

# Dairy Products China News

## Guaranteed Exclusive Analysis

Welcome to the January issue of Dairy Products China News.

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Recent statistics from China have been sobering

- The population has fallen for the first time since 1961 – a decline which is hitting much sooner than many observers anticipated
- In 2021 GDP growth was 3% – the 2<sup>nd</sup> slowest growth rate in almost 50 years – whilst milk demand was down 14%
- A large proportion of the population has been hit by COVID infections since the beginning of December last year, reportedly affecting as many as 1.2 billion people and inevitably acting as a brake on demand recovery

Whilst these points obviously attract the headlines, some of the more structural background details are concerning – for example the significant regional disparities in the ageing of China's population, with the economically more advanced eastern provinces and municipalities generally much better placed than the western regions in this regard. The WHO officially proposed the concept of healthy ageing in 2015, following up with the Global Strategy and Action Plan on Ageing and Health (2016–2020) in 2016. In November 2021 China's State Council published a comprehensive, strategic plan to achieve healthy and active ageing. Its ongoing relevance is clear: a national plan for health-care development had called for community clinics to have 3.5 health workers per 1,000 residents by 2020. At the start of the pandemic, Wuhan's had only 2.7.

Although dedicating a lower proportion of GDP to healthcare than the US and OECD countries, China has been spending more on healthcare over recent decades. This is not new – Mao's "barefoot doctors" programme trained large numbers of young Chinese to provide affordable basic care to China's rural population, for instance. There are some ironies here, though:

- Dramatic improvements in healthcare have helped increases in life expectancy which have created new health challenges
- China's international policy has involved considerable investments in overseas healthcare systems in regions such as Africa from the early 1960's. Meanwhile, though, major health challenges have been building up at home
- COVID-19 has given Chinese pharma and biotech firms as well as CROs the chance to gain international recognition by partnering with global counterparts.

In China today healthy eating and self-medication are very much in: as in most countries, the state clearly wants to avoid footing more of the bill than it has to. Products such as the new formulae from the main dairy and nutritional manufacturers – as featured in this and previous issues – will definitely be welcome in a country looking to live not only longer but also more healthily. This will be even more the case if those products are produced by domestic manufacturers, a clear pointer for dairy ingredients manufacturers looking to take advantage of this trend.

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## Headlines

- ▶ In Dec., 2 largescale dairy farm projects started construction in Dali Bai Autonomous Prefecture of Yunnan Province, a major step in developing the local dairy sector in this southwestern province which is certainly not known for dairy farming.
- ▶ Last year 16 Chinese dairy firms applied for IPOs, although only Sunshine Dairy and AustAsia proved successful in this ambition.
- ▶ In late Dec., Mars' first ice cream factory in China opened with 15,000 t/a capacity coming on-stream.
- ▶ On 3 Jan., the China Chain-Store & Franchise Association released the New Style Tea Drink Market Report for 2022, suggesting growth in this estimated USD15.0 billion market is slowing down, with focus being diverted to 3<sup>rd</sup> and 4<sup>th</sup> tier cities.
- ▶ China Customs and the State Administration for Market Regulation have issued reminders of the renewed requirements for cheese and formula products starting up this year, to ensure a smooth transitional period.
- ▶ On 5 Jan., Inner Mongolia Standardisation Association published the first provincial/association standards published for horse dairy products in China.
- ▶ In late Dec., China Feihe launched 2 "AIBEN" high-end formula products and Mead Johnson China announced a new nutritional brand "AGIJOY", both targeting adults.
- ▶ Namchow Food is planning a new whipping cream plant project in Chongqing, the 1<sup>st</sup> phase for 27,000 t/a capacity.
- ▶ On 12 Jan., Adopt A Cow was asked by Chinese regulators to comment on questions relating to its IPO prospectus.
- ▶ In Jan 2023, China's average milk price remained low. There is excess supply and growing pressure on farmers, despite many state interventions to try to help restore market stability.

## Major Companies and Sites Mentioned in This Issue



## Market Analysis

### Yunnan Initiates LargeScale Dairy Farm Projects

**Summary:** In Dec., 2 large scale dairy farm projects started construction in Dali Bai Autonomous Prefecture of Yunnan Province, a major step in developing the local dairy sector in this southwestern province which is certainly not known for dairy farming.

In Dec. 2022, work began on 2 largescale dairy farm projects in Heqing County and Binchuan County of Dali Bai Autonomous Prefecture, in western Yunnan Province, each for 10,000+ dairy cows.

#### Heqing County's Dairy Farm

On 28 Dec., a 10,000 head dairy farm broke ground in Heqing County for Yunnan Ouya Dairy Products Co., Ltd. (Ouya Dairy). This company was founded in Jan 2003 with a registered capital of USD24.2 million/RMB168 million) and is seeking to secure stabler supply for its diverse dairy product range.

