

Dairy Products China News

Guaranteed Exclusive Analysis

Vol. 16 Issue 9 2023

Welcome to the September issue of Dairy Products China News.

IMF imports showed a stark drop in August, reflecting a difficult market environment where the main local manufacturers of infant nutritionals are facing quite some challenge. The expected number of births in 2023 is estimated to be around 7 million to 8 million only, well below half the level seen in 2016.

Since China's central government's release of the "3-child" policy in May 2021, governments of all levels – including in provinces with large populations such as Shandong, Guangdong, Zhejiang, Henan) – have responded with a series of measures to encourage child-bearing, such as launches of childbirth allowances and child-rearing subsidies, and better housing security systems. There have been tax incentives, housing subsidies, and free or subsidised education for having a 3rd child. The Family Planning Association has spoken of wanting to encourage "new-era" marriage and a childbearing culture.

The effects have been limited so far though, primarily due to increasing economic and employment pressure, and the lack of parenting experience and educational resources which the latest generation faces. The shortage of jobs does not encourage parents to have larger families, and the situation has led to many children returning to the family home: if "full-time adult children" were counted as unemployed, the jobless rate would be more than double the official rate, one academic noted in July.

For China's prospects, it is to be hoped that these various policy measures may pave the way for demographic growth and positive change in the future, but whether the country's economic situation truly permits this remains to be seen.

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Headlines

- ▶ *Regional Dairy Firms Bright Dairy, New Hope Dairy, Sanyuan Foods and Sunshine Dairy reported substantial growth in net profits in H1 2023, primarily boosted by fresh milk sales.*
- ▶ *In late Aug., China Feihe, H&H Group, Ausnutria and Beingmate, the major Chinese players in the IMF market, released their H1 reports with lower-than-expected indicators, saying high inventory in the distribution channels and the chaotic price war were making an impact.*
- ▶ *Tianrun Dairy reported revenue up 12.62% YoY and net profit attributable to equity shareholders of the listed company up 16.55% YoY in H1 2023.*
- ▶ *Heilongjiang Province has announced 2 dairy farming support measures, planning to provide USD2.1 million–USD7 million (RMB15 million–RMB50 million) for new large-scale farm construction projects and up to USD557,196 (RMB4 million) for modern dairy farm operators.*
- ▶ *Yili has reported earnings for H1 2023: revenue up 4.38% YoY and net profit up 2.81%.*
- ▶ *Mengniu reported H1 revenue up 7.1% YoY, ranking 2nd in the dairy industry terms in RMB terms, and operating profit surging 29.9%.*
- ▶ *The a2 Milk Company achieved double-digit growth in earnings in FY23 (12 months to 30 June 2023), driven by strong growth in its China & Other Asia segment, up 37.9%.*
- ▶ *Royal Group reported returning to profit as revenue surged by 37.85% YoY*
- ▶ *Junlebao has just broken ground on its South China Liquid Dairy Base, due to start up by the end of 2024; and Adopt A Cow's new dairy factory entered operation this month.*
- ▶ *China's milk price slipped back in Sept., after the slight uptick in August. While feed prices remained high, seriously affecting the farming sector, the local governments of Heilongjiang and Ningxia sent out support, hoping to stabilise the milk price.*

Major Companies and Sites Mentioned in This Issue



Market Analysis

Regionally-Focused Dairy Firms Report First-Half Earnings Benefiting Most From Fresh Milk

Summary: Regional Dairy Firms Bright Dairy, New Hope Dairy, Sanyuan Foods and Sunshine Dairy reported substantial growth in net profits in H1 2023, primarily boosted by fresh milk sales.

Fresh milk makes up a larger part of China's regional dairy firms' business than is the case with the national players which usually have a more diverse product mix (and have built their market positions largely on longlife milk of course).

In H1 2023, there was an evident recovery of fresh milk

consumption, in contrast with the market downturn in the pandemic period when outings and offline shopping were restricted to a great extent.

The regional dairies are reporting higher growth figures as a result, as evident from reporting from Bright Dairy & Food Co., Ltd. (Bright Dairy, Stock Code: 600597), New Hope Dairy Holdings Co., Ltd. (New Hope Dairy, Stock Code: 002946), Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429) and Jiangxi Sunshine Dairy Co., Ltd. (Sunshine Dairy, Stock Code: 001318).

TABLE I: Business Performance of 4 Regional Dairy Firms in H1 2023

Company	Revenue		Net profit attributable to equity shareholders of the listed company	
	Amount, USD	YoY Change	Amount, USD	YoY Change
Bright Dairy	1,969,563,366.90	-1.90%	47,078,637.90	20.10%
New Hope Dairy	738,026,206.90	10.80%	32,966,306.60	25.10%
Sanyuan Foods	592,789,018.80	-0.20%	29,930,537.50	131.20%
Sunshine Dairy	38,591,266.60	2.30%	8,687,432.40	12.10%

Source: H1 reports of the 4 companies

Regional Fresh Milk Sales on the Mend

Bright Dairy's liquid dairy (mainly fresh milk and chilled, accompanied by UHT milk and milk beverages) recorded USD1.1 billion (RMB8.0 billion) of sales in H1, up 3.11% YoY; regional sales of fresh milk in South China increased as local factories' operations improved.

New Hope Dairy doubled down on fresh milk marketing in H1, seeing the sales up by over 10% YoY as a result; its fresh milk market share retained at 9%. Sales of "Zhaori Weipin", New Hope Dairy's premium fresh milk brand, marked over 30% of growth YoY, with gross margin up by over 3 percentage points.

Sanyuan Foods' main operations—liquid dairy (fresh/UHT milk, chilled/UHT yoghurt, milk beverages), solid dairy (milk formulae and cheese) and ice cream – saw sales up 10.7% and double-digit growth in net profit excluding non-recurring profit and loss in H1. The sales of its fresh milk ranges "72 degrees" and "Jizhi" surged by over 30%.

Sunshine Dairy made USD31.7 million (RMB227.3 million) from selling fresh milk products in H1, constituting 82.06% of its total revenue, the share up 2.24% YoY.

Key Factors Driving the Fresh Milk Segment

Market demand for fresh milk has continued to grow on the rising health awareness and spending power of consumers. China's fresh milk market was expanding at a compound annual growth rate (CAGR) of 10% from 2016 to 2021, and is expected to break USD8.4 billion (RMB60.0 billion) by 2025. Thanks to their continued efforts to educate the local market and round out their cold-chain transport system and home delivery service, regional dairy brands are a preferred choice for a number of local consumers.

The continuous price falls for raw milk have been facilitating growth for regional fresh milk brands. Compared with most national dairy firms, the regional ones rely not only on milk supply from their own or cooperating farms, but also on the wider market supply. This gave them a cost

advantage amid the price downturn—the greater the price declines, the more they benefited from discount sales of fresh milk.

However, the price downswing from the periodic raw milk oversupply is temporary, and so is the boost it provides to the profitability of regional firms. On the other hand, the financially strong, larger companies will keep pressuring regional businesses as they acquire more dairy farms to support their fresh milk operations.

There are a few solutions for regional firms to counter potential threats:

- Further implement digital transformation in production and marketing, and build their E-commerce network to increase production efficiency and reduce costs, drive repeat purchases in local markets
- Make good use of the established cold-chain transport system and continue to improve it; explore demand in townships and villages and strength operation in the focused areas
- Expand fresh milk business through investment, M&A of other regionally-focused businesses

Chinese IMF Producers' Performance Under Pressure in H1 2023

Summary: In late Aug., China Feihe, H&H Group, Ausnutria and Beingmate, the major Chinese players in the IMF market, released their H1 reports with lower-than-expected indicators, saying high inventory in the distribution channels and the chaotic price war were making an impact.

