

Dairy Products China News

Guaranteed Exclusive Analysis

Vol. 14 Issue 4 2022

Welcome to the April issue of Dairy Products China News.

As we know, COVID cases in China have been escalating since mid February, with about a million confirmed cases and 15,000 deaths YTD 22nd April. On Monday 25th April – mainland China recorded 1,908 new locally transmitted cases (1,661 in Shanghai) and 51 more deaths (all in Shanghai). The headlines tend to be about Shanghai, and for good reasons, but Jilin province – in China's northeast and sandwiched between Heilongjiang and Liaoning provinces and North Korea and Russia – currently has 101 areas under lockdown!

China is "the world's factory" so this will doubtless cause supply shortages worldwide at a time when we can see the world's sheer vulnerability to Russia's control of gas – in a wider, one cannot help thinking of the DRC and rare earth minerals, or Taiwan's absolute dominance in world semiconductor supply. International strategic thinking and planning on such issues has been notably absent. But at less elevated levels, has the dairy industry mitigated against the risks it faces in China sufficiently?

Dairy works the other way round of course, given exporters' reliance on Chinese demand growing year by year. The Government's zero tolerance policy in dealing with the pandemic has posed a major challenge to consumers and all industry sectors, one which has the potential to become much more widespread if the lockdown in Shanghai extends to other areas such as the capital. Supply chain logistics have really started to bite, with volume throughput at the crucial Shanghai port complex severely depressed from mid-March, and by late April the number of container ships waiting at sea to enter has been approximately double that seen in February. This has doubtless been a key factor behind the major decline in dairy import volumes seen during that month – even though it may ease at the troubled US West Coast ports which are trying to ship dairy commodities to China above all destinations.

All in all, dairy volumes to China this year look to be under severe pressure given the wider issues faced by the economy. The potential in some product areas remains very substantial, but as the Government's GDP growth target of 5.5% looks more and more unlikely, 2022 looks like it will prove a rocky road for most businesses in China, dairy included.

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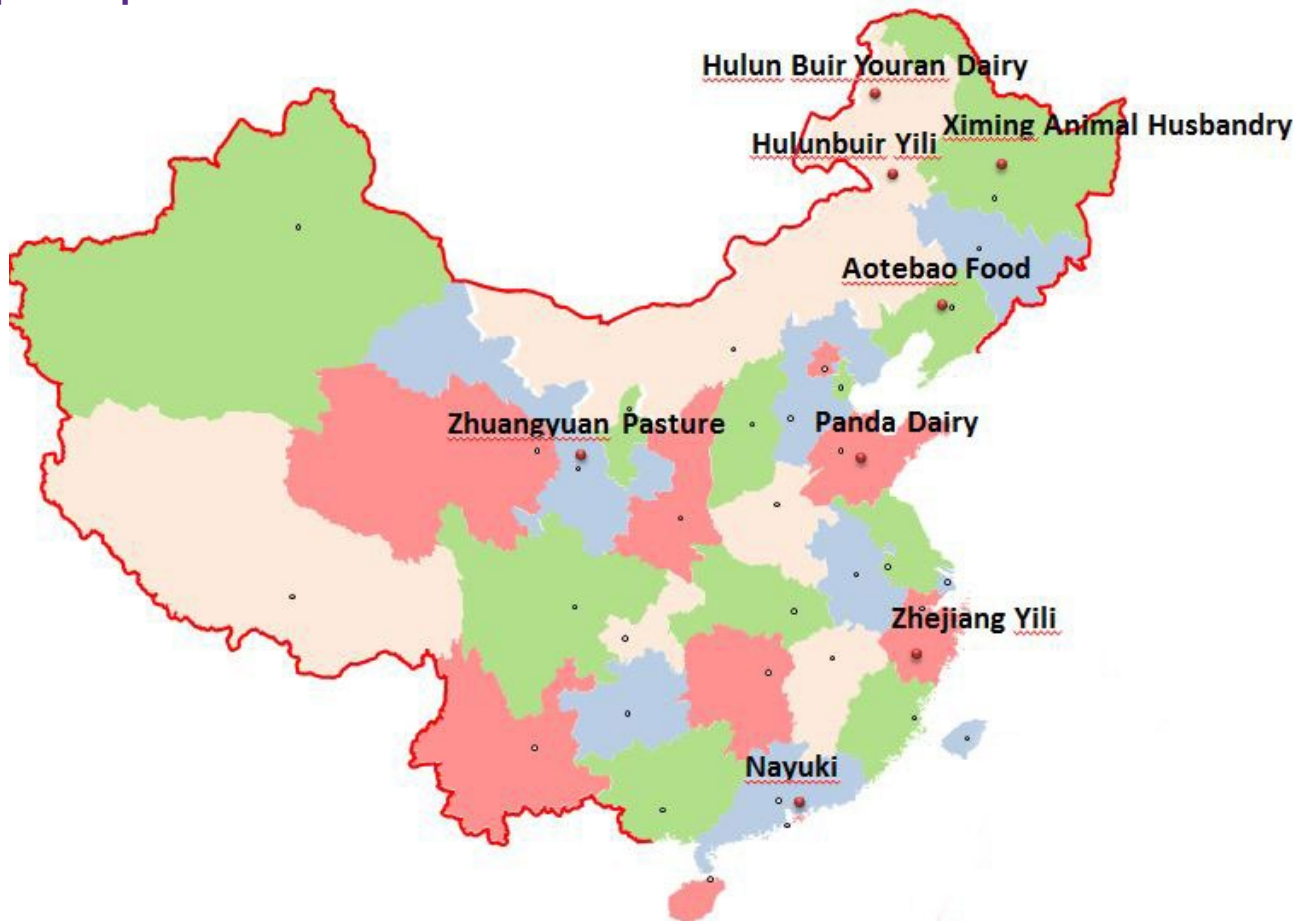
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Headlines

- ▶ In March, recent construction work on production sites at Zhejiang Yili (ice cream and ice milk) and Shandong Panda Dairy (concentrated milk, cream and cheese) both received their environmental approvals.
- ▶ Project details have been published for 2 new built dairy farms – Hulun Buir Youran Dairy (12,000 cows) and Ximing Animal Husbandry (10,000 cows).
- ▶ In 2021, Heilongjiang's dairy herd fell by 1.9% and milk production levelled off; milk prices remained high amid rising farming costs, allowing the sector to stay profitable.
- ▶ In April, details of the 1st phase of the 529,200 t/a liquid milk project of Hulunbuir Yili and the 140,000 t/a milk processing project of Aotobao Food were disclosed in the final environmental impact checks.
- ▶ On 30 March, the Ministry of Agriculture and Rural Affairs (MARA) launched a consultation paper – "Draft Amendment of Administrative Measures for Animal Inspection and Quarantine".
- ▶ On 30 March, the Ministry of Agriculture and Rural Affairs (MARA) launched a Five-year Action Plan for Prevention and Control of Brucellosis in Animals (2022-2026).
- ▶ On 29 March, AustAsia, so far the largest independent operator of dairy farms in China, filed its prospectus with the HKSE.
- ▶ On 29 March, tea chain Nayuki reported 2021 financial results with 40.5% growth in revenue and a 68.4% surge in profit from physical stores YoY.
- ▶ Zhuangyuan Pasture reported 2021 figures: operating revenue up 38.1% and net profit jumping 412.1%.
- ▶ Though remaining high, China's Q1 milk prices have continued to weaken, and the average in early April was the lowest since March 2021.

Major Companies and Sites Mentioned in This Issue



Market Dynamics

Zhejiang Yili and Panda Dairy Complete New Construction Projects

Summary: In March, recent construction work on production sites at Zhejiang Yili (ice cream and ice milk) and Panda Dairy (concentrated milk, cream and cheese) both received their environmental approvals.

On 15 March, the environmental approval of work on the 3,000 t/a frozen drinks production line of Zhejiang Yili Milk Industry Co., Ltd. (Zhejiang Yili) was published.

Project Overview

- Construction type: technological upgrading and expansion

- Total investment: USD17.3 million (RMB 110 million), 0.3% (USD47,237 or RMB300,000) of which is for environmental protection
- Location: Jinhua Economic & Technological Development Zone, Jinhua City, Zhejiang Province
- Construction content: upgrade the existing production equipment, replacing a production line with 18 cylinders by a new tunnel-pattern one with 20 cylinders, adding various other production equipment

- Construction capacity: 3,000 t/a of frozen drinks (ice milk and ice cream); taking the site's total production capacity of frozen drinks to 43,200 t/a.
- Construction period: Dec. 2021-Jan. 2022
- Site acceptance test: 4 Jan.-5 Jan. 2022

Zhejiang Yili was founded in April 2010 with a registered capital of USD15.7 million (RMB100 million) and is wholly-owned by Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887).