Project details:

- Total investment: USD86.9 million (RMB603.7 million)
- Site & floor areas: 52.28 ha & 157,228 m<sup>2</sup>
- Construction content: Cattle shed, milking room, silage silo, warehouses, office area, waste treatment area and supporting equipment and facilities; and 1,333 ha quality forage fields near to the farm
- Herd size and production: 10,417 Jersey cows, with annual milk production of 52,805 tonnes

This project is Ouya Dairy's 2<sup>nd</sup> dairy farm, after its 7,000 head farm built in 2015 in Heqing County. Its dairy plant came onstream in Dec. 2021, with 300 t/d processing capacity – to be expanded to 500 t/d – for fresh/UHT milk, UHT modified milk, yoghurt and protein drinks.

Heqing County has this farm with 7,000 head, one with 2,000 head and 12 with 300 head, with 14,800 in all. The county's milk production capacity is 130 t/d, equal to an annual value of USD28.8 million (RMB200 million).

#### Binchuan County's Dairy Farm (phase I)

On 15 Dec., a 10,000 head farm broke ground for phase I construction in Binchuan County. This is a project of Dali Zhongxin Dairy Co., Ltd. (founded in July 2022 with a registered capital of USD7.2 million/RMB50 million).

Project details:

- Total investment: USD36.0 million (RMB250 million)
- Total area: 266.67 ha – 33.33 ha for farming and 233.33 ha for silage planting
- Construction areas for dairy farming, dairy processing, forage growing and offices
- Herd size and production: 5,000 head / annual milk production of 25,000 tonnes, plus 39,000 t/a silage corn
- Designated construction period: 18 months

In H1 2022, Binchuan County had 14,800 dairy cows: this number was up 2.7% YoY, but production of 3,445 tonnes of milk was down 15% YoY.

#### Yunnan Targets 350,000 Cows by 2025

On 12 Oct., 2022, the Department of of Agriculture and Rural Affairs of Yunnan Province issued a Three-year Action Plan (2023-2025) for Accelerating High-quality Development of the Local Dairy Industry, promoting closer and diverse links between dairy farming and manufacturing to step up local products, competitiveness in the market and build a "Dairy Hub for South China".

This Plan sets targets for 2025:

- A local herd of at least 350,000 cows; 200 farms with 100-3,000 cows and 20 farms with 3,000+ cows
- To double the 2021 annual milk output of 684,000 tonnes to over 1,500,000 tonnes; in Q1-Q3 2022, Yunnan's milk production was 386,800 tonnes, up 9.4% YoY
- To build 2 provincial-level Holstein breeding centres (average yield per Holstein to reach at least 8.5 tonnes) and to upgrade a bull breeding station; to expand the Jersey herd and to encourage development of speciality products like water buffalo milk, yak milk and goat milk
- To expand silage corn production to 200,000 ha and quality forage production to 66,666 ha in total.

## IPOs Popular in 2022

**Summary:** Last year 16 Chinese dairy firms applied for IPOs, although only Sunshine Dairy and AustAsia proved successful in this ambition.

China's dairy industry has seen a continued IPO rush over past three years:

- 2020: Hubei Juneyao Great Health Drinks Co., Ltd. (Juneyao Health, Stock Code: 605388), Beijing Scitop BioTech Co., Ltd. (Stock code: 300858), Panda Dairy Corporation (Panda Dairy, Stock Code: 300898) went public
- 2021: Zhejiang Liziyuan Food Co., Ltd. (Liziyuan) and China Youran Dairy Group Ltd (Youran Dairy, Stock Code: HK.09858) debuted on the Shanghai Stock Exchange (SSE) and the Hong Kong Exchanges (HKEX), respectively

- 2022: 16 dairy firms initiated IPO processes

Over half of the dairy firms that applied for IPOs in 2022 were regionally-focused operators including Junlebao, Guangdong Wens Dairy Co., Ltd. (a spin-off of Wens Foodstuff Group Co., Ltd., Stock Code: 300498), Inner Mongolia Chevalese Dairy Group Co., Ltd.; there were emerging brands like Adopt a Cow Holding Group Co., Ltd., and dairy farm operators such as AustAsia Investment Holdings. From the prospectuses disclosed, expansion of dairying and product mix, brand building and marketing promotion, digital system upgrade and working capital replenishment were the main purposes for IPO fundraising.

By the end of 2022, there were only around 30 listed dairy companies on China's A-share markets.

