

Dairy Products China News

Guaranteed Exclusive Analysis

Vol. 14 Issue 8 2022

Welcome to the August issue of Dairy Products China News.

The world is now reeling as it deals with energy inflation, high commodity prices, extreme weather and suchlike on the back of a pandemic. Fortunately for its local dairy sector, China's present drought has had only limited impact on the major milk producing areas. Nevertheless, international denial of problems is very much in vogue, and Covid is out of most headlines, although it remains very much present, as the current difficulties and uncertainties in travelling around China illustrate – repeated PCR testing, uncertain transport links and so on.

The international situation has highlighted the lack of effective planning in key areas such as energy and economic strategies in many "Western" countries – who could possibly have imagined that Russia might turn out to be an unreliable energy supplier, or that China's import demand may not continue in the future as it has in the past?!

Such countries' "short-term-ism" provides a stark contrast to China's evident strategy to transition towards heightened self-sufficiency – exemplified in the dairy sector by the current construction of what will be the country's single largest dairy farm. However, wider challenges abound in China too – think property, think Zero-COVID, think real estate crash! How to raise the low levels of private consumption – especially when property makes up about ¾ of urban households' wealth? It will take much more than this month's lowering of interest rates to achieve that, although that presents an interesting contrast to the direction seen in fiscal policy in many countries at the moment. For the time being, as elsewhere, China's consumers are likely to remain cautious in their spending, especially those mortgaged up to the hilt on properties which may never see completion.

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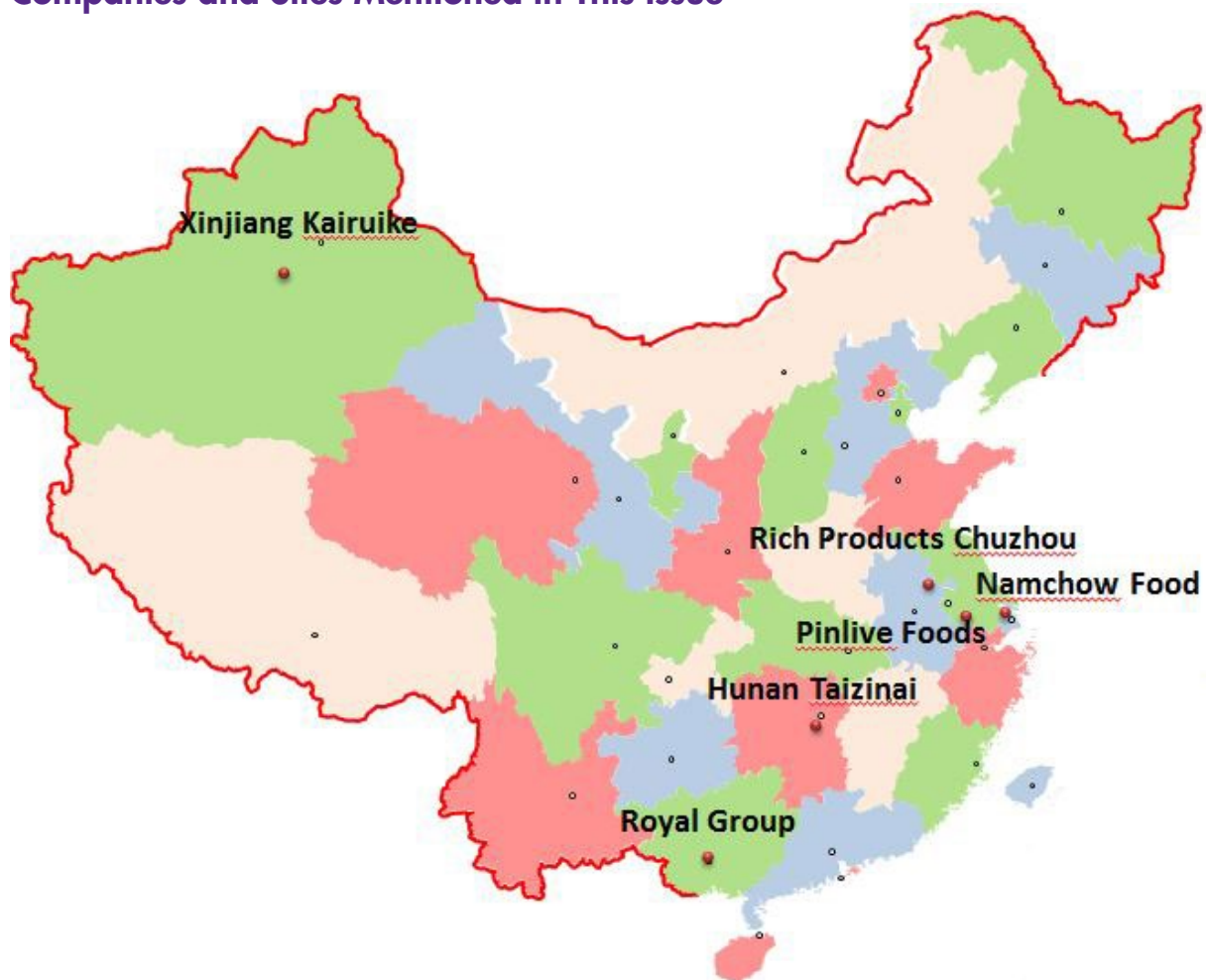
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Headlines

- ▶ Progress updates have been issued for processing projects by Xinjiang Kairuiké and Rich Products Chuzhou on 27 July and 1 Aug. respectively.
- ▶ In mid-late July, China Feihe slashed its revenue and profit forecasts for H1, while Royal Group anticipated a jump in net profit.
- ▶ Namchow Food saw whipping cream and dairy products take an increasing share of its overall business in H1.
- ▶ China has launched new national standards for processed cheese and cheese products (GB25192-2022), and for concentrated dairy products (GB 13102-2022), both effective as of 30 Dec., 2022.
- ▶ Recently, Youran Dairy's 30,000 head dairy farm project kicked off construction alongside updates on its 2 other new farm projects.
- ▶ On 7 Aug., Sanyuan Foods announced it had won the auction for a 40% stake in Hunan Taizinai, making it the sole owner.
- ▶ On 5 Aug., the premium tea chain operator Nayuki issued a profit warning, expecting to record an adjusted net loss of USD34 million (RMB230 million) or above in H1, despite having resumed profitability in June.
- ▶ On 12 Aug., the leading Chinese milk tea producer Xiangpiaopiao reported its worst first half loss.
- ▶ On 15 Aug., Pinlive Foods' financial report for H1 was issued, showing net profit down 64.89% YoY.
- ▶ China's raw milk price picked up slightly in August but the general downward trend persisted; farming costs spiked in H1, creating problems for many producers.

Major Companies and Sites Mentioned in This Issue



Market Analysis

Hongxingtai Food and Herds Dairy Longzhou Complete Powders Projects

Summary: Progress updates have been issued for processing projects by Xinjiang Kairuiké and Rich Products Chuzhou on 27 July and 1 Aug. respectively.

On 27 July, a planned expansion project by Xinjiang Kairuiké Food Technology Co., Ltd. (Xinjiang Kairuiké) was released for public input into its environmental impact assessment.

Project Overview:

- Construction type: Expansion
- Total investment: USD29,644 (RMB200,000), 35% (=10,375 or RMB70,000) of which are for environmental protection
- Location: Bayingolin Mongol Autonomous Prefecture, Xinjiang Uyghur Autonomous Region
- Site area: 50,750.52 m²
- Construction content: Adding a high-speed fresh milk production line, a fresh milk specialised production line, 2 fresh milk bottle filling lines and one yogurt tub filling line
- Additional milk capacity: 16,000 t/a, on top of the existing 24,000 t/a capacity

- This plant also produces 1,225 t/a of cheese and 24,000 t/a of yoghurt

Xinjiang Kairuiké was founded in Oct. 2012 with a registered capital of USD2.96 million (RMB20 million) and claims to be the largest cheese producer in Xinjiang Uygur Autonomous Region, producing 40% of the region's industrial cheese production each year.