In late Aug., the latest financials were reported by the major Chinese IMF companies in their reports for H1 2023, as follows:

China Feihe Ltd (China Feihe, Stock Code: 06186.HK):

- Revenue: USD1.4 billion (RMB9.7 billion), up 0.7% YoY
- Profit attributable to owners of the parent: USD236.2 million (RMB1.7 billion), down by 24.8% YoY

H&H Group (Stock Code: 01112.HK)

- Revenue: USD972.4 million (RMB7.0 billion), up 17.2% YoY
- Profit attributable to owners of the parent: USD84.7 million (RMB608.0 million), up 28% YoY

Ausnutria Dairy Corp Ltd. (Ausnutria, Stock Code: 01717.HK)

- Revenue: USD489.2 million (RMB3.5 billion), down 3.7% YoY
- Profit attributable to owners of the parent: USD25.7 million (RMB184.6 million), down by 10.3% YoY

Beingmate Co., Ltd. (Beingmate, Stock Code: 002570)

- Revenue: USD191.7 million (RMB1.4 billion), down 1.7% YoY
- Net profit attributable to equity shareholders of the listed company Revenue: USD6.2 million (RMB44.2 million), up 3%

The four experienced different levels of decline in IMF in the first half of the year:

- China Feihe: Gross profit decreased by 2.7% to USD885.8 million (RMB6.4 billion), with the gross margin down to 65.3% vs. 67.6% of H1 2022, primarily due to a decrease in revenue from Classic Astrobaby products, a premium range
- H&H Group: It suffered a double-digit decline in IMF sales, though the rate of decline YoY slowed in Q2 compared with the rate in Q1; these trends were partially offset

by the strong performance of the group's high margin operations like paediatric probiotic and nutritional supplements, and Adult Nutrition and Care (ANC)

- Ausnutria: The Group further consolidated its main cow milk formula brands – Hyproca Bio-Science and Allnutria – and continued exploring new sales channels in Q2. In H1, its revenue from its branded cow milk formulae increased by 2.4% YoY, but this was undermined by the 20.4% drop in sales of its branded goat milk formulae
- Beingmate: Its production of IMF increased by 1.4% YoY in H1 to 11,072.5 tonnes, but sales were down by 3.8% YoY to 10,006.7 tonnes. In regard to distribution, it had 2,054 IMF distributors as of June, an increase of 267 vs. June last year. But distributor sales fell by 39.1%, accounting for only 23.4% of its total revenue in the reporting period; each distributor represented sales of just USD20,255 (RMB145,405) on average, half the average level achieved in H1 2022

TABLE 2: IMF Sales Performance of the 4 Companies in H1 2023

Company	Main IMF series/brands	Revenue, USD million	Share of total revenue	YoY Revenue Change
China Feihe*	Astrobaby series	1,264.90	93.30%	2.00%
H&H Group	Biotime	308.4	31.70%	-10.10%
Ausnutria	Cow milk formula: Hyproca 1897, Allnutria, Aiyou	175.7	35.90%	2.40%
	Goat milk formula: Kabrita	209.5	42.80%	-13.30%
Beingmate	Aijia, Keruixin, Jing'ai	164.5	85.80%	-0.80%

Source: Semi-annual reports for H1 2023 of China Feihe, H&H Group, Ausnutria and Beingmate

Note: *China Feihe did not specify its sales of IMF products in its statement, so the figures presented above are estimated based on these products' share of its total revenue.

China's IMF Market Headwinds

Strong market headwinds are pressuring the performance of all IMF players in China: the decreasing birth rate means a clear contraction in market value, and there is an obvious impact due to the cost burdens imposed by new and secondary formula registrations under the "new national standards", etc.

Whilst the foreign brands have proven relatively resilient and continued to achieve some growth, the domestic ones have seen their position stagnate.

(Note: see also the previous article: "Steady Growth of Foreign Formula Brands in China in H1" in Dairy Products China News for August)

Loose distribution management is the biggest internal hurdle for Chinese brands:

- The negative impact of the external environment has reduced customer footfall in stores compared with the pre-pandemic level and led to a build-up of poorly-managed inventory with distributors

- At the same time, there have been insufficient controls put in place by the companies, and many distributors have been allowed to sell off product outside the stores to reduce their heavy, low margin stocks, but at the cost of customer confidence. These actions have encouraged price wars and lower sales too

Even though many Chinese IMF brands are sharpening efforts to control inventory and product price levels and reform their distribution strategy, they face a severe challenge in the foreseeable future.

Tianrun Dairy Registers Double-Digit Growths in Revenue and Net Profit

Summary: Tianrun Dairy reported revenue up 12.62% YoY and net profit attributable to equity shareholders of the listed company up 16.55% YoY in H1 2023.

On 24 Aug., Xinjiang Tianrun Dairy Co., Ltd. (Tianrun Dairy, Stock Code: 600419) has issued encouraging results for H1 2023:

- Revenue: USD193.5 million (RMB1.4 billion), up 12.62% YoY
- Net profit attributable to equity shareholders of the listed company: USD17.5 million (RMB125.8 million), up 16.55% YoY

Operation summary in H1 2023

Sales and distribution:

- Tianrun Dairy sold 146,400 tonnes of dairy products in H1, up by 6.17 YoY, with 859 retail stores in China selling its product range

- In expansion to markets outside XUAR, the firm followed distinctive marketing strategies in different regions— Shandong, Guangdong and Jiangsu provinces were the first to sell its established product range, with Shanghai selected as the target market for its new product range
- Tianrun Qiyuan Dairy Co., Ltd. (Tianrun Qiyuan) – a sales JV it set up in 2022 with Shandong Qiyuan Development Group Co., Ltd. based in Qihe County, Shandong Province – started selling products there and into the Beijing-Tianjin-Hebei region, through cooperation with state-owned retailers and supermarkets
- In May 2023, Tianrun Dairy completed a buyout of Alar Xinnong Dairy Co., Ltd. with USD45.4 million (RMB326.0 million) to strengthen its supply chain. Alar is an integrated business with 8 farms holding 14,000 Holsteins, a liquid dairy factory and a milk powder factory producing 60,000 t/a of ambient dairy products (UHT

milk, milk beverages), 40,000 t/a chilled dairy products and 8,000 t/a WMP, mainly selling in Xianjiang, to Zhejiang Province and the Pearl River Delta region. In Nov. 2022, Alar was certified to produce organic milk powders

- In H1 Tianrun Dairy launched 16 new products, aiding its growth for the period

Dairying:

- Tianrun Dairy owns 26 largescale dairy farms (incl. the 8 from Alar Xinnong Dairy) with a total dairy herd of 63,700 head as of H1
- Its farms produced 96,700 tonnes of raw milk, accounting for 68.94% of the company's requirements for processing; its yield per cow averages 9.54 t/yr, with improved levels of both fat and protein reported

TABLE 3: Tianrun Dairy's Revenue Split by Product Category and Region, H1 2023

Item	Revenue, USD million	Proportion	YoY Change
Total	193.1	100.00%	12.50%
By Category			
Ambient dairy products	108.7	56.30%	20.40%
Chilled dairy products	78.1	40.50%	5.00%
Dairying products	5.7	2.90%	-7.20%
Others	0.6	0.30%	-34.50%
By region			
Xinjiang	107.1	55.50%	6.90%
Outside Xinjiang	86	44.50%	20.20%

Source: Tianrun Dairy's report for H1 2023

"Xinjiang Milk"

Xinjiang Uygur Autonomous Region has a quality grassland area of 860 million mu, accounting for 22% of the national total. It is China's 2nd largest dairy region in terms of farming area and cattle numbers, after Inner Mongolia Autonomous Region.