TABLE I: Forecast Demand for Raw Materials

No.	Item	Annual Consumption, t/a
1	Milk powder	7,522
2	Sugar	3,224
3	Oils and fats	1,612

Source: Zhejiang Yili

Similarly, on 24 March, the environmental clearance was published for expansion work by Shandong Panda Dairy Co., Ltd. (Panda Dairy).

Project Overview

- Construction type: Expansion
- Total investment: USD5.5 million (RMB35 million), 0.057% (USD3149.2 or RMB20,000) of which is for environmental protection
- Location: Jiyang District, Jinan

City, Shandong Province

- Area: 0.92 ha
- Construction content: one cheese slicing line, one cream cheese line, one natural cheese line (all in the existing plant)
- Construction capacity: 1,000 t/a of cheese slices, 1,000 t/a of cream cheese and 1,000 t/a of natural cheese, all of which are new products for this site. The full capacity (concentrated milk, cream and cheese) here remains at 60,000 t/a after this work

- Site acceptance test: 23 Dec.-24 Dec., 2021
- Construction acceptance: Jan. 2022

Shandong Panda Dairy was established in Nov. 2015 and has capacities of 60,000 t/a concentrated dairy products (concentrated milk, cream and cheese), 2,000 t/a of milk beverages, 2,000 t/a of seasoning & sauces, 2,000 t/a soft serve ice cream and drinkable milk ice mix.

Details of New Dairy Farms of Hulun Buir Youran Dairy and Ximing Animal Husbandry

Summary: Project details have been published for 2 new dairy farms – Hulun Buir Youran Dairy (12,000 cows) and Ximing Animal Husbandry (10,000 cows).

On 29 March, the environmental monitoring report on the new 12,000 cow Hulun Buir Youran Dairy Demonstration Dairy Farm Co., Ltd. (Hulun Buir Youran Dairy), was published.

Project Overview

- Total investment: USD84.8 million (RMB538.3 million), USD7.1 million (RMB44.9 million) of which is for environmental protection
- Location: Najima Farm, Arun Banner, Hulun Buir, Inner Mongolia Autonomous Region
- Floor area: 118.55 ha

- Scale: 12,000 dairy cattle including 7,200 mature cattle, 3,480 replacement cattle and 1,320 calves
- Construction content: New 21 cattle sheds of various types, 3 haylofts, 6 above-ground silage silos and other function structures and supporting facilities
- Commencement of construction: July 2019
- Commissioning: April 2021
- Site acceptance test: 4 March-15 March, 2022

Hulun Buir Youran Dairy was set up in May 2019 with a registered capital of USD39.4 million (RMB250 million) and is wholly-owned by Inner Mongolia Natural Dairy Co., Ltd. (Natural Dairy, Stock Code: HK.09858). Its business covers dairying and fodder cultivation and trading.

TABLE 2: Farm Operating Data

No.	Item	Amount
1	Raw milk, t/a	65,854
2	Bull calves, head/year	2,600
3	Eliminating dairy cows, head/year	1,732
4	Eliminating dairy calves, head/year	160

Source: Hulun Buir Youran Dairy

TABLE 3: Forecast Demand for Feed

No.	Item	Annual Consumption, t/a
1	Silage	69,726
2	Alfalfa	10,277
3	Goat hay	10,276
4	Concentrates	31,351
5	Starter feed for calves	846

Source: Hulun Buir Youran Dairy

On 6 April, the environmental report of the new 10,000 head dairy farm of Qiqihar Ximing Animal Husbandry Co., Ltd. (Ximing Animal Husbandry) was also published.

Project Overview:

- Total investment: USD78.7 million (RMB500 million), USD0.94 million (RMB6 million) of which is for environmental protection
- Location: Ang'angxi District, Qiqihar City, Heilongjiang Province
- Floor area: about 37.6 ha

- Major construction content: forage fodder plots, milking area, manure treatment zone, office area, etc.
- Scale: 10,000 head, composed of 5,000 mature dairy cows, 2,500 heifers, 2,500 calves
- Milk production: 12,000 t/a

Ximing Animal Husbandry was incorporated in Oct. 2015 with a registered capital of USD1.6 million (RMB10 million) and focuses on farming and sale of dairy cows, beef cattle, pigs and goats.

Dairy Farming in Heilongjiang in 2021

Summary: In 2021, Heilongjiang's dairy herd fell by 1.9% and milk production levelled off; milk prices remained high amid rising farming costs, allowing the sector to stay profitable.

Data from the National Bureau of Statistics shows Heilongjiang Province's key dairying data in 2021 as follows:

- Total dairy cow number down 21,800 to 1.1 million head
- Milk production at 5,002,500 tonnes, little changed from 5,001,600 tonnes in 2020
- Earnings per cow improved to over USD629.8 (RMB4,000)

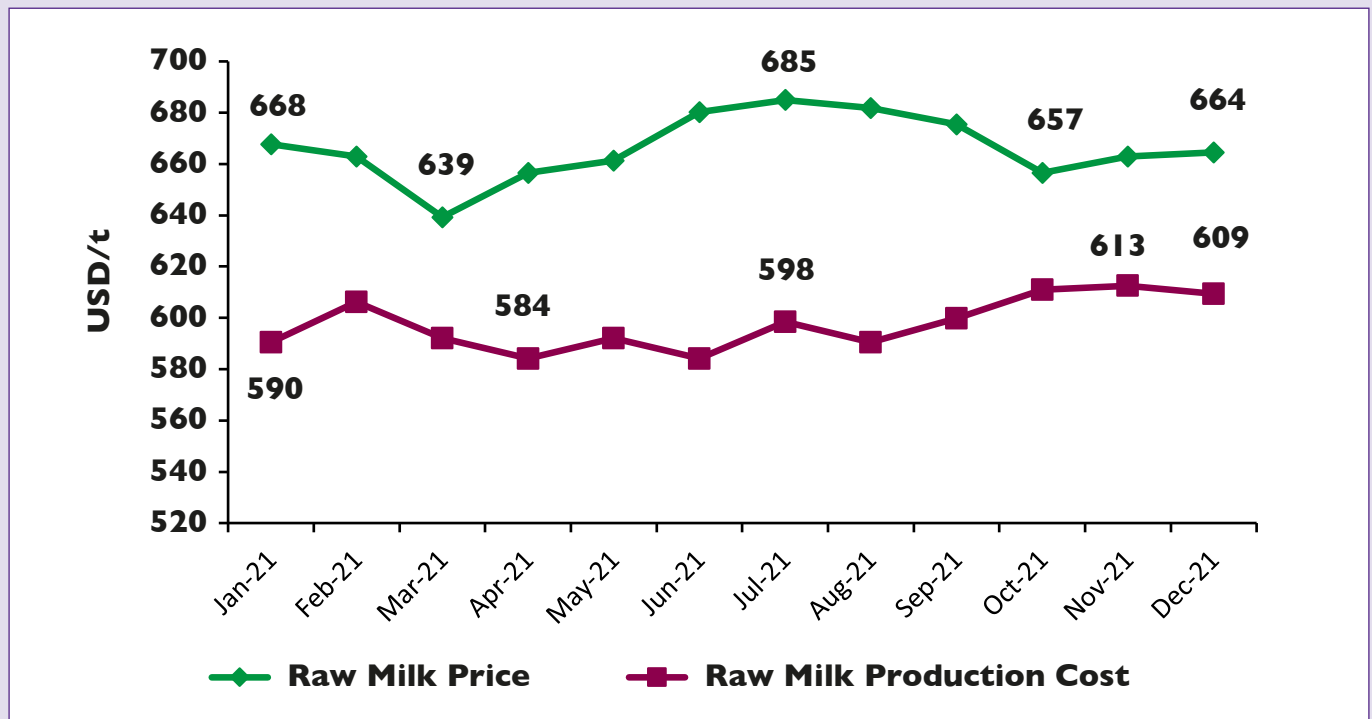
- The local cost of milk production went through a record period, at one point jumping to USD613/t (RMB3,880/t)
- The local farmgate milk price averaged at USD666/t (RMB4,230/t) over the year.

High YoY increases in feed prices were the key factor driving up production cost: in 2021, the prices of corn and soybean meal for concentrates in Heilongjiang soared to USD417.3 /t (RMB2,650/t) and USD629.8/t (RMB4,000/t) respectively; cottonseed meal rose 40% to USD724.3/t (RMB4,600/t); prices of coarse fodder such as silage and long hay surged 10%-20%.