On 1 Aug., details of a cream and cake production project by Rich Products (Chuzhou) Co., Ltd. (Rich Products Chuzhou) were published by the local authority before granting environment assessment approval.

Project Overview:

- Construction type: New construction
- Total investment: USD47.35 million (RMB319.46 million), 5.63% (=USD2.67 million or RMB18 million) of which are for environmental protection
- Location: Suchu High-tech Industrial Park, Chuzhou City, Anhui Province
- Site area: 404,709 m², including 26,000 m² of buildings

- Construction content: 1 compound additives production line and equipment, 3 sets of cream production line and equipment (7 filling lines in all) and 3 frozen cake production lines

Production plan:

- Whipping cream – 14,000 t/a
- Non-dairy cream – 36,000 t/a
- Frozen cakes – 12,000 t/a

Raw materials demand:

- Milk and dairy products – 2,820 t/a
- Non-dairy cream – 2,880 t/a
- Cheese: 2,280 t/a
- Syrup: 2,800 t/a

- Estimated value of annual production: USD96.34 million (RMB650 million)

- Designated construction period: 3 months

Rich Products Chuzhou was set up in Oct. 2020 with a registered capital of USD20 million and is wholly-owned by the US-based company Rich Products Ltd. It mainly produces cream products, materials for bakery such as creamy pudding and premix powders, and cakes and pastries.

China Feihe and Royal Group Release H1 2022 Earnings Forecasts

Summary: In mid-late July, China Feihe slashed its revenue and profit forecasts for H1, while Royal Group anticipated a jump in net profit.

On 22 July, China Feihe Ltd (China Feihe, Stock Code: HK.06186) released an earnings forecast for H1 2022:

- Revenue: USD1.41 billion (RMB9.5 billion) – USD1.45 billion (RMB9.8 billion), down 14.9% – 17.4% YoY vs. growth of 32.6% in H1 2021

- Net profit: USD0.33 billion (RMB2.2 billion) – USD0.37 billion (RMB2.5 billion), down 33.4% – 42.4% YoY vs. growth of 35.8% in H1 2021

These slowdowns were attributed to 2 factors:

- Weakened sales of IMF products due to the country's dwindling births (10.62 million in 2021 – equating to 7.52 births per 1,000 people, the lowest birthrate since 1960)

- Inventory optimisation: In H1 2022, China Feihe adjusted its distribution and inventory level among distributors to ensure the freshness and quality of its products on shelves.

The falling birthrate and resurging pandemic have kept the whole IMF industry under pressure, making competition fiercer than ever, especially since Yili's acquisition of Ausnutria in March. However, China Feihe has retained its market leadership with a 19% share in H1 (AC Nielsen), compared with

the 12.5% share of Ausnutria and Yili in combination. It reiterates its confidence in prospects despite the slowdown, as its current inventory has been streamlined and the newly-approved IMF ranges "Astrobaby" (with OPO, CPP, lutein and partially hydrolysed protein) and "Astrobaby Zhuorui" (with probiotics and lactoferrin) as well as functional formulae for adults will be launched in the coming months to boost sales.

Royal Group Co., Ltd. (Royal Group, Stock Code: 002329) also issued its H1 forecast on 15 July, focusing on profits only.

- Net profit attributable to shareholders: USD13.12 million

(RMB88.50 million) – USD16.90 million (RMB114 million), up 742.49% – 980.48% YoY

- Net profit excl. extraordinary gains/losses: -USD3.11 million (-RMB21 million) – USD0.59 million (RMB4 million), an estimated change of -140.92% to 145.89% YoY.

It highlighted 3 drivers for such a surge in profitability:

- Increased capacity: With the Lesson Intelligent Dairy Plant in Dali City in Yunnan Province onstream since Dec. 2021, Royal Group is now capable of processing 750 t/a of milk and an output of

200,000 t/a of fermented milk

- Extensive promotion of core brands, including "A Buffalo" (pure & fortified UHT milk for students), "Mofei Buffalo" (pure UHT milk), "Milk Talk by Buffalo" (fresh milk) and "Xiaoai (Chilled) Yoghurt"
- Integration of online and offline distribution activities, and exploring distribution through online livestreaming platforms like "Dongfangzhenxuan" and private customer groups (Wechat, Weibo, Douyin and similar) have proven successful, delivering double-digit growth in operating revenue in H1.

Namchow Food's Whipping Cream and Dairy Products Gaining Weight

Summary: Namchow Food saw whipping cream and dairy products take an increasing share of its overall business in H1.

On 10 Aug., Namchow Food Group (Shanghai) Co., Ltd. (Namchow Food, Stock Code: 605339) headed out its interim financial report for H1 2022. Key data are as follows:

- Total revenue: USD211.36 million (RMB1.43 billion), up 4.68% YoY
- Net profit attributable to equity shareholders: USD18.63 million (RMB125.70 million), down 35.66%, due to costs of raw materials (mostly palm oil) shot up during the period

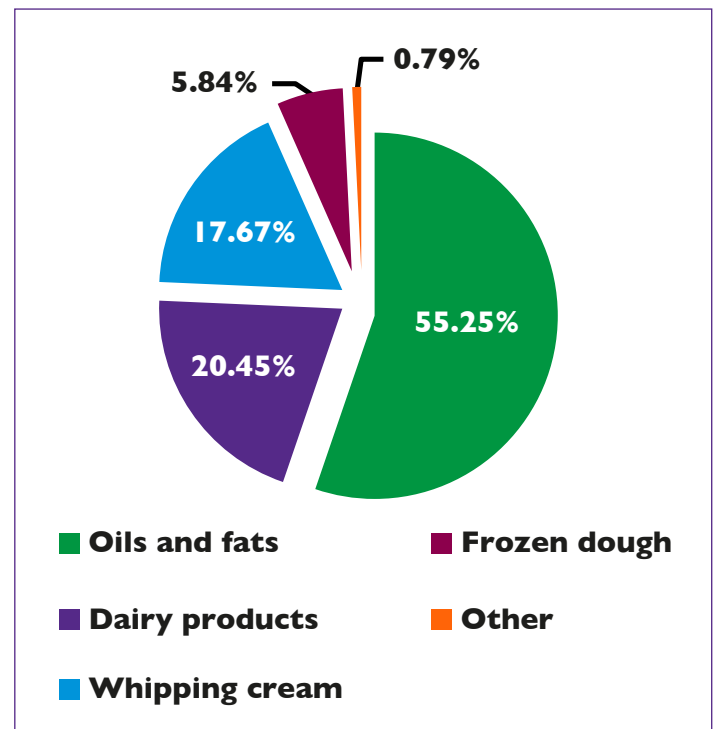
Namchow Food is one of the leading firms in China's bakery ingredients market, with 200+ SKUs ranging from oils and fats, whipping cream and other dairy products to frozen dough.

- Oils and fats: including butter and oils for bakery, produced by the company and make up 50%+ of its sales
- Imported dairy products, such as Millac UHT dairy whipping cream, Lakeland UHT whipping cream, Campina butter, Campina AMF sheets, etc.
- Its own dairy products: here its main brand is "Qianyi" whipping cream, with newer ones including "Joy Q" (milk foam topping) and "Pleasing" (soft serve milk beverage); the company's production capacity for whipping cream reached 29,842.56 t/a in 2021.

In general, Namchow Food's business mix and product mix have remained stable over recent years. In H1, dairy products and whipping cream and ranked 2nd and 3rd, with sales of USD43.21 million (RMB291.54 million) and USD37.34 million (RMB295.91 million), up 20.45% and 17.67% YoY, respectively.

In H1, the company launched "Qianyi Whipping Cream For Professionals", targeting the growth it sees in the foodservice channel. Additionally, there are plans to launch differentiated products in H2, such as milk foam topping and plant-based cream, tapping into the rising retail demand for tea drinks and coffee. In dairy products, it has also introduced the imported Galerie Laitière Butter Sheets (82% milk fat), aiming at bakery sector users.