The milk produced in the region by local brands is well-known nationwide for its rich and creamy taste. However, this niche category has not yet been fully exploited because of insufficient generic marketing in a national market where competition is intense and industry leaders are financially

strong. By contrast, most of Xinjiang businesses are small scale and limited in the scope of their distribution and marketing capabilities. There are only a few Xinjiang brands which have managed to scale up, notably Tianrun Dairy, whose recent growth has stemmed from its greater integration, and Xinjiang Xiyuchun Dairy Co., Ltd. which is currently applying for IPO.

In 2022, there were 60+ dairy processors registered in Xinjiang, with a collective revenue of less than USD1.3 billion (RMB9.0 billion). Their dairy product sales outside the region came to 250,000 tonnes, valued at less than USD417.9 million (RMB3.0 billion).

Governmental Direction

Heilongjiang Province Offers New Support for Dairy

Summary: Heilongjiang Province has announced 2 dairy farming support measures, planning to provide USD2.1 million–USD7 million (RMB15 million–RMB50 million) for new large-scale farm construction projects and up to USD557,196 (RMB4 million) for modern dairy farm operators.

As one of China's key milk production areas, Heilongjiang Province reports milk production of 5.1 million tonnes and a total dairy herd of 1.1 million head in 2022. In mid-Aug., the local Department of Finance announced the *2023 Action Plan for Large Scale Dairy Cattle Farm Construction Subsidy Programme in Heilongjiang Province (Plan for Farm Construction)* and the *2023 Action Plan for New Dairy Business Entity Cultivation Programme in Heilongjiang Province (Plan for Dairy Business Cultivation)*, focusing on new farm construction and farm operation capability. Key points are as follows.

The Plan for Farm Construction

- Eligible farms: Large dairy farms designed to hold 3,000+ Holsteins or Jerseys that started construction work after 1 Jan., 2022 and applied for subsidies before 31 Aug., 2023, excluding farms that have already received subsidies from similar subsidy schemes at national, provincial or county level
- Subsidy levels: USD2.1 million (RMB15 million) will be allocated to new farms with 3,000 cattle (50% or more of which should be mature cows); these farms will receive a further USD696,495 (RMB5 million) per extra 1,000 head (the additional amount can be up to a maximum of USD7 million/RMB50 million, or 30% of the total investment of the construction project)

- Subsidy distribution: Executors of new farms raise funds for construction, and the relevant departments will send out the corresponding subsidy amount in 2 phases after examination and acceptance of the operational farms:
 - For phased farm construction projects, 80% of the subsidy will be paid in the government's 1st-round distribution to new farms completing their first-phase construction with 60% of designed herd in place before 31 Dec., 2024; the balance being released in the 2nd-round distribution when new farms completing their second-phase construction with more than 80% of the designed herd in place before 31 Dec., 2025
 - For farm construction projects that applied for subsidies on fully completed farms before 31 Dec., 2025, the full subsidy will be paid out in a single transfer

The Plan for Dairy Business Cultivation

- Eligible businesses: Producers with 100 to 3,000 dairy cows that have applied for the subsidy before 31 Aug., are operating relatively well constructed farms using modern farming methods
- Subsidy coverage:
 - Farm equipment and facility upgrade, including upgrading facilities and equipment for forage planting, harvesting, processing and storage, as well as the construction of supporting facilities for milking, epidemic prevention and quality testing

- Advanced production technique application: Introduction of advanced technologies and facilities and equipment for precision feeding and breeding, healthy dairy farming, farming management and environmental control

- Dairy processing pilot project: The Plan encourages eligible businesses to develop pilot dairy product processing projects based on their own milk supply, and building regional dairy plants close to consumer markets that could provide fresh milk products; the number of pilot plants projects should not exceed one per county

- The Plan discourages projects that only aims for expansion of farming scale

- Subsidy levels:

- For farm equipment and facility upgrade and advanced production technique application, no more than USD417,897 (RMB3 million) will be allocated to each business

- For dairy processing pilot projects, no more than USD557,196 (RMB4 million) will be allocated to each business

- The subsidy for any single project should be no more than 50% of the total project investment

- Subsidy distribution: Executors of the applied projects raise funds for construction, and the relevant departments will send out corresponding subsidies after examination and acceptance of the completed work

Company Dynamics

Yili Earnings Growth Continues in H1

Summary: Yili has reported earnings for H1 2023: revenue up 4.38% YoY and net profit up 2.81%.

On 28 Aug., Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) issued its report for H1 2023, with key data showing its firm market leadership:

- Revenue: USD9.2 billion (RMB66.0 billion), up by 4.38% YoY
- Net profit attributable to equity shareholders of the listed company USD878.3 million (RMB6.3 billion), up 55.97% YoY

Corporate activity in H1:

Business expansion:

- Yili has been active in expanding its healthy product lines in recent years, with developments in functional dairy products featuring organic, A2 β -casein, selenium-rich, natural DHA, etc.; its organic dairy, milk/plant-based nutritional supplements and other related product ranges saw good growth during the reporting period
- Meanwhile, increased efforts to optimise and expand overseas production capacity and operations, resulted in 19.9% growth in overseas sales vs. the same period last year

Product and technological innovations:

- In H1, Yili launched an assortment of products, including organic UHT milk, lactose-free UHT milk, adult formulae, IMF, a low-GI ice cream series, flavoured yoghurt, lactic acid bacteria (LAB) drinks,

and ready-to-serve (RTS) probiotic powder. Its subsidiary Ausnutria Dairy Corp Ltd. (Ausnutria, Stock Code: HK.01717) accounted for over 15% of Yili's new product sales

- Yili's technological breakthrough in extracting activated lactoferrin increases the retention rate of lactoferrin in ambient milk from 10% to 90%+, helping the group to develop products with immunity enhancing functionality
- By the end of June 2023, Yili has 784 patents of invention granted at home and abroad, an increase of 90 from the end of last year

Category operations:

- Liquid dairy (UHT/fresh milk, modified milk, yoghurt, milk beverages, etc.): it remains the market leader here, with its "Jindian Organic (UHT) Milk" range maintaining double-digit growth in retail sales, aided by new product launches; its online sales of ambient liquid dairy products also grew by double digits, and accounted for 3 percentage points of the rise in Yili's online retail market share; some products were also tailored to the needs of specific distribution channels
- Powdered milk products and other dairy products (cheese, cream, etc.): Yili achieved retail market shares (offline + online) of 13.6% in IMF, 23.8% in adult formula (where it remains the category leader) and 17.2% (up by 1.5 percentage points YoY) in cheese
- Ice cream/popsicle sales grew by 25.54%, faster than the market average

TABLE 4: Yilis Revenue Split by Main Business, H1 2023

Category	Revenue, USD	Share	YoY Change
Liquid dairy (UHT/fresh milk, modified milk, yoghurt, milk beverages, etc.)	5,909,502,620	64.84%	-1.09%
Powdered milk products and other dairy products (cheese, cream, etc.)	1,883,497,668	20.67%	12.01%
Ice cream/popsicles	1,275,638,647	14.00%	25.54%
Others (bottled water, etc.)	44,718,579	0.49%	55.08%
Total	9,113,357,514	100.00%	4.74%

Source: Yili's Report for H1 2023

TABLE 5: Change in Yili's Distributor Network by Region in H1 2023

Region	Number by 30 June	Increase YoY
North China	5,346	353
South China	5,871	466
Central China	4,572	560
East China	3,335	306
Others	1,565	126
Total	20,689	1,811

Source: Yili's Report for H1 2023

Mengniu's Operating Profit Surges Nearly 30% in H1

Summary: Mengniu reported H1 revenue up 7.1% YoY, ranking 2nd in the dairy industry terms in RMB terms, and operating profit surging 29.9%.