Other important factors pushing up production costs last year, whether directly or indirectly, were:

- China's implementation of production restrictions, which hit the manufacturing industries hard, driving up the prices of farm construction materials (steel, PVC material, coating, waterproof materials, etc.) – the costs of building large-scale dairy farms in Heilongjiang were up 30% vs. 2019
- Power rationing and higher energy prices – these increased the costs of heating, transportation and production.

FIGURE 1: Price vs. Cost of Raw Milk in Heilongjiang Province, Jan.-Dec. 2021



Source: National Bureau of Statistics

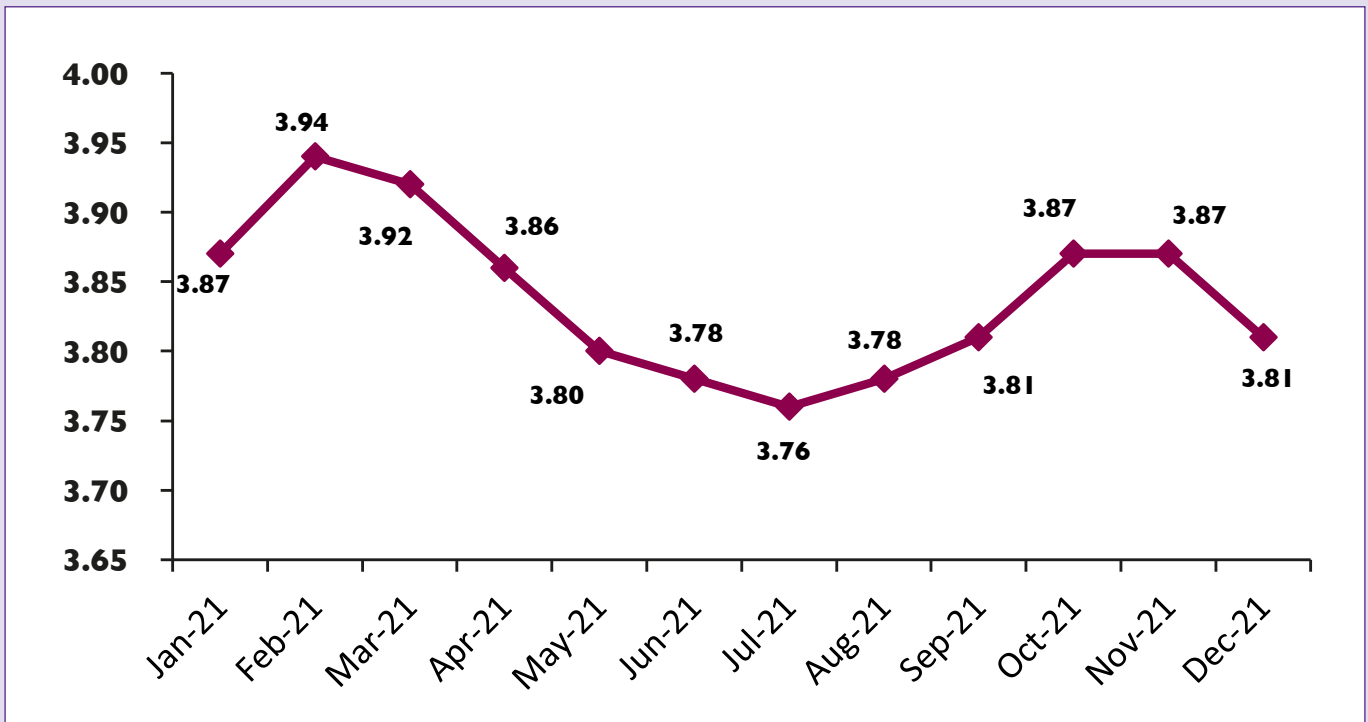
Milk Quality at High Level

According to Heilongjiang Dairy Association's monitoring statistics on raw milk composition (fat, protein, aerobic plate count and somatic cell

counts/SCC), at least 85% of local milk surpassed US standards, whilst 60% approached or sometimes exceeded EU standards in 2021. It was noted that levels of fat and

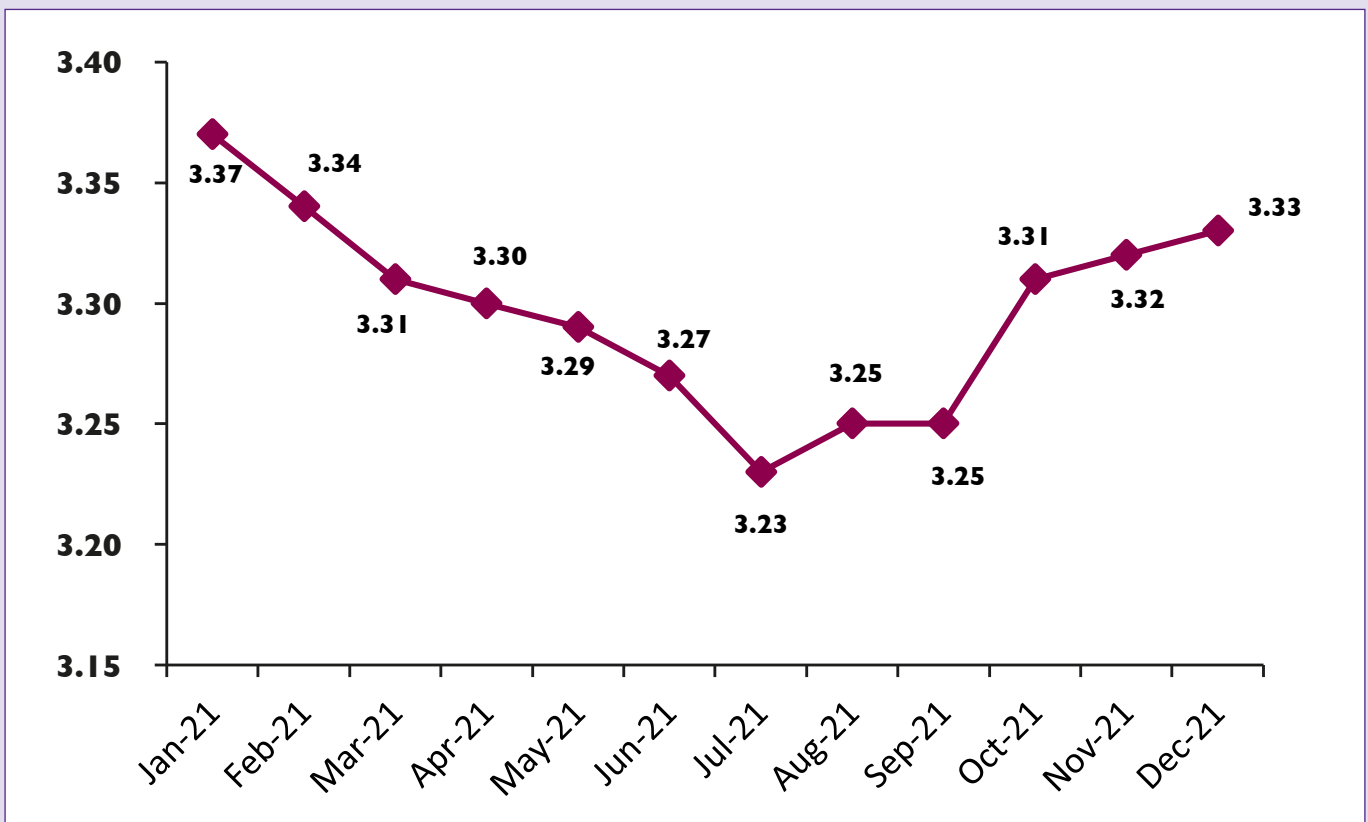
protein in the summer period (June-Sept.) went down slightly, possibly caused by cows' heat stress response.

FIGURE 2: Milk Fat Content (%) in Heilongjiang, Jan.-Dec., 2021



Source: Heilongjiang Dairy Association

FIGURE 3: Milk Protein Content (%) in Heilongjiang, Jan.-Dec., 2021



Source: Heilongjiang Dairy Association

Industry Targets and Government Support

On 28 March, the Heilongjiang Government promulgated "Several Policies and Measures for Advancing High-quality Development of the Animal Husbandry Industry in Heilongjiang Province". The development targets for local livestock sectors over the 2022-2025 period include increasing the proportion of core breeds of both the main livestock and poultry up to 80%, the standardised farming level above 70% and recycling of animal manure to 85%.