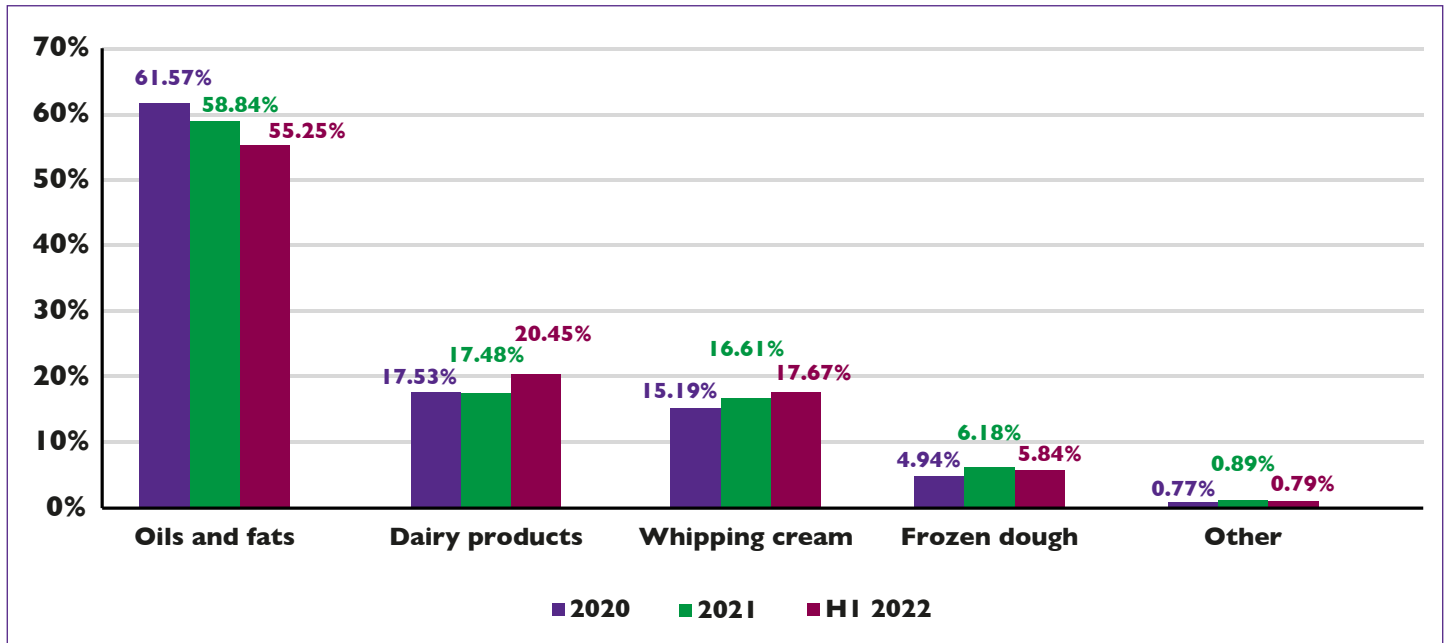
FIGURE 1: Namchow Food's Sales Mix by Product Category, H1 2022



Source: Namchow Food's Report for H1 2022

Note: Other = mainly ready-to-eat fillings for bakery

FIGURE I: Trends in Namchow Food's Sales Mix by Product Category, 2020–H1 2022



Source: Namchow Food's Report for H1 2022

Note: Other = mainly ready-to-eat fillings for bakery

TABLE I: Namchow Food's Sales Mix by Product Category, 2020–H1 2022, USD million

Item	2020	Proportion	2021	Proportion	H1 2022	Proportion
Oils and fats	211.54	61.57%	250.58	58.84%	116.78	55.25%
Dairy products	60.22	17.53%	74.45	17.48%	43.21	20.45%
Whipping cream	52.2	15.19%	70.71	16.61%	37.34	17.67%
Frozen dough	16.96	4.94%	26.32	6.18%	12.35	5.84%
Other	2.63	0.77%	3.78	0.89%	1.68	0.79%
Total	343.55	100%	425.84	100%	211.36	100%

Source: Namchow Food's Report for H1 2022

Note: Other = mainly ready-to-eat fillings for bakery

Namchow Food's market focus divides as follows, based on sales in H1:

- East / Central / South China: 68%
- North / South West / North East China: 28%
- Northwest and overseas markets (mainly in Vietnam and Malaysia): 4% (overseas sales are only 0.2% – mainly oils and fats, and whipping cream).

Meanwhile, the company proposes to set up a wholly-owned subsidiary – Chongqing Namchow Food Co. Ltd. (working title) – to build a new plant in Chongqing in order to scale up its overall capacity and aid its business development in West China and Southeast Asia.

Details of this project are as follows (these do not yet include information on capacities or timelines):

- Project Name: Project of Processing Plant of Whipping Cream and Frozen Dough

- Construction content: processing workshops, R&D workshop and supporting facilities and buildings
- Total investment: USD71.15 million (RMB480 million), comprising Phase I at USD50.40 million (RMB340 million) and Phase II at USD20.75 million (RMB140 million)
- Site & floor areas: 6.67 ha & 6 ha
- Location: Degan Industrial Park, Jiangjin District, Chongqing
- Construction schedule:
 - Phase I is estimated to take 1 year, with the facilities able to start operation and reach full capacity within 3-4 months of this point
 - Phase II will break ground 24 months after completion of phase I and complete in 18 months, entering operation and reaching capacity within 2-4 months.

Governmental Direction

New Standards for Cheese and Concentrated Dairy Products

Summary: China has launched new national standards for processed cheese and cheese products (GB25192-2022), and for concentrated dairy products (GB 13102-2022), both effective as of 30 Dec., 2022.

On 28 July, the National Health Commission and the State Administration for Market Regulation jointly launched the new National Food Safety Standard – Processed Cheese and Cheese Products (GB25192-2022), a revision of the National Food Safety Standard – Processed Cheese (GB25192-2010), differentiating processed cheese and cheese products. This change aims to improve the quality of processed cheese marketing and sets a higher technical bar for the producers. It adds detailed provisions for product labelling, product name and transportation / storage temperatures to clarify to consumers the difference between the 2 categories of product and related food safety considerations. It is to come into effect on 30 Dec., 2022

Main Content of GB25192-2022:

- Range: This standard applies to processed cheese and cheese products
- Terms and Definitions:
 - Processed cheese: contains at least 50% natural cheese plus other ingredients; processed by heating, mixing, emulsifying / drying and other techniques
 - Cheese products: contain 15%-50% natural cheese plus other ingredients; processed by heating, mixing, emulsifying / drying and other techniques
- Product labelling:
 - Product shall be marked with its cheese content
 - Product shall be classified as either "Processed Cheese" or "Cheese Products"
 - Transportation and storage temperatures of products should be labelled

TABLE 2: Microbiological Limits for Processed Cheese and Cheese Products

Item	Microbiological Limits			
	n	c	m	M
Aerobic plate count, CFU/g	5	2	1,000	10,000
Escherichia coli, CFU/g	5	2	100	1,000
Mould, CFU/g	50			

Source: GB25192-2022

Note: 1. The limits for the aerobic plate count test are not applicable for products including active bacterial cultures (aerobic bacteria and facultative anaerobic bacteria). 2. "n" is the number of samples taken in one batch of products; "c" is the maximum number of samples allowed over the "m" value; "m" is the tolerance limit of microbiological indexes; "M" is the highest safe limit of the microbiological indexes.

On the same day, the National Food Safety Standards Review Committee issued the National Food Safety Standard – Concentrated Dairy Products (GB 13102-2022), a revision of the National Food Safety Standard – Condensed Milk (GB 13102-2010), also to come into effect on 30 Dec. 2022. This aims to take better account of the various condensed milk products including evaporated milk, sweetened condensed milk, modified condensed milk etc.

