventory issue for Bubs Australia and its Deloraine manufacturing facility in Melbourne, whilst its finished-product inventory in China is estimated to take over 5 years to use up, based on the current rate of sale.

In Sept last year, a partnership was signed between Bubs and Heilongjiang Ubeite Dairy Group Co., Ltd. (HUG), designating HUG to handle local distribution of Bubs' China label goat infant formulae. To date, though, HUG has not received approval for the Chinese trademark registration in compliance with the new national infant formula standard. According to the statement, Bubs has asked HUG to withdraw the registration application under its name. Registration is now being sought for the Deloraine site, with plans for a local manufacturing JV in Heilongjiang now abandoned.

Zhong Xue Gao and Maui Announce Ice Cream Collaboration

On 30 June, Chinese ice cream brand Zhong Xue Gao, or Chicecream, owned by Zhong Xuegao Food (Shanghai) Co., Ltd. reached a collaboration agreement with Maui Milk, a New Zealand-based company providing sheep milk products to co-develop a sheep milk-based ice cream. (In 2014 Maui Milk was founded by Shanghai Bewell Food Co., Ltd. (established in Feb. 2013) and Waituhu Kuratau Trust to build farms in New Zealand and develop the brand Maui. The Trust had been milking sheep since 2007).

This upcoming product (see picture below, specific launch time unknown) is to sell in cups, each containing 5.5 g A2 β-casein, 8 x higher than usual lactoferrin and additional essential elements like vitamins, minerals and fatty acids. It will be produced with milk from Maui's farms, using its proprietary Southern Cross™ dairy sheep genetics (this involves a mix of East Friesian, Awassi and Lacaune – all prominent Northern Hemisphere sheep milking breeds – alongside Coopworth, a hardy, durable and highly productive sheep breed from New Zealand).

Zhong Xuegao Food (Shanghai) Co., Ltd. was founded in March 2018 with a registered capital of USD166.7 million (RMB1.2 billion) to focus on premium ice cream, dubbed the *"Hermès of ice cream"* in China. By the end of 2022, the company had sold over 322 million packs and it is seeking more cooperation with New Zealand brands, intending to invest in an ice cream factory there to accelerate its growth.

Previously, Maui has supplied sheep milk powders for many well-known brands, such as Danone with *"Karicare Sheep Milk Formula for Young Children"*, Xi'an Baiyue Sheep Milk Group Co., Ltd. with its *"Baiyue Sheep Milk Formula for Infants"* series, and Blue River Dairy with its *"Blue River Infant Formula"* series. Maui also mentioned there would be more innovative collaborations launching in China in the future.

PICTURE 1: Maui×Zhong Xue Gao Sheep Milk Ice Cream

Source: Maui×Zhong Xue Gao

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