Targets for the dairy sector are:

- Gross industrial production to reach USD44.1 billion (RMB280 billion)
- Total dairy herd – 1.5 million head

- Milk production of 7.3 million tonnes, worth USD5.2 billion (RMB33 billion).

The subsidy scheme for standardised farms is as follows:

- 50% of purchases of quality frozen semen will receive a provincial subsidy – up to USD15.7 (RMB100) per general dose and up to USD23.6 (RMB150) per dose of sexed semen (the ceiling number of subsidised doses of quality frozen semen is 0.4 million)
- USD2.4 million (RMB15 million) will be allocated to new farms with 3,000 cattle; these farms will receive a further USD0.79 million (RMB5 million) per extra 1,000 head (the added amount can be up to a maximum USD7.9 million or RMB50 million)

- USD7.9 million (RMB50 million) will be allocated to new farms with 10,000+ cattle, plus USD7.9 million (RMB50 million) from industrial funds consolidated by local governments; 80% of the subsidy will be paid to new farm constructions with 60% of their herd in place, the balance being released when 80% of the herd is in place (the ceiling number of such farms is 10)
- For alfalfa production, up to USD38.2 (RMB243) is to be provided per mu of concentrated growing area (404.7 ha or above)
- Subsidies for compulsory animal immune vaccines total USD3.1 million (RMB20 million).

Hulunbuir Yili and Aotobao Food Complete Construction of New Dairy Projects

Summary: In April, details of the 1st phase of the 529,200 t/a liquid milk project of Hulunbuir Yili and the 140,000 t/a milk processing project of Aotobao Food were disclosed in the final environmental impact checks.

On 14 April, Hulunbuir Yili Dairy Co., Ltd. (Hulunbuir Yili)'s 1st phase construction of its 529,200 t/a liquid milk plant was approved in the final environmental impact checks with details publicised on the national EIA (environmental impact assessment) information platform as follows:

- Total investment: USD83.2 million (RMB528.1 million), 8.9% (USD7.4million or RMB47.1 million) of which is for environmental protection
- Location: Green Organic Food Industrial Park of Arun Banner, Hulun Buir City
- Major construction content: 9 Liquid milk lines (5 for 250ml bottles with resealable caps, 2 for 250ml slim packs and 2 for standard packs) in site combining the production plant, auxiliary material storehouse, wastewater treatment station, cooling station, chemical reagent warehouse,

parking lot for milk trucks, a cleaning-in-place (CIP) system for raw milk reception, a generator facility and other facilities and equipment

- Capacity: 197,400 t/a of liquid milk
- EIA period: March 2020
- Commencement of construction: July 2020
- Commissioning time: Jan. 2022
- On-site monitoring: Jan. 2022
- This project is adding 529,200 t/a capacity over 2 phases. The 2nd phase construction will start in H2 this year, including expanding auxiliary material storehouse for installation of cooling station, expanding boiler room, setting up new CIP cleaning system and 13 liquid milk production lines.

Hulunbuir Yili was established in Sept. 2019 with a registered capital of USD129.9 million (RMB825.2 million) and is wholly-owned by Inner Mongolia Yili Industrial Group Co., Ltd (Stock Code: 600887).

TABLE 4: Product Mix, 1st Phase of 529,200 t/a Liquid Milk Project

No.	Production Line/ Specification	Annual Production, million boxes	Product	Capacity, t/a
1	250ml Bottle with Dreamy Resealable Cap	252	"Jindian Organic (UHT) Milk"	63,000
2	250ml Slim Package	268	"Jindian Pure (UHT) Milk"	67,200
3	250ml Standard Package	268	Pure (UHT) Milk	67,200

Source: Hulunbuir Yili

TABLE 5: Milk Requirements for 1st Phase of 529,200 t/a Liquid Milk Project

No.	Item	T/a
1	A+ Milk	120,789
2	Organic Milk	92,239

Source: HulunbuirYili

On 19 April, Panjin Aotobao Food Co., Ltd. (Aotobao Food)'s 140,000 t/a milk plant also received approval on final environmental checks with details as follows:

- Total investment: USD1.7 million (RMB11million), 1.5% (=USD23,618.7 or RMB150,000) of which is for environmental protection
- Location: Xinli Town, Dawa District, Panjin City, Liaoning Province
- Area: 1,500 m²
- Major construction content: 2 New gas-steam boilers (capacity: 0.2 t/a and 0.3 t/a) and one wastewater treatment station (capacity: 10 m³/d)

- Product mix:
 - Fresh milk (250ml/cup, 100,000 t/a)
 - Flavoured fermented milk (180ml/bag, 40,000 t/a)
- Key raw materials: raw milk (135,980 t/a), white granulated sugar (4,000 t/a), lactobacillus powder (4 t/a)
- Construction period: May 2020-13 May, 2021
- Commissioning: 13 May, 2021-12 Aug., 2021

Panjin Aotobao Food Co., Ltd. (Aotobao Food) is a local business incorporated in 7 Aug., 2015 with a registered capital of USD1.6 million (RMB10 million). It principally focuses on production and sale of dairy products, beverages and frozen drinks.

Governmental Direction

Draft Amendment of Administrative Measures for Animal Inspection and Quarantine launched

Summary: On 30 March, the Ministry of Agriculture and Rural Affairs (MARA) launched a consultation paper – "Draft Amendment of Administrative Measures for Animal Inspection and Quarantine".

On 30 March, the Ministry of Agriculture and Rural Affairs (MARA) issued a consultation paper entitled "Amendment of Administrative Measures for Animal Inspection and Quarantine" in an effort to improve China's approach to tackling animal epidemic diseases and zoonoses. This amendment is applicable to implementation of inspection and quarantine, monitoring and management of animal and animal products in China. The expected implementation date has not been disclosed.

Key regulations are listed as follows:

Livestock Owners

- Such owners need to apply for inspection and quarantine with

the local animal health supervision institutions 3 days before selling or transporting the livestock from their place of origin

- If transporting animals and animal products to Specified Animal Disease Free Zones, the owners must also apply to the same institutions in the destination area 3 days ahead of departure.

Certification

- Animal Quarantine Certificates will be issued for animals to be sold in (or transported from) the place of origin if the following conditions are met:
 - Animals are reared in farms located in non-lockdown areas and which are free from animal diseases; these farms should operate clear risk management systems
 - The documents submitted comply with animal inspection

and quarantine rules and regulations

- Tags of livestock and poultry comply with related rules
- Animals have received mandatory vaccinations and remain within their validity terms
- Animals pass clinical examination – some need to undergo lab tests for diseases
- Animal Quarantine Certificates will be issued to animals that are to be marketed in or transported from livestock markets after certification at their place of origin, if the following conditions are met:
 - Animals come with that certificate and with complete farm records of entry and exit
 - Tags of livestock and poultry comply with related rules

- Animals pass clinical examinations.
- Animals pass lab tests for diseases, even when the certificates gained from their place of origin have expired in transit to the location
- Cattle moved cross-province for milk production or breeding are subject to 30-day isolation and monitoring in designated isolation sites or isolation areas in farms before entry to their destination locations. Any cattle not passing the rules

will be disposed of in line with the current regulations. If approved cattle are scheduled to be moved on to another location, their owners must apply for the next inspection and quarantine before departure

- All sales or transport of livestock must be approved with an Animal Quarantine Certificate before leaving their place of origin.

Entry to Specified Animal Disease Free Zone

- If transporting animals or animal products to these zones, the

livestock owners must apply to the county-level animal health supervision institutions of the destination area

- The entering animals are subject to 30-day isolation and observation in isolation sites designated by provincial-level animal health supervision institutions. Costs incurred during the isolation period must be met by the livestock owners. The approved cattle will obtain Animal Quarantine Certificates from the county-level animal health supervision institutions.

Five-year Action Plan for Prevention and Control of Brucellosis in Animals

Summary: On 30 March, the Ministry of Agriculture and Rural Affairs (MARA) launched a Five-year Action Plan for Prevention and Control of Brucellosis in Animals (2022-2026).

On 30 March, the Ministry of Agriculture and Rural Affairs (MARA) issued a *Five-year Action Plan for Prevention and Control of Brucellosis in Animals (2022-2026)* on its official website.

Brucellosis is one of the important bacterial zoonotic diseases worldwide, caused by the Gram-negative intracellular coccobacillus *Brucella*, and is recognised by China as a key target for prevention and control. This plan aims to achieve better prevention and control of Brucellosis and higher quality development of the livestock sector nationwide.