Main Content of GB 13102-2022:

- Range: This standard applies to condensed milk and concentrated dairy products
- Terms and Definitions:

- Condensed milk: product made from cow (goat/sheep) milk by concentrating and removing part of the water, and/or products made from dairy products after processing with same ingredients and properties, including evaporated milk, sweetened condensed milk, and modified condensed milk
- Modified condensed milk: includes modified evaporated milk and modified sweetened condensed milk (modified sweet condensed milk)
- Condensed milk for food manufacturers: uses only cow (goat/sheep) milk as raw material, skimmed or not, with part of the water is removed through concentration and other processes, subject to food industrial production and including concentrated cow (goat/sheep)'s milk

- Product labelling:
 - Condensed milk should be marked with "This product cannot be used as a breast milk substitute for infants and young children" or similar
 - Condensed milk for the food industry shall be kept chilled or frozen and clearly marked with "heat treatment process" or "non-heat treatment process" on the package or instruction manual.

TABLE 3: Composition Indicators for Evaporated Milk and Sweetened Condensed Milk

Item	Evaporated milk			Sweetened condensed milk		
	Whole milk	Partially skimmed	Skimmed	Whole milk	Partially skimmed	Skimmed
Protein, g/100g	≥34% of Non-fat milk solids					
Fat (X), g/100g	X≥7.5	1.0<X<7.5	X≤1.0	X≥8.0	1.0<X<8.0	X≤1.0
Non-fat milk solids, g/100g	–	≥17.5	–	–	≥20.0	–
Milk solids, g/100g	≥25.0	≥20.0	≥20.0	≥28.0	≥24.0	≥24.0
Moisture, g/100g	–			≤27.0		
Acidity, °T	≤48.0					

Source: GB 13102-2022

TABLE 4: Composition Indicators for Condensed Milk

Item	Modified condensed milk			Sweetened condensed milk		
	Whole milk	Partially skimmed	Skimmed	Whole milk	Partially skimmed	Skimmed
Protein, g/100g	≥4.1			≥4.6		
Fat (X), g/100g	X≥7.5	1.0<X<7.5	X≤1.0	X≥8.0	1.0<X<8.0	X≤1.0
Moisture, g/100g	–			≤28.0		

Source: GB 13102-2022

TABLE 5: Composition Indicators for Condensed Milk for the Food Industry

Item	Whole milk	Partially skimmed	Skimmed
Protein, g/100g	≥34% of non-fat milk solids		
Fat (X), g/100g	X≥7.5	1.0<X<7.5	X≤1.0
Non-fat milk solids, g/100g	≥17.5		
pH	Condensed cow milk		6.0–7.0
	Condensed goat/sheep milk		6.5–7.3

Source: GB 13102-2022

TABLE 6: Microbiological Limits for Concentrated Dairy Products

Item	Microbiological Limits			
	n	c	m	M
Aerobic plate count, CFU/g	5	2	104	105
Coliform group, CFU/g	5	1	10	102

Source: GB 13102-2022

Company Dynamics

Youran Dairy: Updates on 3 New Dairy Farms

Summary: Recently, Youran Dairy's 30,000 head dairy farm project kicked off construction alongside updates on its 2 other new farm projects.

On 30 July, Inner Mongolia Youran Dairy Co., Ltd. (Youran Dairy, Stock Code: HK.09858) started building a 30,000 cow dairy farm in Cangzhou City, Hebei Province. This project represents an investment of USD0.2 billion (RMB1.38 billion) and is planned to cover an area of approx. 1,484 ha, together with a building area of 65 ha, and a silage corn planting area of 33,996 ha. The first batch of the target 30,000 herd will be introduced by H2 2023; once the project is fully operational, the farm is expected to produce 216,000 t/a quality raw milk, worth USD0.17 billion (RMB1.16 billion) per year.

Youran Dairy has also made progress on 2 other planned farms. On 5 Aug., it received approval from the Ecology and Environment Bureau of Hohhot City, Inner Mongolia Autonomous Region for the environmental impact assessment document of the 12,000 dairy cattle farm planned by its wholly-owned subsidiary Togtoh County Youran Dairy Co., Ltd. – a business incorporated in June 2022 with a registered capital of USD18.53 million (RMB125 million).

Project Overview:

- Construction nature: New construction
- Total investment: USD83.11 million (RMB560.72 million), 9.89% (=USD6.75 million (RMB45.55 million) of which are for environmental protection
- Location: Togtoh County, Hohhot City, Inner Mongolia Autonomous

Region

- Area: around 602 ha
- Main construction items: cattle shed, milking room, hay barn, silage silo, concentrates storeroom, TMR (total mixed rations) centre, manure treatment zone, other structures / equipment / facilities
- Farming scale: 12,000, composed of 7,200 adult cows (5,720 milking cows and 1,480 dry cows), 4,800 replacement herd (3,468 adult cows and 1,332 calves)
- Production plan:
 - Raw milk: 88,038 t/a
 - Eliminating dairy: 16,964 head/year, including 1,650 adult cows, 102 replacement cows and 80 female calves
- Feed demand:
 - Silage – 78,052 t/a
 - Alfalfa – 13,490 t/a
 - Goat hay – 23,389 t/a
 - Concentrates – 41,128 t/a
 - Distiller's grains – 9,125 t/a
 - Corn – 12,775 t/a
 - Sugars – 2,190 t/a
- Start of construction: Aug. 2022
- End of Construction: Feb. 2025
- Actual time for construction work: 19 months

Additionally, on 20 July, the environmental impact report on a 4,000 head dairy farm project was published before by the wholly-owned subsidiary Yunnan Youran Dairy Co., Ltd., which was established in

May 2021 with registered capital of USD18.53 million (RMB125 million). The report awaits approval by the local authority.

Project Overview:

- Construction type: New construction
- Total investment: USD45.01 million (RMB303.66 million), 4.94% (=USD2.22 million or RMB15.00 million) of which are for environmental protection
- Location: Hekou Town, Xundian County, Kunming City, Yunnan Province
- Areas: 243 ha, including 15 ha of buildings
- Main construction items: cattle sheds, milking rooms, silage silo, hay barn, feed ingredient storeroom, and other supporting equipment and facilities
- Farming scale: 4,000, which are 2,400 adult cows, 1,600 replacement cows and 200 female calves
- Product scheme:
 - Raw milk, 25,000 t/a
 - Calves, 2,400 head/year
 - Eliminating cows, 380 head/year
- Feed demand:
 - Silage – 23,000 t/a
 - Alfalfa – 3,700 t/a
 - Goat hay – 2,800 t/a
 - Concentrates – 3,600 t/a
- Construction period (estimated): Aug. 2022-Aug. 2023 (12 months)

Sanyuan Foods Buys out Hunan Taizinaï

Summary: On 7 Aug., Sanyuan Foods announced it had won the auction for a 40% stake in Hunan Taizinaï, making it the sole owner.

On 7 Aug., Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429) purchased the outstanding 40% stake in Hunan Taizinaï Biological Technology Co., Ltd. (Hunan Taizinaï) for USD10.38 million (RMB70.05 million). This gives it full ownership of the company, given that it acquired a 60% interest in the business back in 2011.

In July, Hunan Taizinaï offered a 40% stake at USD18.53 million (RMB125.00 million), with an auction starting price of USD12.98 million (RMB87.57 million). This was further reduced in the resulting deal as Sanyuan Foods was the first and only bidder.

Sanyuan Foods' plan for Hunan Taizinaï has the following elements:

- Review product lines and reinforce focus on best selling items
- Help strengthen Sanyuan Foods' business across provinces in Central and Southern China such as Henan, Hunan, Guangdong, Guangxi and Hainan; and exploit untapped markets in the southwest region including Chongqing, Sichuan, Guizhou, Yunnan, Tibet
- According to Sanyuan Foods, Hunan Taizinaï has a strong customer base in 3rd and 4th tier cities and great development potential in others, so the deal will improve Sanyuan Foods' product portfolio and its market share in lactobacillus (LAB) drinks; the subsidiary can also provide a key production base in the central and southern regions and a base for marketing in others

However, Hunan Taizinaï has underperformed for the past decade, according to data in Sanyuan Foods' annual financial reports:

- Q1 2022:
 - Revenue: USD0.76 million (RMB5.16 million)
 - Loss: USD0.63 million (RMB4.26 million)
- Full 2021:
 - Revenue: USD2.75 million (RMB18.52 million)
 - Loss: totalled USD8.74 million (RMB58.98 million)
- In 2012-2021 overall, the company made a gross loss of USD35.28 million (RMB238.00 million), delivering profits only in 2015 (=USD7,411.03 or RMB50,000) and 2019 (=USD7.50 million or RMB50.58 million), and then only on the back of government subsidies

Song Liang, a dairy industry analyst, cites the root causes as inefficient management and conservative business strategies with weak product innovation and distribution channel expansion and management – to address the latter issue, he suggests that Sanyuan Foods should introduce an Ownership Incentive Plan, something which has been implemented in the parent company.