On 30 Aug., China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319) issued its report for H1 2023 with key data as follows:

- Revenue: USD7.1 billion (RMB51.1 billion), up 7.1% YoY
- Operating profit: USD456.2 million (RMB3.3 billion), up 29.9% YoY
- Operating profit margin: 6.4%, up by 110 percentage points, mainly profiting from its digital and intelligent production focus on increasing efficiency and reducing costs, product mix refinements and strong sales from high margin premium products
- Profit attributable to equity shareholders: USD420.7 million (RMB3.0 billion), down 19.5% YoY

Corporate operational status in H1:

Liquid dairy:

- Ambient milk: Pure milk brands "Deluxe Milk" and "Mengniu" (namesake brand) continued to lead the category in value terms; "Deluxe Milk" also led in organic pure milk,

largely due to its launch of "Desert Organic Milk" in H1. Mengniu led E-commerce sales of ambient milk as online membership registrations surged, exceeding 6.5 million in total by the end of H1. Penetration in rural areas increased, with sales through 800,000+ stores to over 26,000 townships and villages by the end of H1

- Chilled products: Targeting consumers with varied needs, new product ranges were introduced to the fields of nutrition, functional food and probiotic drinks. Premium brand "SHINY MEADOW" enjoyed double-digit growth in sales value, leading the premium fresh milk segment; H1 sales of Little Meadow/Xiaoxianyu – SHINY MEADOW's sub-brand – more than doubled the annual number last year

Ice cream:

Innovative launches have included: "Mengniu Suibian" with 3 new flavours, "Delux" (a premium line) with 3 new "simple formulation" ice cream cups, and 3 flavours of alcohol ice cream in collaboration with Kweichow Moutai Co., Ltd., China's leading spirits producer.

- Overseas sales were strong, reaching USD134.8 million

(RMB968.0 million) in H1. "Aice", a leading ice-cream brand in Southeast Asia acquired by Mengniu in 2021, made a substantial improvement in its profit margin, and ranked 1st in Indonesia and 2nd in the Philippines, and the group's products also sold in Vietnam, Thailand, Laos Cambodia, etc.

Milk formula:

- 6 IMF product series were registered for the new national standard in 1, 5 of which are now on the market, including Bellamy's EQUI-PURE's imported organic series (made in New Zealand); the number of Bellamy's distributors and retailers was reported to be up significantly YoY
- "Yourui", Mengniu's first premium formula series for the middle-aged and elderly, saw upgrades in its formulations and packaging, and the company rolled out a new SKU focusing on bone health improvement

Cheese, butter, cream

- Mengniu launched
 - China's first cheese stick product made with fresh milk in H1 (made with cream cheese). Leisure-

positioned cheese snacks were promoted in the sports market to lift penetration rates

- Golden package lactic acid bacteria (LAB)-containing butter was launched in a variant for home baking, the first of its kind in China

- Additionally, its partner Arla Foods launched 1L packs of whipping cream for foodservice – not the previous imported products, but ones locally produced from milk come from Mengniu's farms in Inner Mongolia and using an emulsion technology independently developed by Mengniu

By the end of June, Mengniu has 45 plants in China, 2 in Indonesia, 2 in Australia and 1 in New Zealand, with overall capacity of 13.6 million t/a of dairy products, up by 690,000 t/a compared with the total at the end of 2022.

TABLE 6: Mengniu's Revenue Split by Main Business, H1 2023

Category	Revenue, USD	Proportion	YoY Change
Liquid dairy (UHT/fresh milk, yoghurt, milk beverages)	5,800,444,224.70	81.50%	5.00%
Ice cream	600,197,526.00	8.40%	10.40%
Powders (milk formula for infants, children and adults)	263,862,066.10	3.70%	0.0%*
Cheese products	314,265,754.70	4.40%	-0.10%
Others (dairy products raw and auxiliary materials and trading)	141,991,976.40	2.00%	/
Total	7,120,761,547.90	100.00%	7.10%

Source: Mengniu's Report for H1 2023

Note: *Powders sales increased by around USD4,040 (RMB29,000) in H1 2023 vs H1 2022.

a2 Milk Company FY23 Results See Double-Digit Growth

Summary: The a2 Milk Company achieved double-digit growth in earnings in FY23 (12 months to 30 June 2023), driven by strong growth in its China & Other Asia segment, up 37.9%.

On 21 Aug., the a2 Milk Company presented its FY23 Results (12 months to 30 June 2023) with double-digit growth in both revenue and profits, living up to its previous guidance, largely driven by the strong sales in China.

Key indicators in FY23 (all comparisons are with the 12 months ended 30 June 2022):

- Revenue up 10.1% to USD941.4 million (NZD1.6 billion)
- EBITDA (earnings before interest, tax, depreciation, and amortization) up 11.8% to USD129.6 million (NZD219.3 million)

The company attributes the strong results to execution of its growth strategy, mainly focused on capturing the full potential in China's IMF market.

China & Other Asia Segment Performance

The segment sales soared by 37.9% to USD592.3 million (NZD1.0 billion), exceeding NZD1.0 billion for the first time,

and representing 62.9% of total revenue; EBITDA jumped 75.1% to USD150.5 million (NZD254.1 million).

- Overall IMF sales were up 8.4% — China label IMF (a2 至初®) sales were up 27.8% to USD330.5 million (NZD559.3 million) and English label IMF sales (through cross-border e-commerce channel/CBEC channel) up 51.0% to USD228.2 million (NZD386.2 million). In China, greater penetration in lower-tier cities helped its sales of China label products to exceed that of English label products for the first time
- The company's investment in the a2 Platinum® English label refresh increased, and the sales mix shift towards the CBEC channel grew, so the company's market share by value in CBEC rose to 22.6% at the end of June 2023 compared with 19.4% in June 2022
- As of the end of June 2023, the company's market share by value in mother and baby stores grew to 3.4% from 3% by the end of June 2022
- Sales of liquid milk in the segment were up 36.7% to USD9.0 million (NZD15.2 million) and revenue from other nutritional products was also up 87.9% to USD24.5 million (NZD41.4 million)

FY24 Outlook

The company expects the China IMF market to be challenged increasingly by lower birth rates and increased competition in FY24, with a double-digit decline in market value. But at the same time, it expects to continue to achieve low single-digit revenue growth in FY24.

The execution of the company's growth strategy will continue, according to David Bortolussi, Managing Director and CEO:

- Since receiving approval from the State Administration for Market Regulation for the re-registration of its China label IMF range a2至初, it is planning for a launch in the coming few months
- In English label channels, the Daigou channel experienced a sharp decline of nearly 40% in FY23, mainly because of the pandemic's impact. As a result, it will focus more on the better controlled channels which have performed better and where it can continue to gain share
- It will re-invest further in its brand again this year and beyond, to support future sales growth and emerge in a stronger position when the market recovers from the present all too clear challenges (Note: although actually it will be difficult to recover in the short term, and any recovery would likely depend on the effectiveness of long-term measures adopted by the government, such as the 3-child policy, to stimulate fertility growth)

Royal Group Returns to Profit as Dairy Sales Grow

Summary: Royal Group reported returning to profit as revenue surged by 37.85% YoY

In late Aug., Royal Group Co., Ltd. (Royal Group, Stock Code: 002329) issued its report for H1 2023:

- Revenue: USD253.2 million (RMB1.8 billion), up 37.85% YoY
- Net profit attributable to equity shareholders of the listed company:

USD29.6 million (RMB212.8 million), up 121.71%; if excluding extraordinary gains/losses, USD1.5 million (RMB10.5 million), this represents YoY growth of 208.09%, compared with the loss of -USD1.4 million (-RMB9.7 million) during H1 last year

Note: The figures from Yunnan Royal Lesson Intelligent Dairy Co., Ltd. (Lesson Intelligent) and Yunnan Royal

Lesson Dairy Co., Ltd. (Lesson Dairy) are no longer incorporated after their sale to Junlebao in June.