Major Targets in the Plan

- General: By 2026, the overall prevalence of Brucellosis in animals should be contained effectively, with rates below 0.4% of cows and below 7% of herds
- Immune index: In immunity zones, the level of immunity should remain above 90% year round; all immune animals and dairy farms should be recorded and assessed by the local authority
- Purification index:
 - Of the Brucellosis purification zones and epidemic-free herds established nationwide, 20% are to be in Inner Mongolia Autonomous Region and 50% in Liaoning, Sichuan, Shaanxi, Gansu provinces and Xinjiang Uygur Autonomous Region; other provinces should each have 80% of farms equipped with provincial- or national-level Brucellosis purification zones or epidemic-free herds
 - 30% of standard dairy farms in all provinces must meet purification or epidemic free standards

- On average, each year each province must build ≥ 3 provincial- or national-level purification zones or epidemic-free herds

- Detection capability:

- 90%+ of county-level animal epidemic diseases prevention and control institutions must be able to perform Brucellosis seropositive testing
- Annual sampling work conducted by provincial- and municipal-level institutions should cover all cow/goat/sheep farming counties and major counties that supply other parts of the country with these livestock in Hebei, Shanxi, Liaoning, Jilin and Heilongjiang provinces and Ningxia Hui Autonomous Region, Inner Mongolia Autonomous Region, Xinjiang Uygur Autonomous Region, and other major dairying provinces

Major tasks set by the Plan

- Monitoring and investigation:
 - Set up routine investigation system for investigation, isolation, sampling, testing and reporting on newly-introduced livestock populations showing high miscarriage rates, on Brucellosis infections transmitted to humans and other suspicious cases
 - Deploy monitoring of animals in Brucellosis-positive farms and ensure that the monitoring covers all positive animals and infected people.
- Mandatory immunity: All provincial governments are requested to form comprehensive mandatory immunity programmes against Brucellosis with immunity recording and registration. They should also advise lower level governments and farmers in accordance to the *Technical Rules and Standards for Prevention and Control of Brucellosis in Farm Animals* on implementation of

mandatory immunity and on heightened monitoring and carry out spot checks on progress in key areas and farms

- Disinfection and sterilisation: Organise regular special campaigns on thorough cleaning and disinfection of key locations and supply chain stages such as livestock farms, transportation, slaughtering and treatment facilities, to eradicate infectious disease at source efficiently
- Purification:
 - Establish a nationwide network of Brucellosis purification zones and epidemic-free herds centred on livestock farms
 - Construct and assess one set of these annually over the 2022-2026 period
 - Prioritise purification work in national-level standard cow/goat/sheep farms or in integrated farms that provide agritourism
- Inspection and quarantine:
 - Make good use of digital tools such as the mobile app "Muyuntong" (= "Animal Transport Advisor") to serve closed-loop monitoring management on each supply chain stage
 - Regulate issue of inspection and quarantine certificates, monitor and request farming entities and transport firms to apply for animal inspection and quarantine, and standardise reporting to provide a complete traceability system on animals from place of departure to stopover sites to destination points
 - Promote designated slaughtering sites with recording of the entry and exit, and the source and destination of the animals and animal products
- Transfer regulation:
 - Set up recording systems covering transport vehicles and personnel, and step up monitoring of cross-region transfer of livestock and control on the spread of Brucellosis
- Ban cross-provincial transfer of Brucellosis-susceptible animals from high risk area (immunity zone) to low risk area (non-immunity zone) (animals from Brucellosis-free area, epidemic-free herds and purification sites or animals for slaughter, breeding or milk production are excluded).
- Epidemic response:
 - Cull Brucellosis-affected animals, and isolate and monitor others from the same group
 - Sterilise the buildings and grazing areas used by those animals and the contaminated sites
 - Follow harmless disposal procedures for culled animal carcasses, diseased fetuses, contaminated objects, etc.
 - Immunise or eliminate animal groups with relatively high positive rate eventually
- Construction of animal epidemic monitoring station at international borders
 - Erect these at high risk areas where counties are judged to be susceptible to cross-border diseases.
 - These stations should undertake supervision of Brucellosis and other major controlled diseases in the region, and other epidemiological survey, patrol, surveillance and direct reporting tasks
- Feedback system on work progress:
 - An action plan for prevention and control of Brucellosis, and the lists of immunity counties and immunity dairy farms is to be drawn up and submitted by provincial governments to MARA's Bureau of Animal Husbandry and Veterinary Services before 30 July, 2022
 - By every end of Jan., provincial governments should report their working status in the previous year on Brucellosis prevention and control to the Bureau, along with changes in the lists of immunity counties and immunity dairy farms.

Company Development

AustAsia Files IPO Prospectus with HKSE

Summary: On 29 March, AustAsia, so far the largest independent operator of dairy farms in China, filed its prospectus with the HKSE.

On 29 March, AustAsia Investment Holdings Ltd (AustAsia) submitted its prospectus to the HKSE for an IPO on the main board. Against the current backdrop of falling raw milk prices and rising feed costs, the major commercial dairying businesses,

who have been under pressure since H2 2021, now expect slower growth this year and even losses into 2023. However, it might be the best year for AustAsia to go public, IPO proceeds allowing expansion during this difficult period and supporting its independence as a dairy farming business.

AustAsia proposes to use IPO proceeds in the following areas:

- Repaying a loan which funded its acquisition (completed 30 June, 2021) of 2 dairy farms in Shandong Province ("Chunyuan" No.1 Farm and No.2 Farm)
- Acquisition of cattle and farming equipment for 2 new farms
 - "Chunyuan" No.3 Farm in Shandong Province, as well as construction work scheduled to start this month on the site

which is due to enter full operation by Dec. 2023 with 17,000 dairy cows (including 7,000 milking cows)

- "Chunyuan" No.4 Farm in Shandong Province, as well as construction work scheduled

to start in Oct. 2022 on the site which is due to enter full operation by Nov. 2024 with 12,500 dairy cows (including 5,700 milking cows)

- Capital investment in new dairy farm construction in Inner Mongolia

Autonomous Region, projected to break ground in 2023

- Payment for unsecured loans from Japfa Ltd., and replenishment of working capital.

TABLE 6: Financial Performance of AustAsia, 2019-2021

Item	2019	2020	2021
Operating revenue, USD million	352.0	405.0	522.0
Net profit, USD million	67.6	95.8	105.0
Gross margin	34.60%	37.10%	33.70%
Net profit margin	21.20%	24.50%	20.00%

Source:AustAsia

TABLE 7: Sales Performance of AustAsia, 2019-2021

Item	2019	2020	2021
Raw milk sales value, USD million	315.6	349.8	438.0
Raw milk sales volume, tonnes	533,787	551,812	589,769
Beef cattle sales, USD million	22.2	43.0	50.5
Other, USD million	13.7	12.0	33.4

Source:AustAsia

Note: Other = B2B sales of ultra pasteurised and UHT milk to pastry chain stores, bakeries, milk tea stores and cafe chains

TABLE 8: AustAsia's Dairying Operations as of 31 Dec., 2021

Region	No. of Farms	Area	Designed Stock Number	No. of Adult Milking Cows	No. of Calves & Heifers
Shandong Province (Dongying City, Taian City and Dezhou City)	7	3,932	72,000	36,511	35,141
Inner Mongolia Autonomous Region (Chifeng City)	3	2,000	36,000	17,224	17,298
Total	10	5,932	108,000	53,735	52,439

Source:AustAsia

AustAsia's strengths are highlighted as follows:

- Productivity:
 - AustAsia ranked 1st nationwide throughout 2015-2020 on milk yield per cow, achieving 12.8 t/a, higher than both the 8.3 t/a sector average and the 11.8 t/a average among the top 5 locally-owned dairy farm operators
- Milk quality:
 - AustAsia's raw milk averages 3.4% protein and 3.8% fat, exceeding China's national standards ($\geq 3.1\%$ and $\geq 3.3\%$),

US standards ($\geq 3.2\%$ and $\geq 3.5\%$), and Japan's standards ($\geq 3.2\%$ and $\geq 3.8\%$)

- Its aerobic plate count and somatic cell counts/SCC are 5,570 CFU/ml and 145,478 CFU/ml, much lower than China's national standards (100,000 CFU/ml and 300,000 CFU/ml), US standards (100,000 CFU/ml and 750,000 CFU/ml), and EU standards (100,000 CFU/ml and 400,000 CFU/ml).
- Major customers:
 - These include key industry names such as Mengniu,

Bright Dairy, Meiji, Junlebao, New Hope Dairy, Jinan Jiabao Dairy Co., Ltd. and CLASSY KISS, and emerging brands Genki Forest (Yuan Qi Sen Lin in Chinese) and Simple Love.