Known as China's biggest LAB drink producer, Hunan Taizinaï owns 2 well-known trademarks "Richu" ("Sunrise" in English, used on most of the company's range) and "Taizi" ("Prince" in English), and has advanced capabilities in lactobacillus fermentation. Its top sellers are UHT high-calcium walnut milk and yoghurt drinks, plus high-calcium and sugar-free compound protein beverages for the middle-aged and elderly.

Nayuki Issues Profit Warning

Summary: On 5 Aug., the premium tea chain operator Nayuki issued a profit warning, expecting to record an adjusted net loss of USD34 million (RMB230 million) or above in H1, despite having resumed profitability in June.

On 5 Aug., tea chain and significant dairy user Nayuki Holdings Ltd. (Nayuki, Stock Code: HK.02150) issued a profit warning for H1, 2022.

- Revenue: USD0.30 billion (RMB2.02 billion) – USD0.31 billion (RMB2.07 billion)

- Adjusted net loss: USD34.09 billion (RMB230.00 billion) – USD40.02 billion (RMB270.00 billion); however, the company made a return to profit in June.

It indicates that the repeated COVID-19 infection cases have impacted consumers' behaviour and hampered the sales of many of its stores, while the growing number of stores set up and increased costs affected its earnings further.

Key aspects of Nayuki's overall performance in H1:

Outlets:

- By 30 June, Nayuki had 904 outlets, with recent expansion as follows: 93 newly-opened in H1 2021, 233 in H2 2021 and 87 in H1 2022
- The latest openings mainly operate as "PRO Stores"— "the PRO Tea & Coffee Store" is a smaller operation with reduced numbers of SKUs, aimed at achieving lower costs, higher profitability and more controllable risks. These stores increased by 80 from Q1, whilst standard stores have been trimmed down to 410 locations from 440 since Q1, with 19 converted into "PRO Stores"

Store sales:

- The impact of the pandemic and compulsory lockdown was especially severe during the April-early May period, and consumers become increasingly cautious in their spending. Almost all its stores in Shanghai were closed in Q2. But it managed to ensure that no more than 15% of its overall stores were closed on any single day, even during the worst of this period
- Since mid-May, the infection containment in 1st and 2nd tier cities proved effective and China started to experience warmer weather. Nayuki pushed promotional activities for Children's Day (June 1) and Chinese Dragon Boat Festival (June 3), and orders through stores returned to the level seen in this period last year

- All the chain's Shanghai stores had reopened as of 13 June; each one (which had operated at least for 12 months) reported the month's order volume had regained at least 70% of the sales level seen before the recent outbreak in the region.

Product launches:

- Between June 2021-June 2022, Nayuki launched 100+ new tea drinks, key successes being "Yashixiang Dancong Oolong Tea", "Daongpao Oolong Tea Latte with Boba" and "Guava and Phyllanthus Emblica Fruit Tea"
- It also increased its focus on the mid-market and value segments. In 17 March, it introduced a lower-priced series with each product selling at between USD1.33 (RMB9) – USD2.82 (RMB19) and promised

to launch a product priced below USD2.96 (RMB20) in each coming month.

Nayuki also reported a surge in its member base to 50 million by June.

It is reported that currently, China has 391,900 milk tea stores, with 31,300 opened in H1 alone, a number down 42.32% YoY.

Milk tea has spread upwards through China through Hong Kong and the southern provinces:

- Guangdong is the province with the most milk tea stores (64,000), followed by Jiangsu with 33,200 and Guangxi with 30,700
- City-wise, Shenzhen is no. 1, with 18,100 stores, followed by Guangzhou with 8,900 and Chengdu (3rd) with 5,900

Xiangpiaopiao Reports its Worst Interim Loss

Summary: On 12 Aug., the leading Chinese milk tea producer Xiangpiaopiao reported its first half loss.

On 12 Aug., Xiangpiaopiao Food Co., Ltd. (Xiangpiaopiao, Stock Code: 603711) issued its interim report for 2022 with key data as follows:

H1:

- Revenue: USD127.32 million (RMB859 million), down 21.05% YoY
- Net loss attributable to parent company: USD19.15 million (RMB129.23 million) – although this loss was reduced, down 107.57% YoY

Q2:

- Revenue of main business: USD 53.95 million (RMB364 million), down 8.48% YoY
- Net loss: USD10.31 million (RMB69.55 million), comparable to the level of the same period last year

Although it has been the company's 3rd consecutive H1 loss (after -USD9.47 million (RMB63.88 million) in H1 2020 and -USD9.23 million (RMB62.26 million) in H1 2021), the company did make annual profits of USD53.06 million (RMB358 million) in 2020 and USD32.61 million (RMB220 million) in 2021, showing how dependent its overall performance is upon trading in H2 each year, in 2022 particularly. Most of its powdered milk tea products need to be prepared with hot water, palatable during the winter but less so in the summer (especially in the current heatwave in China).

In terms of powdered milk tea products:

- This Q1 (and Q4, 2021 – which together typically make up the peak season) were hit by a sudden surge of COVID-19 cases and China's call for "staying put for the Spring Festival", causing depressed sales
- In Q2 (which together with Q3) typically forms the low season, powdered milk tea sales proved increasingly difficult, even though its sales of RTD milk tea products grew.

During the reporting period, Xiangpiaopiao has diversified its product portfolio to RTD products (milk tea and fruit juice/tea beverages) to mitigate the negative impact of the market's trend away from powdered milk tea products. However, this strategy proved less effective in boosting overall performance than hoped for, due to the impact of the pandemic control policy in some of the company's target markets.

The seasonal situation suggests more pressure on the company to be cautious in making decisions on marketing, production planning, staffing and employment in H2 this year.

Xiangpiaopiao's key achievements in H1 2022

- Online sales network expansion: Overall, the company has developed cooperation with 307 internet-based distributors, 342 online retail shops, and over 6,000 O2O platforms (which deal in community group buying, O2O, B2C, B2B, etc) which have made sales of almost USD7.41 million (RMB50 million) in the period

- Price markups: Since Feb., the company raised the prices of some powdered milk tea products by 2%-8% to help its distributors and retailers to manage the transitional period
- New products:
 - RTD "Cow Milk Tea with Boba (original and coconut flavours)" (selling under the "Xiangpiaopiao" brand), "MECO Light Milk Tea (low calorie)" and "LAN FONG YUEN Ice Lemon Tea (low sugar)" and other new milk tea products suiting the summer season were launched
 - These new launches together with the company's operational improvements to cut costs and increase efficiency have enabled its Q2 net profit to stay at the same level as Q2 last year.

TABLE 7: Xiangpiaopiao's Sales Revenue by Product Category, USD million

Category	H1 2021	H1 2022	Trend
Powdered milk tea	97.89	67.18	-31.37%
Liquid drinks	61.11	57.48	-5.94%
Total	159.00	124.66	-21.60%

Source: Xiangpiaopiao's Interim Financial Report for 2022

Note: Liquid drinks include ready-to-drink milk tea and fruit juice/tea beverages.

TABLE 8: Xiangpiaopiao's Sales Revenue by Distribution Channel, USD million

Type	H1 2021	H1 2022	Trend
Distributors	139.47	103.20	-26.01%
E-commerce Platform	17.87	19.25	7.69%
Export	0.85	1.39	64.62%
DTC (direct-to-consumer)	0.81	0.82	1.63%
Total	159.00	124.66	-21.60%

Source: Xiangpiaopiao's Interim Financial Report for 2022

Pinlive Foods' Net Profit Plunges in H1

Summary: On 15 Aug., Pinlive Foods' financial report for H1 was issued, showing net profit down 64.89% YoY.