Royal Group credited the gains to increased sales of its dairy products and its new use of solar EPC (Engineering Procurement Construction), which aligns with the low carbon trend and has improved its operations' cost efficiency significantly.

TABLE 7: Royal Group's Revenue Split by Business in H1 2023

Category	H1 2022		H1 2023		YoY Change
	Revenue, USD million	Share	Revenue, USD million	Share	
Chilled dairy – fresh milk, yoghurt and lactobacillus drinks	69.1	37.60%	73.5	29.00%	6.50%
Ambient dairy – pure (buffalo) milk, yoghurt, school milk, milk beverages	85.8	46.70%	92.9	36.70%	8.30%
Photovoltaic module sale and photovoltaic power station EPC	/	/	34.5	13.60%	/
Others – other food and drinks, advertising, service contracts, etc.	28.8	15.70%	52.3	20.70%	/
Total	183.7	100.00%	253.2	100.00%	37.90%

Source: Royal Group's Report for H1 2023

TABLE 8: Royal Group's Production, Sales and Inventory of Dairy Products in H1 2023, tonnes

Category	Item	H1 2022	H1 2023	YoY Change
Chilled dairy – fresh milk, yoghurt and lactobacillus drinks	Output	51,458.20	58,938.30	14.50%
	Sales	51,569.50	58,649.60	13.70%
	Ending inventory	508.3	744.7	46.50%
Ambient dairy – pure (buffalo) milk, yoghurt, school milk, milk beverages	Output	74,881.80	80,151.60	7.00%
	Sales	75,470.60	81,895.90	8.50%
	Ending inventory	4,071.10	3,202.20	-21.30%

Source: Royal Group's Report for H1 2023

Note: Removal of Lesson Dairy and Lesson Intelligent data represents reductions of 220.99 tonnes of chilled dairy products and 2,012.58 tonnes of ambient dairy products in the Group's ending inventory in H1 2023.

Dairy Operations Highlights

- Marketing: In H1, Royal Group ended cooperation with 2,057 distributors, 1,387 of which were written off due to the sale of Lesson Intelligent and Lesson Dairy; nevertheless, despite this, its sales of chilled and ambient dairy products via distributors grew by 2.52% YoY to USD61.5 million (RMB441.8 million) and by 15.28% YoY to USD76.5 million (RMB548.9 million), respectively
- Overseas buffalo breeding: in Aug., Royal Cell Biotechnology (Pakistan) Company (Pvt) Ltd. was registered with the Pakistan Government's Animal Quarantine Department for export of buffalo embryos, ova and frozen semen to China. This is a major step forward in the Group's "Dairy Buffalo Breed Strategy", which seeks to realise the potential for largescale farming of the Pakistan Nili-Ravi breed of buffalo in China

- Dairy production projects in progress: a 50,000 dairy production line at the Group's new plant in Laibin City, Guangxi Zhuang Autonomous Region became ready for startup; its Smart Dairy Products Central Plant, designed to be its headquarters in East China, broke ground in early Sept., building a total dairy capacity of over 100,000 t/a to supply markets in Anhui Province and the Yangtze River Delta region
- Dairy farm projects in progress in H1: In Guangxi, a largescale dairy farm of around 10,000 head was under construction in Shangsi County and the dairy farm in Tiandong County was undergoing reconstruction and upgrading; meanwhile, the proposed project to build new dairy farm in Laibin City (see below for details) entered its planning stage

Laibin Xiaopingyang Dairy Farm Construction Plan:

- Construction nature: New construction
- Total investment: USD88.9 million (RMB638.2 million), 0.62% (=USD548,838/RMB3.9 million) of which for environmental protection
- Location: Xiapingyang Town, Xingbin District, Laibin City, Guangxi Zhuang Autonomous region
- Site area: 500,750 m²
- Construction contents: Cattle shed, milking room, fermentation workshop and supporting facilities
- Scale: 10,998 Holsteins in total – 6,000 mature cows, 2,499 heifers, 2,499 calves
- Designed capacity: Raw milk – 54,000 t/a; milk yield per cow – 9 t/a
- Construction duration: 24 months, from Nov. 2023 to Nov. 2025

Junlebao and Adopt A Cow Push Integrated Operations

Summary: Junlebao has just broken ground on its South China Liquid Dairy Base, due to start up by the end of 2024; and Adopt A Cow's new dairy factory entered operation this month.

At a time of fierce competition in the dairy industry, promoting "farm + factory" integration has become a key measure for Chinese dairy enterprises to control costs and quality. Recent announcements by both Junlebao Dairy Group Co., Ltd. (Junlebao) and Adopt A Cow Holding Group Co., Ltd. (Adopt A Cow) highlight their progress in this regard.

Junlebao broke ground on a South China Liquid Milk Factory in the Food Industrial Park of Pengjiang District, Jiangmen City in Guangdong Province recently, which is due to commission by the end of 2024. This April the firm signed a strategic partnership agreement with the local government of Pengjiang District to invest USD417.9 million (RMB3.0 billion) in building a "South China Liquid Dairy Base", involving a "milk source base" (usually a smaller farm), a liquid dairy R&D centre and factory, a dairy education centre and a tourist centre, plus its South China sales headquarters. USD208.9 million (RMB1.5 billion) will go to construction of a 6.67ha liquid dairy factory. This factory is designed to produce fresh milk, fresh yoghurt, milk beverages and school milk, and to supply Guangdong, Guangxi Zhuang Autonomous

Region, plus Hunan, Fujian, Jiangxi and Hainan provinces. School milk supply is prioritised here for these areas' local governments' "School Milk Programmes".

Apart from this project, Junlebao has plans to build several largescale modern farms in Jiangmen City, each around 20 ha with international level dairy breeds and farming technologies.

Adopt A Cow announced the startup of a new dairy factory in Gucheng County, Hengshui City, Hebei Province in mid-Sept., representing an investment of USD87.8 million (RMB630.0 million). It has 4 production lines with milk processing capacity of 420 t/d and annual liquid dairy production capacity of 150,000 t/a. Smart software and hardware are installed to maximise automation, along with a well-equipped testing centre to run 121 different inspection tests on raw milk and finished goods to control product quality. Alongside this factory is Adopt a Cow's first dairy farm, currently holding 27,000 head of cows and complete with supporting facilities including a largescale automated highrise warehouse.

Adopt A Cow was founded in July 2014 with a registered capital of USD50.7 million (RMB364.2 million). Its brand range includes pure milk, flavoured yoghurt, WMP and SMP, and owns 7 dairy farms with 60,000+ cows.

Raw Milk Price

China's Milk Price Falls Again in Sept.

Summary: China's milk price slipped back in Sept., after the slight uptick in August. While feed prices remained high, seriously affecting the farming sector, the local governments of Heilongjiang and Ningxia sent out support, hoping to stabilise the milk price.

In the week ended 13 Sept., China's raw milk price averaged USD516.8 (RMB3,710) per tonne, down 1.3% from the first week of the month and down 10.2% YoY. This latest decline reverses the small rise seen last month, as demand for dairy remained weak, and the price is predicted to remain low for the rest of the year.