At present, AustAsia has 10 standard dairy farms in China with a total of 106,174 dairy cows (53,735 adult milking cows).

The company is owned by the pan-Asian group Japfa Ltd. (62.5%), Meiji China (25%), Genki Forest (5%) through Plutus Taurus, New Hope Dairy (5%) through GGG Holdings Limited, and Guangzhou Honest Dairy (Group) Co., Ltd. (2.5%).

Nayuki Reports Strong Performance for 2021

Summary: On 29 March, tea chain Nayuki reported 2021 financial results with 40.5% growth in revenue and a 68.4% surge in profit from physical stores YoY.

The Chinese beverage chain business channel has proven an area of positive growth for some dairy exporters in recent years, so it is key to understand the difficult business climate the chain operators are operating in now, as shown in the recent results put out by Nayuki, one of the leading proponents of this fast-growing channel. On 29 March, Nayuki Holdings Ltd (Nayuki, Stock Code: 02150) released its financial report for 2021:

- Revenue: USD676.5 million (RMB4,297 million), up 40.5% vs. USD481.4 million (RMB3,057 million) in 2020
- P&L: a loss of USD22.8 million (RMB145 million) vs. a profit of USD2.6 million (RMB16.6 million) in 2020
- Profit from physical stores: USD93.1 million (RMB591 million), up 68.4% vs. USD55.3 million (RMB351 million) in 2020
- Cash income from operating physical stores: USD80.3 million (RMB510 million), down 11.1% vs. USD90.4 million (RMB574 million) of 2020

The company explained that its performance was challenged by consumers' caution about going out and spending during the pandemic, in particular during H2 2021, when China stepped up its nationwide prevention and control measures due

to sporadic outbreaks of the Omicron variant. Nevertheless, its focus on more effective marketing campaigns, innovation in hot drinks, improved sales service as well as some price adjustments helped stabilise some of its figures last year.

- By 31 Dec., 2021, it was operating 817 physical stores across 80 cities in China, including 326 ones opened in 2021 itself
- It targeted expansion in the 1st / 2nd tier cities, and higher market penetration overall, and proved successful with its positioning as a premium brand of freshly-made tea drinks
- 105 new products were launched in 2021, averaging one launch every 3.5 days. These comprised 42 tea drinks, 37 bakery products and 26 packaged beverage and bakery products. Its best selling combination was that of 2 signature products, Supreme Cheese Strawberry Tea and Creamy Strawberry Shortcake Pastry – 413,000 of these combination sets were sold in 2021.

The group mainly operates stores under the Nayuki name, but also some as TaiGai, focusing on tea drinks with milk foam topping tailored for young consumers' tastes.

Its sales are mainly generated through its own stores but also via various E-commerce channels – through Alipay's and Wechat's built-in shopping apps, Nayuki's own app and other 3rd party takeaway platforms.

The company officially debuted on the HKSE on 30 June, 2021, but has seen declining share prices, reflecting the difficult market it has faced since then.

TABLE 9: Nayuki Reveue Split by Brand, 2021 vs. 2020, USD million

Brand	2020 Revenue	2021 Revenue	Trend	2020 Profit from Physical Stores	2021 Profit from Physical Stores	Trend
Nayuki	452	640	+41.70%	55	93	+68.40%
TaiGai	24	22	-7.50%	4	3	-20.80%

Source: Nayuki

TABLE 10: Nayuki Reveue Split by Product Type, 2021 vs. 2020, USD million

Product	2020 Revenue	2021 Revenue	Revenue Change
Freshly-made tea drinks	366	502	27.10%
Bakery	105	148	29.00%
Others	11	27	60.50%
Total	481	677	28.80%

Source: Nayuki

Nayuki also revealed that ingredient and materials costs increased by 20.8% to USD220.6 million in 2021 (RMB1,400.7 million) vs. USD182.5 million in 2020 (RMB1,159.3 million). This includes fresh fruit, ingredients in tea drinks and bakery (including dairy) and packaging materials for its tea drinks.

However, the proportion of costs vs. revenue fell to 32.6% in 2021 vs. 37.9% in 2020.

Two reasons were given for this latter trend:

- Nayuki wrote in book some corresponding VAT items which were exempted in 2020 due to China's implementation of VAT exemption for SMEs since the outbreak of Covid-19

- Optimised store structure to address low operational efficiency and high operating and labour costs. In 2021, its 817 tea stores included 365 new "PRO Stores"—the "Nayuki PRO Tea & Coffee Store" is a smaller store format which presents less risk for the operator, with reduced numbers of SKU (though still with beverages incorporating milk, and bakery products); this enables lower costs and higher profitability, and such stores now make up almost 50% of the chain's total physical store count.

Zhuangyuan Pasture's Net Profit Up 412.1% in 2021

Summary: Zhuangyuan Pasture reported 2021 figures: operating revenue up 38.1% and net profit jumping 412.1%.

On 31 March, 2022, Lanzhou Zhuangyuan Pasture Co., Ltd. (Zhuangyuan Pasture, Stock Code: HK.01533) issued its financial report for 2021.

Key financial data is as follows:

- Operating revenue: USD160.8 million (RMB1,021 million), up by 38.06%

- Net profit: USD8.4 million (RMB53.5 million), up 412.1%

- Total and net assets: USD442.5 million (RMB2,810 million) & USD258.4 million (RMB1,641 million) with a 41.6% debt-asset ratio, as of Dec. 2021.

Operating status at the end of 2021:

- Standard dairy farms: 8, located in Gansu, Shaanxi and Qinghai provinces
- Dairy herd: 17,573 head, comprising 9,085 mature cows, 5,748 heifers, 2,740 calves,

increased by 9.2% from 16,094 head at the end of 2020

- Annual milk production: around 84,668 tonnes vs. 54,639 tonnes in 2020 (+55%)
- Culling rate: approx. 17.7%

At the end of 2021, the company announced that its 10,000 cow farm in Jinchuan District, Jinchang City, Gansu Province and funded by non-public financing, has met the requirements for start-up. This site is projected to produce 68,000 t/a of milk on full operation, mitigating supply shortfalls and cost volatility.

TABLE 11: Revenue Split of Zhuangyuan Pasture, 2021 vs. 2020, USD million

Item	Operating Revenue, 2020	%	Operating Revenue, 2021	%	Trend
Fresh milk	9.5	8.10%	13.0	8.10%	+37.10%
UHT milk	32.9	28.30%	50.4	31.40%	+53.20%
Modified milk	42.1	36.10%	50.5	31.40%	+19.90%
Cultured milk	28.0	24.00%	24.2	15.00%	-13.60%
Milk beverages	1.2	1.00%	0.8	0.50%	-28.40%
Other dairy products	0.1	0.10%	0.2	0.10%	+152.70%
Other	2.8	2.40%	4.3	2.70%	54.50%
Raw milk	–	–	17.5	10.90%	–

Source: Zhuangyuan Pasture

TABLE 12: Product Inventory, Production and Sales of Zhuangyuan Pasture, 2021 vs. 2020, tonnes

Item	2020			2021		
	Inventory	Production	Sales	Inventory	Production	Sales
Fresh milk	26.0	7,679.7	7,673.0	34.8	9,908.1	9,801.6
UHT milk	206.4	30,937.9	29,714.1	874.2	43,398.2	43,196.1
Modified milk	257.8	30,093.0	29,716.5	422.6	36,626.4	35,526.8
Cultured milk	114.7	15,281.1	15,391.9	49.0	12,936.0	12,810.1
Milk beverages	39.7	1,076.9	1,395.7	32.7	985.7	964.6
Other dairy products	182.3	297.1	9.8	60.4	40.0	38.0
Raw milk	–	–	–	–	23,002.0	23,002.0

Source: Zhuangyuan Pasture

Almost 90% of its operating revenue came from sales in Gansu, Shaanxi and Qinghai provinces. It has lost out against Yil and Mengniu due to their stronger penetration in China's central and eastern areas and their increased investment in dairying in the northwest, so 2022 figures will reflect this.

The firm's development plan for 2022 focuses on:

- Increasing innovation, especially in chilled dairy products and making its product portfolio more market-oriented
- improving its farming operations and building new dairy farms in

partnership with professional dairy farming institutes

- Broadening its distribution channels to 3rd-tier cities and rural areas to increase its market shares in such locations.