On 15 Aug., dairy distributor and OEM brandowner Pinlive Foods Co., Ltd. (Pinlive Foods, Stock Code: 300892) reported key data H1 2022 as follows:

- Revenue: USD109.68 million (RMB740 million), up 7.48% YoY
- Net profit: USD2.30 million (RMB15.54 million), down 64.89% YoY

It explained the surge in marketing costs was the main cause for such a plunge in net profit:

- By June, its sub-distributors numbered 809, 20 fewer than in the same period last year, and revenue via sub-distributors was down 6.18% YoY to USD17.19 million (RMB116 million)
- Its marketing expenses jumped 40% to USD23.72 million (RMB160 million), USD3.00 million of which were used for promotion to boost sales, a spike of 143% from USD1.23 million last year.

- Online: The discount-driven sales through Tmall.com, JD.com, Pinduoduo, social commerce and live-streaming grew its online customer base to 1.2 million, but the average order value fell to USD8 (RMB53) from USD11 (RMB71) in H1 last year (when it had 922,500 online customers)
- Offline: sales through physical stores were USD16.62 million (RMB112.14 million), down 22.28% YoY.

The company specializes in selling OEM brands of dairy products, beer and olive oil. In H1, its spend on products from overseas manufactures was USD79.32 million (RMB535.18 million).

Dairy products accounted for 77.22% of the company's total operating costs and 78.76% of its revenue in H1. In dairy it is best known for Weidendorf, its OEM range of pure milk, yoghurt, WMP & SMP for children and adults, supplied by overseas producers including Hochwald Foods, Immergut, Arla Foods and Freedom Foods Group. In 2019–2021,

Weidendorf pure milk has been the market's leading imported UHT milk, according to KANTAR Consumer Index.

However importing standard UHT milks and milk powders has become increasingly marginal as a business, for various reasons. In response to this, in H1, it launched a premium positioned Weidendorf A2 β -casein WMP containing 6.7g/100g A2 β -casein, 24.8g/100g quality protein and 880mg/100g calcium. In addition, it is currently pushing 3 "Luochun" frozen cheese products (stick/ball/curd) on the Weidendorf Tmall flagship store.

On 3 Aug., the company commented on an investor interaction platform, saying that it is planning to set up a cheese factory in China to develop new retail cheese products, a fast-growing channel in a cheese market to this point dominated by foodservice and industrial business – it hopes this will prove to be a new growth driver for its business.

TABLE 9: Dairy Sales by Pinlive Foods, H1 2022 vs. H1 2021

Item	H1 2021	H1 2022	Trend
Revenue, USD million	78.78	86.41	9.68%
Operating cost, USD million	59.12	64.58	9.23%
Gross margin	24.95%	25.26%	0.31%

Source: Pinlive Foods' Financial Report for H1 2022

Raw Milk Price

Milk Price Rises a Little in August

Summary: China's raw milk price picked up slightly in August but the general downward trend persisted; farming costs spiked in H1, creating problems for many producers.

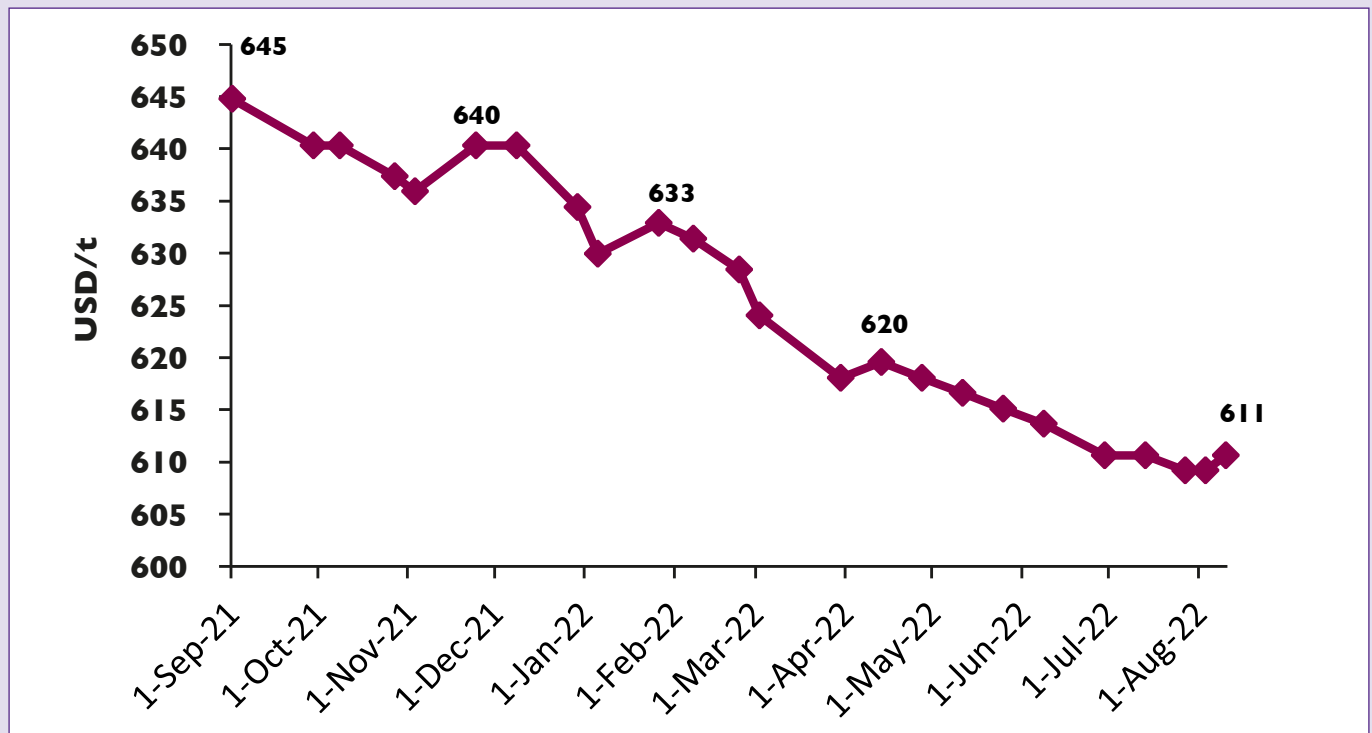
In the week ended 10 Aug., China's raw milk price averaged USD610.67 million (RMB4,120 million) per tonne, up 0.2% from last week but down 5.5% YoY. The prices are now at the level seen in Dec. 2020, but the basic trend is down, despite the recent rise, reflecting increased local production as a result of investment in new farms, as well as demand being somewhat weakened by the pandemic. Future prices are still seen as having potential to grow, however, after bottoming out at some point.

Feed Market

Data sourced on 10 Aug. by the Ministry of Agriculture and Rural Affairs (MARA) show:

- The national price of corn averaged USD443.18 /t (RMB2,990/t), flat from the first week of the month and up 1.4% YoY; the average in major production regions (Heilongjiang, Jilin and Liaoning) was down 0.4% to USD409.09 /t (RMB2,760/t) compared with the first week; and the price in the main demand area (Guangdong) stayed at USD455.04/t (RMB3,070/t)
- The national price of soybean meal averaged USD653.65/t (RMB4,410/t), up 0.2% from the first week of the month and up 16.4% YoY.

FIGURE 3: Trends in China's Raw Milk Price, Sept. 2021–Aug. 2022



Source: Ministry of Agriculture and Rural Affairs (MARA)

In H1, the main milk supply businesses reported profits moving around the break-even line due to multiple pressures.