Feed market:

- The national price of corn averaged USD427.6/t (RMB3,070/t), up 0.3% from the first week and up 2.3% YoY; the average in major production regions (Heilongjiang, Jilin and Liaoning) was down 0.4% to USD388.6/t (RMB2,790/t) and the price in the main demand area (Guangdong) rose by 0.6% to USD447.1/t (RMB3,210/t) from the first week
- The national price of soybean meal averaged USD690.9/t (RMB4,960/t), down 0.2% from the first week of the month and up 4.4% YoY

Although prices of some feeds went down slightly this month, overall feed prices have stayed high, leaving dairy farms facing high costs and poor profitability.

On 11 Sept., Heilongjiang Province released the *Action Plan for Raw Milk Purchase and Purchase Increment for 2023* (the Plan), its 2nd measure to help stabilise the local raw milk price and boost dairying after its guidelines for raw milk trading announced in July.

Details of the Plan are listed below:

- Subsidy targets: Dairy processors renewing contracts on time and purchasing milk from farmers as much as possible at around the

local reference trading price— USD536.3/t (RMB3,850/t) for Q3 2023, with a minimum price of USD508.4/t (RMB3,650/t)

- Subsidy distribution:
 - For regular purchases: Subsidies will be provided twice to processors who make milk purchases in Q3 (1 July–30 Sept.) and Q4 (1 Oct.–31 Dec.)
 - For increased purchases: A single subsidy will be provided to processors who make increased purchases in H2 vs. H2 last year
- Subsidy levels:
 - For regular purchases: up to USD13.9 (RMB100) will be provided per tonne of

milk traded; each processor is eligible for grants up to USD16.7 million (RMB120 million)

- For increased purchases: up to USD27.9 (RMB200) will be provided per tonne of the increment; each processor is eligible for grants up to USD4.2 million (RMB30 million)

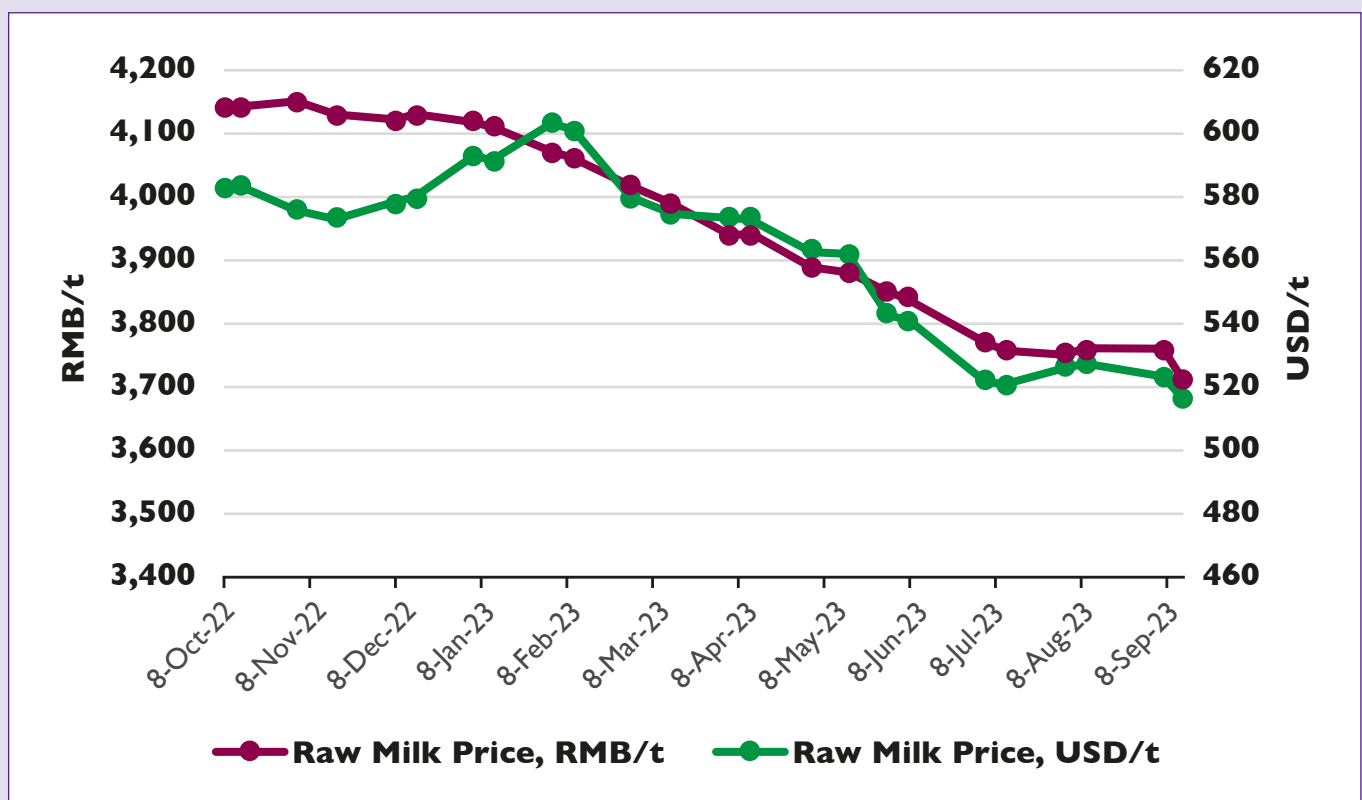
Yinchuan City – Ningxia's core dairy farming area – has 297,500 head of dairy cattle and produced 178,900 tonnes of milk in H1 2023. It also activated a subsidy plan for local dairy processors in Aug. to boost the industry. This subsidy is based on the average daily milk purchase volume over a month.

- For processors that are buying over 100 tonnes milk per day, it

offers up to USD13.9 (RMB100) per tonne of increased daily purchase vs. their average daily purchase volume in the same period last year – the annual subsidy for each processor should be no more than USD3.3 million (RMB24 million)

- For processors that are buying less than 100 tonnes milk per day, it offers up to USD11.1 (RMB80) per tonne of increased daily purchase and the annual subsidy for each such processor should be no more than USD417,897 (RMB3 million)
- Meanwhile, Yinchuan City is offering one-off subsidies of USD69,649 (RMB500,000) to newly operational dairy processors this year

FIGURE 1: Trends in China's Raw Milk Price, Oct. 2022–Sept. 2023



Source: Ministry of Agriculture and Rural Affairs (MARA)

News in Brief

Dairy Imports in August 2023

The August imports figures continue to cause concern for dairy exporters, though surely not surprise. Milk powders and whey and IMF were notable areas of decline, although fat products – cheese, butter, AMF – all saw growth.

TABLE 9: 2023 August Imports, tonnes

HS code	Product	202208	202307	202308	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	6,854.7	6,757.3	6,290.1	-6.9%	-8.2%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	49,344.2	38,855.2	41,391.2	6.5%	-16.1%
04014000	Milk & cream, 6%	N/A	0.6	1.8	210.7%	N/A
04015000	Milk & cream, fat >10%, not concentrated or sweetened	13,583.3	16,878.1	19,570.3	16.0%	44.1%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	32,982.3	33,008.9	21,083.0	-36.1%	-36.1%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	29,959.0	45,168.7	28,812.4	-36.2%	-3.8%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	104.0	32.2	60.2	87.0%	-42.1%
04041000	Whey and modified whey	62,818.9	51,856.7	49,706.0	-4.1%	-20.9%
04049000	Products consisting of natural milk constituents, nes	827.9	413.2	855.0	106.9%	3.3%
04051000	Butter	7,203.4	6,067.5	8,598.3	41.7%	19.4%
04059000	Other fats & oils derived from milk	4,445.5	7,210.6	5,606.4	-22.2%	26.1%
04061000	Fresh cheese, incl. whey cheese, curd	5,645.4	7,489.4	6,573.1	-12.2%	16.4%
04062000	Grated or powdered cheese	1,179.3	5,365.8	4,313.3	-19.6%	265.8%
04063000	Processed cheese, not grated or powdered	1,636.1	1,945.7	1,924.5	-1.1%	17.6%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	7.1	12.9	8.4	-35.3%	18.3%
04069000	Cheese, nes	5,622.5	2,682.4	4,775.8	78.0%	-15.1%
17021100	Anhydrous lactose, lactose wt. ≥99%	12,684.8	15,358.0	16,572.8	7.9%	30.7%
17021900	Lactose syrup & other lactose	25.0	23.0	4.0	-82.6%	-83.9%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	26,318.0	10,148.4	14,466.4	42.5%	-45.0%
35011000	Casein	1,633.2	1,486.8	1,770.8	19.1%	8.4%
35019000	Caseinates	1,457.0	1,583.3	2,141.7	35.3%	47.0%
35022000	WPC80/WPI	2,466.1	2,550.0	3,944.5	54.7%	59.9%