Raw Milk Supply

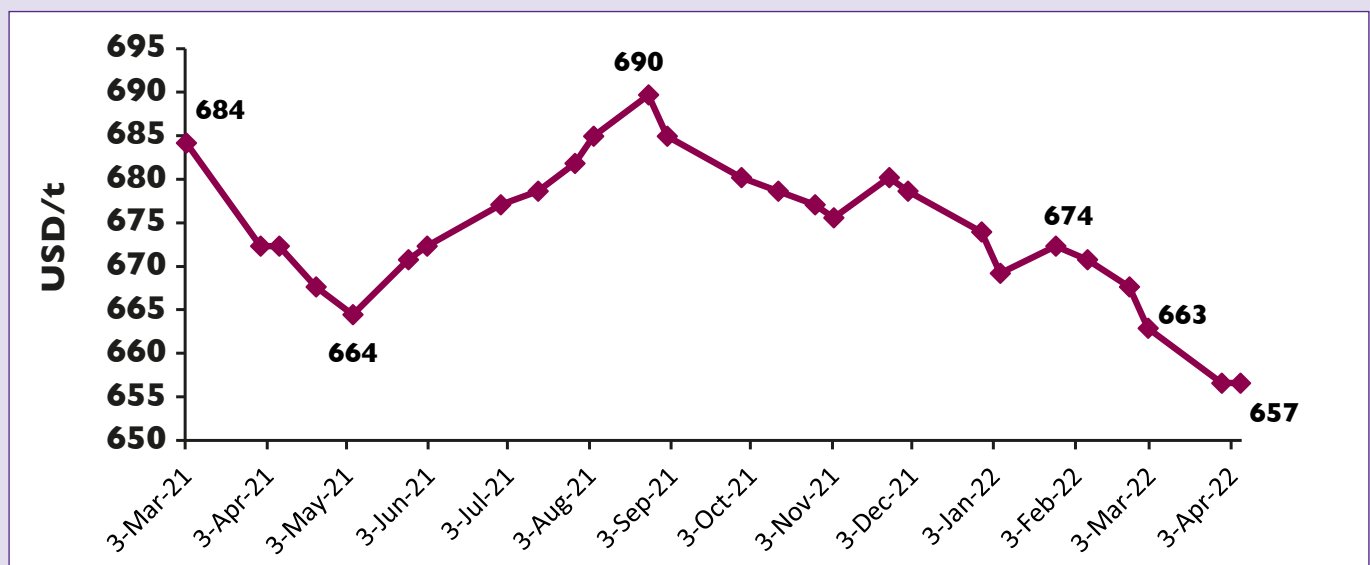
Milk Price Drop Persists Beyond Q1

Summary: Though remaining high, China's Q1 milk prices have continued to weaken, and the average in early April was the lowest since March 2021.

The milk price in China remains high, but has been in decline since Nov. 2021 into this Q1. As of 6 April, it averaged USD657/t (RMB4,170/t), down 1.79% vs. USD669/t (RMB4,250/t) in first week of Jan. and down 2.3% YoY. The latest level is the lowest point since March 2021.

This retreat has occurred despite the peak demand period of the Chinese Spring Festival in late-Feb., further depressing the average price of USD665/t (RMB4,225/t) for Q1. The local market has become less worried about milk deficits in general. It is being forecast that the price will continue to fall through Q2, although it seems likely that this trend may be constrained by the effects of the Russia-Ukraine conflict on the prices of corn, soybean meal and other feeds.

FIGURE 4: Trends in China's Raw Milk Price, March 2021-April 2022



Source: Ministry of Agriculture and Rural Affairs (MARA)

Cost and profitability estimates for dairy farming in Shandong Province for Q1 2022 were released by Shandong Provincial Animal Husbandry Station:

- Farming costs:
- Farming profits:

Reference trading prices of raw milk for Q2 2022 have been issued by governments of major milk producing provinces after investigation and negotiation:

- Hebei Province: USD663/t (RMB4,210/t) with minimum price at USD625/t (RMB3,970/t), effective 1 April-30 June, 2022
- Heilongjiang Province: USD646/t (RMB4,100/t) with minimum price at USD622/t (RMB3,950/t), effective 1 April-30 June, 2022
- Shaanxi Province: USD709/t (RMB4,500/t) – presuming leeway of ±5% as the local government promotes higher prices for better quality products, effective 1 April-30 June, 2022
- Shandong Province: USD660/t (RMB4,190/t), effective 1 April-30 June, 2022
- Sichuan Province: USD836/t (RMB5,310/t) with agreed cost price at USD797 /t (RMB5,060/t), effective 1 Jan.-30 June, 2022.

News in Brief

Dairy Imports in March 2022

The volumes imported during March showed a sharp decline of 11% YoY in LME terms overall and major falls on the same basis across most key product groups – the main exceptions were lactose and caseinates. The direction of travel for the month was very clear, however. Moreover, if we broaden out to think about the quarter overall, WMP, lactose and AMF were the only significant products showing clear growth. (the 2nd of these perhaps reflecting increased allocation of milk to powder production).

TABLE 13: 2022 March Imports, tonnes

HS code	Product	202103	202202	202203	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	11,984.4	6,791.1	9,223.2	35.8%	-23.0%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	79,417.6	52,604.6	50,287.7	-4.4%	-36.7%
04014000	Milk & cream, 6%	1.9	9.3	5.1	-44.6%	167.8%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	30,446.0	22,518.6	25,405.9	12.8%	-16.6%
04021000	SMP	31,574.4	28,318.3	22,995.9	-18.8%	-27.2%
04022100	WMP, unsweetened	82,816.5	71,258.4	58,119.6	-18.4%	-29.8%
04022900	WMP, sweetened	944.1	107.2	190.7	77.9%	-79.8%
04041000	Whey and modified whey	75,732.0	33,777.1	37,758.4	11.8%	-50.1%
04049000	Products consisting of natural milk constituents, nes	538.4	272.2	867.8	218.8%	61.2%
04051000	Butter	11,581.1	7,396.7	10,888.5	47.2%	-6.0%
04059000	AMF	2,915.9	3,571.0	2,827.9	-20.8%	-3.0%
04061000	Fresh cheese, incl. whey cheese, curd	9,315.9	5,452.9	4,838.6	-11.3%	-48.1%
04062000	Grated or powdered cheese	4,635.5	2,659.8	5,485.7	106.2%	18.3%
04063000	Processed cheese	2,533.7	1,469.7	2,466.5	67.8%	-2.7%
04064000	Blue cheese	11.2	10.0	17.1	71.1%	53.0%
04069000	Cheese, nes	3,829.2	2,912.2	3,117.8	7.1%	-18.6%
17021100	Anhydrous lactose, lactose wt.≥99%	8,342.2	5,933.8	11,442.3	92.8%	37.2%
17021900	Lactose syrup & other lactose	758.0	104.0	191.3	83.9%	-74.8%
19011010	Infant formula	22,953.2	17,136.9	22,132.1	29.1%	-3.6%
35011000	Casein	1,144.1	838.9	1,014.9	21.0%	-11.3%
35019000	Caseinates	1,523.5	2,163.5	1,675.7	-22.5%	10.0%
35022000	WPC80/WPI	4,108.8	2,339.2	2,946.9	26.0%	-28.3%

Source: China Customs

Mead Johnson Enfamil Found to Contain Vanillin

On 2 April, Guangzhou Municipal Administration for Market Regulation posted online a punishment confirmation for Mead Johnson Enfamil's Stage 1 IMF, with details as follows:

- Product info: Enfamil Formula for Infants (0-6 months, stage 1)
 - Production date: 12 Aug., 2020
 - Batch No.: 0562110
 - Specification: 400g/can
 - Manufacturer: Mead Johnson B.V.
 - Trade agency: Ningbo Carrefour Commercial Co., Ltd.
- Failed item: the levels of ethyl vanillin and vanillin were found to be 475.5µg/kg and 296.6µg/kg, whereas 1st stage formulae should not include any such spices
- Cause of the non-conformity: Insufficient cleaning of production pipes during change between product varieties, leaving vanillin residue from the previous batch
- Volume of product concerned: 12,330 cans of imported products, 9,950 of which had been sold via distributors
- Value of the batch: USD0.2 million (RMB1.29 million)
- Value of the products sold: USD94,929 (RMB602,887)
- Punishment:
 - Seizure of illegal sales: USD94,929 (RMB602,887)
 - Seizure of illegal products: 1,685 cans
 - Fine: USD0.2 million (RMB1.29 million), equal to the value of the batch

Yashili's Ruibuen IMF Punished for Illegal Marketing

On 30 March, Yashili International Infant Nutrition Technology Co., Ltd. (Yashili) was fined by Guangzhou Municipal Administration for Market Regulation for deceptive advertising. The written decision shows that Yashili tagged and marketed its IMF product online with the wording "Ruibuen Kieember Breast Milk Formula", "The Most Breast Milk-Like Formula", etc. on 12 Jan., after spending on SEO services for branding from Beijing Reyuan Network Culture Media Co., Ltd.