Yuanshengtai Dairy Farm Ltd (Yuanshengtai Dairy, Stock Code: 01431)

- Net profit for H1 (estimated): USD4.45 million (RMB30 million)–USD7.41 million (RMB50 million), slashed by 48.98%–69.39% from USD14.53 million (RMB98 million) of same period last year
- Key contributing factor: feed prices rose during the H1 period, +2.5% for corn, +20% for soybean meal, +30% for cottonseed meal, +40% for cottonseed and +20% for imported alfalfa

China Youran Dairy Group Ltd (Youran Dairy, Stock Code: HK.09858)

- Revenue for H1 (estimated): USD1.24 billion (RMB8.39 billion)–USD1.35 billion (RMB9.12 billion), up 15%–25% YoY
- Profit attributable to the shareholders for H1 (estimated): USD24.90 million (RMB168 billion)–USD34.67 million (RMB234 million), down 75%–82% YoY
- It noted that its total dairy herd grew 20%; milk yields per cow surpassed 40 kg/d for some of the herd at each of its 10+ dairy farms; its output will continue to rise with more farm expansion plans launching in H2.

Contributing factors:

- Rising feed costs and sustained reduction in raw milk prices
- Growing loss of more than USD133.40 million (RMB900 million) in selling cows
- Costs of financing increased when scaling up its strategic investments.

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

- Net profit attributable to equity shareholders for H1 (estimated): USD 1.19 million (RMB8 million)–USD1.63 million (RMB11 million), down 64.99%–51.87% YoY
- Loss after excl. extraordinary gains/losses: USD1.63 million (RMB11 million)–USD1.19 million (RMB8 million)

Contributing factors:

- Ongoing pandemic problems raised its operating costs in production, logistics and marketing in main markets, such as Lanzhou, Xi'an and Xining cities
- Affected by the international conditions, raw materials' costs were on the rise, coupling with growing production costs.

News in Brief

Dairy Imports in July 2022

July's imports followed the same recent downtrend – WMP's volume almost halving YoY, for instance. All liquid dairy segments were down, why also. The main areas of growth were AMF, lactose and – interestingly – infant nutritionals. That last segment has been flat on a YTD basis; some minor segments have grown in volume, but the only mainstream commodity showing notable growth has been anhydrous lactose, +11% YTD.

TABLE 10: 2022 July Imports, tonnes

HS code	Product	202107	202206	202207	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	13,428.1	9,592.7	7,289.8	-24.0%	-45.7%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	62,287.0	54,341.3	49,323.0	-9.2%	-20.8%
04014000	Milk & cream, 6%	4.7	3.9	3.2	-19.5%	-32.7%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	17,579.8	17,661.9	16,444.8	-6.9%	-6.5%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	46,142.4	23,975.3	27,394.9	14.3%	-40.6%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	73,631.1	35,462.3	36,865.0	4.0%	-49.9%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	155.1	118.6	94.1	-20.7%	-39.3%
04041000	Whey and modified whey	65,102.1	51,295.8	54,222.7	5.7%	-16.7%
04049000	Products consisting of natural milk constituents, nes	224.8	378.2	446.5	18.1%	98.7%
04051000	Butter	9,296.8	5,973.5	9,252.5	54.9%	-0.5%
04059000	Other fats & oils derived from milk	3,994.6	3,527.0	5,761.6	63.4%	44.2%
04061000	Fresh cheese, incl. whey cheese, curd	5,530.2	4,127.3	5,631.9	36.5%	1.8%
04062000	Grated or powdered cheese	4,753.4	1,401.2	1,031.1	-26.4%	-78.3%
04063000	Processed cheese, not grated or powdered	2,057.1	900.4	1,730.2	92.2%	-15.9%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	5.4	11.9	7.8	-34.0%	44.9%
04069000	Cheese, nes	3,354.6	3,172.1	3,151.6	-0.6%	-6.1%
17021100	Anhydrous lactose, lactose wt.≥99%	11,601.3	10,389.4	15,286.1	47.1%	31.8%
17021900	Lactose syrup & other lactose	263.7	99.9	201.9	102.1%	-23.4%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	16,931.5	22,299.1	22,002.1	-1.3%	29.9%
35011000	Casein	928.9	1,218.6	1,769.3	45.2%	90.5%
35019000	Caseinates	2,296.4	1,161.3	2,312.5	99.1%	0.7%
35022000	WPC80/WPI	2,625.3	3,166.6	2,640.2	-16.6%	0.6%

Source: China Customs

Friesland Campina Selling Local IMF Plant

On 20 July, Royal Friesland Campina N.V. disclosed that it has reached agreement on selling Friesland Campina Dairy Co., Ltd. (Friesland Shenyang) to Yili, a deal expecting to complete by the end of the year, so as to optimise its established resources in China and reinforce its focus on developing the market position of its Friso range of nutritionals.

Friesland Shenyang is located in the Huishan Economic Development Zone of Faku County, Shenyang City, Liaoning Province. It is the Dutch group's only IMF plant in China and produces 1,033 t/a of Dutch Lady IMF products. However, these target low-end consumers and are very minor compared with Friso, so have effectively proven a distraction – "Dutch Lady" made up only 3.3% of its parent company's global formulae earnings in 2020.

The specific details of the sale are still up in the air, but the intention is that Dutch Lady organic milk, milk formulae for adults and "Wulewei" milk formulae for children will remain on the market in China.

Fonterra WMP Denied Market Entry

On 22 July, the General Administration of Customs (GACC) posted the June list of foods barred from entry, including a batch of Fonterra WMP:

Info of the nonconforming product:

- Importer: Beijing Dairy-Want Foods Ltd.
- Place of origin: New Zealand
- Manufacturer: Fonterra
- Batch weight: 200 kg
- Reason of disqualification: Defective packing

Fonterra's WMP was also refused entry twice in 2021 for the same reason:

- Dec. 2021: 50 kg NZMP brand, imported by Beijing Yuya Weiye Trade Co., Ltd., which is wholly-owned by Want Want China Holdings Ltd. (HK. 0151).
- Nov. 2021: 75 kg NZMP brand, imported by Zhongshan Right On Trading Co., Ltd.

Milkground Food Sustains Growth as Costs Increase in H1

Shanghai Milkground Food Tech Co., Ltd. (Milkground Food, Stock Code: 600882) issued its report for H1 2022 on 18 Aug., with key results as follows:

- Total revenue: USD0.38 billion (RMB2.59 billion), up 25.48% YoY
- Net profit attributable to equity shareholders: USD19.57 billion (RMB132.01 billion), up 18.03% YoY.

It indicates that higher costs of raw materials and logistics eroded its gross margins, affected by the pandemic and rise of prices for most international commodities.

But at the same time, its distribution has proven efficient, it seems. As of 30 June, it had 5,438 distributors across China supplying about 700,000 sales points, ranging from offline supermarket chains like RT-MART, Yonghui Superstores and Walmart to online platforms such as Tmall.com, JD.com, Pinduoduo, Douyin and Kuaishou. In the foodservice it supplies 300+ customers, including restaurant chains like Burger King and Saizeriya, 85C Bakery Cafe and tea drink chains like Nayuki and Goodme.

TABLE 11: Key Financials by Activity for Milkground Food in H1 2022

Category	Revenue, USD million	YoY Change	Proportion	Gross margin, USD million	Gross Margin Ratio	YoY Change
Cheese	302.64	34.11%	78.88%	132.62	43.82%	-6.37%
Liquid milk	26.96	-14.73%	7.03%	3.29	12.21%	-4.03%
Trade goods	54.07	11.11%	14.09%	3.23	5.98%	-0.07%
Total	383.67	25.41%	100.00%	139.15	36.27%	-3.39%

Source: Milkground Food

Note: Cheese products comprise 3 lines (see below): Instant Nutrition Line, Home Cheese Line, and Field. Liquid milk includes fresh and UHT milk, and fermented milk products. Trade goods includes various dairy commodities.

TABLE 12: Key Financials for Milkground Food's Cheese Business in H1 2022

Product line	Revenue, million USD	YoY Change	Proportion	Gross margin, USD million	Gross Margin Ratio	YoY Change
Instant Nutrition Line	210.16	21.93%	69.44%	108.87	51.80%	-5.12%
Home Cheese Line	42.07	94.31%	13.90%	15.18	36.07%	-0.76%
Field	50.41	59.25%	16.66%	8.58	17.02%	-5.66%
Total	302.64	34.11%	100.00%	132.62	43.82%	-6.37%

Source: Milkground Food

Note: Cheese products comprise 3 lines (see below): Instant Nutrition Line, Home Cheese Line, and Field. Liquid milk includes fresh and UHT milk, and fermented milk products. Trade goods includes various dairy commodities.