Source: China Customs

Mengniu's World's First Fully Intelligent Dairy Factory in Ningxia

On 23 Aug., Mengniu Dairy (Ningxia) Co., Ltd. (Mengniu Ningxia) published the environmental report on the completed 1st stage construction of phase I of its new dairy factory project in Ningxia Hui Autonomous Region. The factory is claimed to be world's first fully intelligent dairy factory, expected to have an output worth over RMB10 billion annually, once in full operation. The phase I construction work entails building 24 pure milk production lines, a 3-stage process due to considerations regarding engineering scale, market demand, milk supply etc. (Note: See also the previous article: "Ningxia Focuses on Growth and Premiumisation in Dairy" in Dairy Products China News for June)

The phase I details are as follows:

- Construction nature: New construction
- Phase I investment: USD167.2 million (RMB1.2 billion), 6.7% (=USD11.2 million/RMB80.4 million) of which for environmental protection
- Location: Hi-Tech Industrial Development Zone of Yinchuan City, Ningxia Hui Autonomous Region
- Site areas: The whole plant will cover an area of 390,000 m² – 220,000 m² for phase I and 170,000 m² for phase II
- Staged construction plan:
 - 1st Stage: 9 Imported production lines, combined workshop, office complex, wastewater treatment station, and other supporting facilities – these are now in operation
 - 2nd Stage: Add 8 production lines and supporting facilities
 - 3rd Stage: Add 7 production lines and supporting facilities
- Designed capacity: The phase I claims total production capacity of 1,533,000t/a or 4,200t/d for pure milk brands "Deluxe Milk" and "Mengniu".
 - 1st Stage: 475,960t/a or 1,304t/d
 - 2nd Stage: 565,020t/a or 1,548t/d
 - 3rd Stage: 492,020t/a or 1,348t/d
- Working system: Totally 350 people working for three 8-hour shifts; production lines run for all year round
- Start of construction: Nov. 2021
- Commissioning time: July 2023
- Site acceptance test: 21 July–22 July 2023

Ningxia Mengniu was set up in Sept. 2020 with registered capital of USD146.3 million (RMB1.1 billion), 80% held by China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319).

Weigang Dairy Proposes 20,000 Cattle Farm Construction Project

On 1 Sept., Jiangsu Province's Huai'an Xianchun Yimu Agriculture Co., Ltd. (Xianchun Yimu) published the draft environmental impact statement for its new dairy farm project before submitting this to the local Ecology and Environment Bureau.

Xianchun Yimu was founded in June 2022 by Nanjing Weigang Dairy Co., Ltd. (Weigang Dairy) with a registered capital of USD7 million (RMB50 million). Weigang Dairy is a regional dairy business focusing on fresh milk and yoghurt as well as ambient milk, selling in Jiangsu and Anhui provinces and the neighbouring regions. It has a dairy herd of over 40,000 head in its 17 dairy farms located in Jiangsu and Anhui.

Project details:

- Construction nature: New construction (2 work phases)
- Total investment: USD157.4 million (RMB1.1 billion), 3.19% (=USD5 million/RMB36 million) of which for environmental protection – USD76.6 million (RMB550 million) for phase I and USD80.8 million (RMB580 million) for phase II
- Location: Huaiyin District, Huai'an City, Jiangsu Province
- Site area: 920,000 m² in total – phase I – 440,000 m², phase II – 480,000 m²
- Main construction plan: The whole project includes construction of 2 separate farms to be built in each phase, along with cattle sheds, milking rooms, silage silo and supporting facilities.
- Scale: 20,000 Holsteins in total, or 10,000 head per phase – 5,000 milking cows, 2,800 heifers, 780 dry cows, 220 calving cows, 1,200 calves
- Annual production: 140,000 t/a raw milk, or 70,000 t/a per phase
- Construction schedule:
 - Phase I: Break ground in March 2024 and start operation in April 2025
 - Phase II: Break ground in March 2025 and start operation in April 2026

6th Standard Revision Draft for the HMO 2'-Fucosyllactose (2'-FL)

On 23 Aug., the China National Center for Food Safety Risk Assessment (CFSA) issued a quality standard revision draft for "2'-Fucosyllactose" (2'-FL) to solicit industry feedback – this is the 6th draft since the first was published in 2016.

2'-FL is the most abundant human milk oligosaccharide (HMO) in breastmilk, categorised as a new food additive for nutrition enhancers in China, and is approved for use in IMF in Australia / New Zealand, the US and other

countries and regions. In China many formula companies are innovating or premiumising their products by adding various kinds of nutritional ingredients to confront the shrinking population and IMF market, as well as ever-intensifying competition. Mengniu has received technical approvals for its HMOs from China's Ministry of Agriculture and Rural Affairs and the National Health Commission, and plans to commercialise these. This has caught

the industry's attention and pushed the standardisation / approval procedures for these ingredients up the agenda.

Key points of the 6th standard revision draft:

- Term: The nutrition enhancer 2'-Fucosyllactose (2'-FL) (a white/off-white colour powder) is produced from lactose and other raw materials through fermentation, purification, drying and other processes
- Application Scope: Modified formulae for children (=growing up milk powders/GUMPs), formulae and foods for infants, older infants and young children, infant formulae and foods for special medical (FSMP)
- Usage Amount: at an inclusion rate of between 0.7-2.4 g/L; 2'-FL content should not exceed 64.5g/kg when mixed with lactose -N- neotetraose (LNnT), galacto-oligosaccharides (GOS), fructo-oligosaccharide (FOS), polyfructosan or raffinose
- Source: *Corynebacterium glutamate* ATCC 13032 (donor cell: *Pseudopedobacter saltans*)a)

TABLE 10: Physicochemical Indicators of 2'-FL

Item	Index
2'-Fucosyllactose/2'-FL (dry base), w/%	≥94.0
D-Lactose, w/%	≤3.0
Difucosyllactose/DFL, w/%	≤2.0
Water, w/%	≤9.0
Residual protein content, mg/kg	≤100
Endotoxin, EU/mg	≤10
Ash content, w/%	≤0.5
Total arsenic content (As), mg/kg	≤0.2
Lead (Pb), mg/kg	≤0.05

Source: China National Center for Food Safety Risk Assessment (CFSA)

First Draft Industrial Standard for (Flavoured) Concentrated Fermented Milk

On 13 Sept., the National Food Standards Technical Committee published a draft *Industrial Standard for Concentrated Fermented Milk and Flavoured Concentrated Fermented Milk*. The period for feedback ends on 15 Oct., 2023. It is the country's first proposed industrial standard for such products, stipulating a stricter requirement on protein content than the national standard and clarifying the uses of membrane separation or centrifugation to concentrate the protein. (Note national standards on protein: ≥2.9g/100g for fermented milk, ≥2.3g/100g for flavoured fermented milk; there are no national standards specifically for (flavoured) concentrated fermented milk so far).