This wording breached Article 20 of China's Advertising Law: "Advertisements of infant milk products, beverages and other food products that claim to wholly or partially substitute breast milk in mass media or public places are prohibited." Yashili was fined USD31,492 (RMB200,000) and ordered to stop such illegal marketing.

CLASSY KISS Yoghurt's Excessive Yeast Content

On 6 April, CLASSY KISS premium yoghurt was notified by the Shanghai Municipality Administration for Market Regulation for excessive yeast content:

- Product info:
 - Name: Classy Kiss Bifidobacterium C-1 Flavoured Yoghurt
 - Registered trademark/strapline: "An hour after a meal"
 - Specification: 250g/bottle
 - Production batch/date: 23 Dec., 2021
- Failed item: yeast content is determined at 60,00CFU/g, 60 times the national standard of ≤100 CFU/g
- Manufacturer: CLASSY KISS Yoghurt (Suzhou) Co., Ltd.
- Sample unit: Novel Place Store of President (Shanghai) Chain Store Co., Ltd.

The authority indicated that the cause of this may have been contaminated materials in processing or improper handling during storage / transportation.

China Suspends Dairy Cattle Imports from South Africa Fighting Foot and Mouth Disease

On 2 April, the General Administration of Customs of China (GACC) banned cattle imports from South Africa to safeguard the local dairy sector against potential Foot-and-Mouth Disease (FMD). On 21 March, South Africa had submitted an urgent report to the World Organisation for Animal Health (OIE) about an outbreak on 2 March of FMD, serotype SAT (South African Territories) 2 viruses, in its North West, where 1,600 cows were infected including 1,100 in the non-immune disease-free area approved by China.

Main content of the notice:

- Issue of the Import Permit of Animal and Plant Inspection and Quarantine for the imports from South Africa of all cloven-hoofed animals and their products are suspended; all issued permits within the effective period are annulled
- All cloven-hoofed animals and their products from South Africa imported to China after the announcement date of the notice, must be sent back or destroyed. Those shipped before the announcement date should be put under enhanced inspection and quarantine before entry
- All cloven-hoofed animals and their products from South Africa are banned from entry by accompaniment or mail. what does this mean? (by personal carrying or mailing)
- Animal and plant wastes and waste water discharged from any transportation facilities such as vessels from South Africa are subject to GACC's sanitation disposal treatment procedures
- Any illegal imports from South Africa detected by border inspection authorities must be destroyed under the surveillance of the GACC.

This is only a potential constraint and has no real impact for now, however, as China has never imported dairy cows from South Africa.

Balikun County of XUAR Set up New Cheese Factory

On 12 April, a new cheese plant built by the Administration for Rural Revitalization of Balikun Kazakh Autonomous County in Xinjiang Uygur Autonomous Region received environmental approval, with details as follows:

- Total investment: USD0.79 million (RMB5 million), 11% (USD86,602 or RMB550,000) of which is for environmental protection
- Location: Balikun Kazakh Autonomous County, Hami City, Xinjiang Uygur Autonomous Region
- Site & floor areas: 11,975 m² & 2,825m²
- Construction content: boiler room equipped with electric boilers (capacity: 2 t/a), wastewater treatment station, testing labs, production workshops, etc.
- Designed capacity: 739 t/a of fresh milk processing and 73 t/s of cheese production
- Commencement of construction: July 2017
- Commissioning date: Aug. 2021
- On-site monitoring: 24 March-25 March, 2022

The Administration for Rural Revitalization of Balikun Kazakh Autonomous County, a local government body, was set up in June 2021 in the wake of China's poverty alleviation strategy for rural areas.

MARA Issues Urgent Notice on Pandemic Control for Livestock Sector

On 11 April, the Ministry of Agriculture and Rural Affairs of China (MARA) issued an Urgent Notice on Prevention and Control of the COVID-19 Pandemic and Stabilisation of Production and Sales of the Livestock Sector. Departments of MARA are requested to work on the areas as follows:

- Supply chain logistics:
 - The central Government prohibits any unauthorised setting up of road blockades for the alleged purpose of pandemic control during this special period)
 - Supply transfer stations are to be established – to ensure smooth distribution of young or breeding livestock and poultry, feeds, veterinary drugs etc – in any areas which are under full or partial lockdowns (the latter are termed "control areas" – here, residents can leave their homes but must stay in the local area)
- Production and sales: Local departments should build a cooperation mechanism for farmers, feed growers and livestock and poultry breeders to maintain sustainable feed supply and ease excess stocks; guarantee and expand supply of livestock and poultry and dairy products during the lockdown and control period, and be ready for any logistical changes; step up overall sanitisation measures on farms in the pandemic-hit villages and the neighbouring areas, especially on animal and animal sheds, drinking water, feeds
- Emergency Response: Formulation of emergency plans with a complete and efficient working system to respond to the needs of farmers is a must.

Herds Dairy's Meibeijia Pass "Full Goat Milk" Formula Registration

On 11 April, the Centre for Food Evaluation (CFE) of the State Administration for Market Regulation published an approval for various IMF products, including Herds Dairy's "full goat milk" registrations of "Meibeijia Goat Milk Formula" – the first successful upgrade of formula registrations in China from "half goat milk" to "full goat milk".

TABLE 14: Registration Status of Goat Milk Brand "Meibeijia" of Herds Dairy

No.	Product	Formulation change
1	Meibeijia® Goat Milk Formula for Infants (0-6 months, stage 1)	The whey protein ingredient is adjusted from "cow and goat milk-based" to "full goat milk-based"; adding casein phosphopeptides (CPP), fructo-oligosaccharide (FOS) and galacto-oligosaccharides (GOS) to the original formulation containing OPO, DHA, ARA, inositol, taurine and L-carnitine.
2	Meibeijia® Goat Milk Formula for Older Infants (6-12 months, stage 2)	
3	Meibeijia® Goat Milk Formula for Young Children (12-36 months, stage 3)	

Source: Approval Document for Registration of Infant Milk Formula Products (Decision Letter) of CFE

Brazzale Qingdao Concludes Cheese Factory Construction

On 19 April, environmental approval was granted for Brazzale (Qingdao) Food Co., Ltd. (Brazzale Qingdao)'s 6,390 t/a cheese plant, with details as follows:

- Investment: USD1.6million (RMB10million), 3.7% (=USD58,259.5 or RMB370,000) of which is for environmental protection
- Location: Dianbu Town, Laixi City, Qingdao City, Shandong Province
- Site & floor area: 6,667 m² & 4,560 m²
- Construction content: production workshop, material warehouse, end-product storehouse, boiler room and other environmental facilities.
- Consumption of raw materials: 2,500 t/a of local milk (outsourcing) and 200 t/a of imported cheese chunks
- Capacity: 6,000 t/a of natural cheese, 300 t/a of processed cheese and 90 t/a of butter
- Commencement of construction: Dec. 2017
- Completion of construction: March 2022

Founded in Dec. 2017 with a registered capital of USD2 million, Brazzale Qingdao is wholly-owned by Italy's Brazzale S.p.A., which is known as Italy's oldest dairy company, specialising in various hard cheese varieties and butter. This is a significant development for the group, which also has a sales office and a cheese store in Shanghai.

Upgraded FTA Ensures Duty-free Access for All NZ Dairy Products

On 7 April, the Upgrade Protocol of the China-New Zealand Free Trade Agreement took effect. The bilateral negotiations on upgrading the FTA began in Nov. 2016, leading to an official signing on 26 Jan., 2021.

The original FTA signed in 2008 provided reducing tariffs year by year on a range of NZ dairy products entering China. Prior to this point NZ's only bilateral FTA agreement had been the 1965 NZ Australia Free Trade Agreement (NAFTA), broadened to Closer Economic Relations or CER in 1983.

Under the FTA, by 2019, almost all were tariff free except bulk milk powders, liquid milk, butter and cheese which were under special safeguard measures, meaning that once their volumes exceeded the agreed levels, they would be subject to the MFN tariffs of 10% or above. The original agreement for liquid milk, butter and cheese covered 2009-2021 and for bulk milk powders, 2009-2023.

The Upgrade Protocol retains the original terms for dairy products and does not extend the special safeguard arrangements, so all NZ dairy products entering China will be duty-free from 1 Jan., 2024.

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