Guangdong Health Express Proposing New Dairy Plant Construction

On 2 Aug., details of Guangdong Health Express Dairy Co., Ltd. (Guangdong Health Express)'s new dairy plant project were published with the pre-construction environmental impact statement.

Project Details:

- Total Investment: USD19.27 million (RMB130 million), 0.62% (=USD0.12 million or RMB0.8 million) of which is for environmental protection
- Location: Shanwei High-tech Zone, Shanwei City, Guangdong Province
- Site & floor areas: 20,514.7 m² & 37,076.63 m²
- Designated construction period: 12 months
- Designed total capacity: 16,100 t/a of milk beverages (modified UHT milk)
- Product brands and annual production plan:
 - Great Value (for Walmart) – 100 million bottles (100 ml/bottle, 105 ml/bottle), OEM product
 - Health Express – 20 million bottles (100 ml/bottle, 105 ml/bottle, 220 ml/bottle)
 - Dongliyuan – 10 million bottles (105 ml/bottle, 260 ml/bottle)
 - Xizikang – 1.2 million bottles (105 ml/bottle)
 - Huozibao – 10 million bottles (105 ml/bottle)
- Raw material requirements
 - Milk powders – 700 t/a
 - White granulated sugar – 1,500 t/a
 - Lactobacillus powder – 4 t/a

The parent company Shenzhen Health Express Dairy Co., Ltd. owns Guangdong Health Express Dairy Co., Ltd., which was incorporated in Jan. 2015 with a registered capital of USD2.96 million (RMB 20 million).

Bel Group Buys 70% Stake in Shandong Junjun Cheese

In early Aug., France's Bel Group completed the acquisition of a 70% equity stake in Shandong Junjun Cheese Co., Ltd., with terms of the transaction undisclosed. At present, the business registration of Shandong Junjun Cheese has been changed with its legal person showing as Jean-Christophe Coubat, Bel Group's Senior Vice President in charge of the Growth Geographies, and its corporate type into limited liability company (foreign investment).

Bel CEO said Shandong Junjun Cheese's "*state-of-the-art*" manufacturing and innovation capabilities would facilitate the group's expansion in China and aligned well with its strategy to accelerate growth in "*new territories*" (China, sub-Saharan Africa, etc.).

Founded in 2016 with a registered capital of USD4.89 million (RMB33 million), Shandong Junjun Cheese manufactures a wide range of products including whipping cream, butter, natural and processed Mozzarella, cream cheese, cheese snacks for children and adults, and other grated, shredded and sliced cheese products. It not only owns the brand "*Cheese Fun*", but also produces as an OEM for many well-known names like Mengniu, Bright Dairy, Genki Forest (Yuan Qi Sen Lin in Chinese), Wei-chuan, Dr.Cheese and YICKCHI Peppa Pig. The company produces over 30,000 t/a of cream and cheese products at its factory in Dezhou National High-tech Industrial Development Zone, Shandong.

Bel Group's product range in China includes cheese brands Kiri, The Laughing Cow and Mini BabyBel, various flavours of UHT yoghurt and the Materne Pom'Potes fruit puree snacks for children. In 2021, the group's global sales revenue reached USD3.44 billion (RMB23.24 billion), including USD0.68 billion (RMB4.57 billion) from China.

Ningxia Nongken Progresses Farm Projects

On 13 Aug., Ningxia Nongken Enterprise Group Co., Ltd. (Ningxia Nongken) broke ground on a 50,000 head / 2,408 ha dairy farm in Hongsibu District, Wuzong City, Ningxia Hui Autonomous Region. This is expected to become the single largest dairy farm in China. Based on an estimated total investment of USD0.34 billion (RMB2.3 billion), it is planned to produce 330,000 t/a of milk worth around USD0.18 billion (RMB1.2 billion), taking in silage corn from 48,565 ha of surrounding crop lands.

Subsequently the company also gave an update on the progress at its 2nd farm in Baitugang Township, Lingwu City in Ningxia – all the basic installations are expected to be completed by the end of the year, and the farm's herd now stands at 15,410 head, including 8,000 Holsteins imported from Australia and Uruguay as well as 4,000 transferred from its subsidiary Ningxia Nongken Helanshan Dairy Co., Ltd., and their calves. This farm covers 1,027 ha and is expected to hold 27,500 dairy cows and produce 130,000 t/a of milk once in full service, worth USD88.93 million (RMB600 million).

Revised National Standard Stipulates LAB Content Labelling

On 28 July, China's National Health Commission and the State Administration for Market Regulation published the National Food Safety Standard – Drinks, to supersede the current standard (GB 7101-2015) from 30 Dec., 2022.

The revised version adds new requirements for labelling of Lactobacillus (LAB) drinks, summarised as followed:

- Products containing bacteria are to be marked with "active bacteria (unsterilized) type" or "inactive bacteria (sterilized) type"; the LAB content shall be shown on the label for the "active bacteria (unsterilized) type", where the viable counts are $\geq 10^6$ CFU/g (ml)
- Storage and transportation conditions shall be printed on the label for products subject to refrigerated or frozen storage.

TABLE 13: Microbiological Limits for Drinks

Item	Microbiological Limits			
	n	c	m	M
Aerobic plate count ^b , CFU/g	5	2	102 (104) ^a	104 (5×104) ^a
Escherichia colic, CFU/g	5	2	1 (10) ^a	10 (102) ^a
Mould, CFU/g or CFU/ml	≤ 20 (50) ^a			
Yeast, CFU/g or CFU/ml	≤ 20			

Source: GB 7101-2022

Note: a: The bracketed limits apply to powdered drinks. b: The limit does not apply to "active bacteria (unsterilized)" products which include active bacterial cultures (aerobic bacteria and facultative anaerobic bacteria). c: The bracketed limits apply to drink concentrates. d: The limit does not apply to powdered drinks.

Sunshine Dairy Discloses Weakened Performance for H1

On 18 Aug., Jiangxi Sunshine Dairy Co., Ltd. (Sunshine Dairy, Stock Code: 001318) published its first half-yearly report after listing, with falls in two key indicators as follows:

- Revenue: USD40.13 million (RMB270.75 million), down 6.61% YoY
- Net profit: USD8.25 million (RMB55.66 million), down 7.72% YoY

The report indicates that distributor sales (mainly home delivery) made up 86.74% of its revenue, and fell 7.68% YoY, with the Covid-19 resurgence which hit Jiangxi Province in late-March to mid-May disrupting its sales through home delivery.

Jiangxi Province accounted for 95.85% of the total revenue, 55.25% being concentrated in Nanchang City. Due to cold chain limitations, the company has prioritised the provincial market, but it is working on promotion in neighbouring provinces of Hunan and Anhui. During the reporting period, sales outside Jiangxi increased by 43.97%, representing 4.15% of the total.

The company went public and issued 70,700,000 RMB shares initially on the Shenzhen Stock Exchange on 20 May, 2022.

Yili's Upgraded Overseas Butter Plant Opened; Shengmu Organic Starts New A2 Dairy Farm Construction

On 17 July, Yili's upgraded Westgold butter plant in Hokitika in the West Coast region of New Zealand's South Island was opened. This upgrading project was started in March last year and has ramped up Westgold butter capacity to 42,000 t/a, making this site the biggest overseas butter investment by a Chinese dairy processor.

On 10 Aug., China Shengmu Organic Milk Ltd (Shengmu Organic, Stock Code: 01432) initiated work on an A2 organic dairy farm in Ruyi Industrial Park of Hohhot City, Inner Mongolia Autonomous Region. This work is being undertaken by its subsidiary, Mongolia Shengmu High-tech Husbandry Co., Ltd. Shengmu Organic plans to perform DNA tests on 20,000 samples; each A2 dairy cow will be tested at least twice to ensure the purity of the milk.

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