TABLE 11: Composition Indicators for Concentrated Fermented Milk

Item	Index	
	Concentrated Fermented Milk	Flavoured Concentrated Fermented Milk
Protein, g/100g	≥5.6	≥4.5
Fat*, g/100g	≥3.1	≥2.5
MSNF, g/100g	≥8.1	/
Acidity, °T	≥70.0	≥70.0

Source: National Food Standards Technical Committee

Note: * applied only for whole milk products

China's 1st Certified Reference Material for Determination of DHA in Milk Powder

Recently, the Innovation Team of Reference Material for Agriculture of the Institute of Quality Standard and Testing Technology for Agro-Products of Chinese Academy of Agricultural Sciences (IQSTAP) developed a highly accurate method for measuring docosahexaenoic acid (DHA) levels in milk powder, and China's first certified homogeneous and stable reference material (CRM) to identify/measure DHA in milk powder. This achievement was published in the journal *Food Chemistry* and the CRM has been recognised as a National Secondary Reference Material, number GBW (E) 100641.

The development of the studies involved preparing potential CRMs by adding various levels of DHA to cow milk, then following with spray drying, lyophilisation, mixing, dispensing and sterilisation; and mapping out an optimised acetylchloride-methanol method for the analysis. The CRM is viewed as being very significant due to its potential for wide application, including in quality control and method validation in dairy plants and testing laboratories.

DHA, a key component of omega-3 polyunsaturated fatty acids (PUFAs) and the basic constituent of cerebral cortex, central nervous system and retina, is often recommended as dietary supplement adding in milk, milk formula and other foods. Currently, the GC-FID method (Gas Chromatography-Flame Ionisation Detection) listed in the National Standard for Food Safety – Determination of Fatty Acids in Foods (GB 5009.168-2016) is recommended in China as a reference method for the determination of DHA in milk powder.

Dabeinong Proposes to Buy into China Shengmu

On 15 Sept., Beijing Dabeinong Technology Group Co., Ltd. (Dabeinong Group, Stock Code: 002385) made a proposal to buy a 6.62% stake in China Shengmu Organic Milk Ltd (China Shengmu, Stock Code: 1432.HK) for USD50.3 million (HKD393.2 million). Once completed, this deal will make Dabeinong Group one of the top 3 shareholders of China Shengmu, after Start Great Holdings Ltd. (a wholly-owned subsidiary of Mengniu with a 29.99% stake), and Nong You Co., Ltd. (a company wholly-owned by the controller of Dabeinong Group (15.53% stake).

Dabeinong Group, one of China's top feed producers and also raising pigs and selling seeds, said this vertical acquisition deal would help expand its business and prompt R&D into organic feeds for ruminants. Previously, the group has also increased its involvement in premium organic IMF market by its acquisition of a 91.36% stake in China Shengmu's subsidiary Inner Mongolia Yiyangmei Dairy Co., Ltd.

China Shengmu, the country's largest organic dairy company, has 139,897 dairy cattle and sold 340,000 tonnes of raw milk in H1 this year. From this, organic milk made up 261,000 tonnes (=76.8%), a volume up by 17.3% YoY. According to the company, organic milk demand is on the rise, bucking the decline in the wider raw milk market, due to the growing demand for premium fresh milk; and this deal could aid further cooperation in forage feeds for ruminants, and bring down its feed cost in the future expansion of its organic farming.

Junleba's "Yuexianhuo" Fresh milk Top the Premium Segment

On 31 Aug., Junlebao Dairy Group Co., Ltd. (Junlebao) held an event briefing announcing that its fresh milk brand "Yuexianhuo" – the market's leading premium fresh milk – has increased its market share to 29.6% in July.

Recent years have seen many dairy firms launching premium fresh milk brands/products, for example, Bright Dairy's "Zhiyou", Yili's "Jindian Fresh Milk" and Mengniu's SHINY MEADOW. Among them, Junlebao's Yuexianhuo launched in Nov. 2019 and by July 2023, has accumulated sales of over 360 million bottles.

At the event, Junlebao also celebrated Yuexianhuo gaining the Certification of Premium-Grade Raw Milk for the raw milk used to make the product after 3 years of examination and assessment under the National Quality Dairy Engineering Initiative – the first fresh milk brand to win this award. This Initiative was launched by China's Ministry of Agriculture and Rural Affairs to facilitate sustainable development in the dairy sector, requiring the quality level of the certified premium-grade raw milk to be compatible with that in Australia / New Zealand.

HEYTEA Launches Industry-First Pure Milk for New-Style Tea Drinks

On 4 Sept., China's leading new style tea drink chain HEYTEA announced HEYTEA 3.8 Yunmu Pure Milk, the first of its kind in the industry. It has a long shelf life as a result of an innovative infusion technology for sterilisation and cold aseptic filling process, and is being included in some of the chain's tea drinks. HEYTEA also sells packaged tea drinks and tea leaf products in its outlets and online platforms, so this new product may be available for direct sales in the future.

At present, most of the new style tea drink brands in China are using either milks customised for latte, general pure/fresh milk or non-dairy creamers in their products.

The new milk has been developed with an (undisclosed) dairy processor to meet consumer demand for "real milk". It is 100% cow milk containing 3.8g/100mL protein by using cutting-edge membrane separation technology and has been hyped up in recent market campaigns which stress that its levels of protein and fat deliver better colour, smell and taste for coffee making.

PICTURE 1: HEYTEA 3.8 Yunmu Pure Milk



Source: HEYTEA

5.42 Million Luckin Coffee x Moutai Latte Sold on Launch Day

"Sauce-Flavoured Latte", the latest collaboration between China's coffee chain Luckin Coffee and luxury liquor manufacturer Kweichow Moutai Co., Ltd. (Moutai, Stock Code: 600519.SH), has hit the headlines across the country. (Moutai's Baijiu has a range of flavours, including light flavour, strong flavour and sauce flavour – with a soy sauce aroma).

According to the official online release, it is made with a filtered milk enriched by Moutai's "Baijiu", the local throat-tingly spirit that typically contains 53% alcohol. In this case, the level of alcohol in the beverage is less than 0.50%, although the company suggests that it is not suitable for minors, pregnant women, drivers or people with alcohol allergies! A cup costs USD5.29 (RMB38), and if paired with coupons as little as USD2.65 (RMB19). 5.42 million cups were sold on the launch day, grossing USD139,299 (RMB100 million).

According to the companies's statement, the product is produced by Ningxia Saishang Dairy Co., Ltd. (Saishang Dairy), a formulated milk beverage made with milk, condensed milk, light cream, Moutai's Baijiu, white granulated sugar, AMF, milk powder, hydrogenated coconut oil, high-fructose corn syrup (HFCS), etc. The low temperature filtration membrane technology used enables higher levels of milk fat, milk protein, lactose and milk mineral salts compared with standard milk, creating a stronger flavour and thicker texture/mouth-feel. This product also represents a breakthrough by Saishang Dairy in resolving the issue of packaging material corrosion problem with products containing alcohol and milk alongside.

Saishang Dairy was established in March 2010, is an innovative, high-tech dairy processor. Its main business includes filtered milk, whole milk protein powder, whipping cream, cream cheese, quark cheese, liquid protein, with target customers mainly operating in tea drinks, coffee and bakery areas, including Nestlé, Starbucks, Mengniu, Yili, ChaPanda, Nayuki, HEYTEA. It is the first company in China to adopt membrane technology to produce MPCs. Saishang Dairy received funding from Nestlé's China Strategy in 2018, from Boyu Capital in a series B financing round in 2021, and from Toutoushidao Fund in a series C financing round in 2022.

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