**TABLE I: IPO Progress of Chinese Dairy Companies, as of 31 Dec., 2022**

Status	Company	Remark
Listed	Jiangxi Sunshine Dairy Co., Ltd. (001318.SZ), AustAsia (2425.HK)	Listed on 20 May, 30 Dec.
Updated prospectus disclosure	Inner Mongolia Chevalese Dairy Group Co., Ltd., Adopt a Cow Holding Group Co., Ltd., Sichuan Jule Food Co., Ltd.	/
IPO application rejected	Shaanxi Hongxing Meiling Dairy Co., Ltd.	/
IPO review terminated	Jiangxi Meilu Dairy Co., Ltd.	/
IPO planning	Junlebao, Beidahuang Wondersun Dairy Co., Ltd., Yeeper Dairy Group Co., Ltd., Henan Huahuaniu Dairy Group Co., Ltd., Guangdong Wen's Dairy Co., Ltd., Nanjing Weigang Dairy Co., Ltd., Mutong Technology Co., Ltd., Anhui Danuo Dairy Co., Ltd., Ningxia Nongken Dairy Co., Ltd.	/

Source: China Securities Regulatory Commission (CSRC)

It has not been easy for dairy companies to go public on A-share markets, as these set a higher bar on applicants' 3-year growth, resources and sustainability. In 2022, only Jiangxi Sunshine Dairy Co., Ltd. (Sunshine Dairy, Stock Code: 001318.SZ) and AustAsia Group Ltd. (AustAsia, Stock Code: 2425.HK) succeed in doing so. Conversely, others were confronted by setbacks:

- Shaanxi Hongxing Meiling Dairy Co., Ltd.: Its application was terminated due to "non-conforming borrowing behaviour" on 6 May 2022; its IPO procedure lasted almost 5 years, having started with pre-listing tutoring in Sept. 2017
- Jiangxi Meilu Dairy Co., Ltd.: This goat milk formula business withdrew its 3<sup>rd</sup> IPO application on 1 July 2022 after concerns were raised about its financial data
- Sichuan Jule Food Co., Ltd.: Although it submitted its 4<sup>th</sup> IPO application on 1 July 2022 after previous submissions in 2017, 2019 and 2020, the company relies heavily on sales of a single line ("Suanle Milk", fermented milk); in April 2020, it was warned by the CSRC after the undisclosed embezzlement of USD13.8 million (RMB95.8 million) by the accountant of a subsidiary and

of major deficiencies in the internal control system during its application process

The rush to IPOs reflects the increasingly intense competition and rising costs in recent years, and IPOs should support cashflows and help SMEs deal with the ongoing pandemic impact. Nevertheless, it is clear that companies with secure milk supply or a strong dairy product mix, or those that supply milk to the large-scale processors, look to be better prospects after listing than the smaller operations.

### Industry Structure

China's concentrating dairy industry is leaving limited space for SMEs, with Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) and China Mengniu Dairy Company Ltd (Mengniu, Stock Code: 02319) taking 25.8% and 22.0% (nearly 50% combined) dairy market shares in 2021. In the next 2-3 years, the number of listed dairy firms looks set to grow. This may not shake the overall industry structure as it remains hard for SMEs to compete with the majors in milk sourcing, but it is possible for them to make breakthroughs in innovation (products, formulations, targeted marketing etc). It must be a positive that these listings will draw more capital to the dairy sector.

## Mars' First Ice Cream Factory in China Opens

**Summary:** In late Dec., Mars' first ice cream factory in China opened with 15,000 t/a capacity coming on-stream.

On 26 Dec., the global confectionery group Mars opened its first ice cream factory in China, coming on stream 2 months ahead of schedule, giving it ample time to prepare for the expected demand in this month's holiday season.

Construction details:

- Location: Yonghe Street, Huangpu District, Guangzhou City, Guangdong Province
- Construction unit: Mars Wrigley Confectionery (China) Co., Ltd.
- Total investment: USD72.0 million (RMB500 million), 0.04% (=USD28,787.3 or RMB200,000) of which is for environmental protection
- Site & floor area: 11,413.78 m<sup>2</sup> & 16,658.92 m<sup>2</sup>, including 9,858.22 m<sup>2</sup> & 15,800.56 m<sup>2</sup> for production workshop and refrigeration station
- Production capacity: Ice cream – 15,000 t/a
- Material usage: Dove chocolate – 1,953 t/a; glucose syrup – 920 t/a; white granulated sugar – 785 t/a; cream – 647 t/a; SMP – 549 t/a; M&M's Minis Milk Chocolate – 256 t/a; cocoa butter – 184 t/a; butter – 157 t/a; whey powder – 31 t/a
- Construction period: 12 months
- Working system: 111 people in 3 x 8-hour shifts working for 250 days per year

### Mars China Business Development

In addition to Mars' strong confectionery business centred on brands such as Snickers, M&M's, Twix etc, it has been seeking growth in the ice cream market. In 2020, it launched its chocolate brands Dove, Snickers and Maltesers as ice cream products in China, after setting up a China division headquartered in Guangzhou in 2017.

Larry Feng, President of Mars Wrigley China, said these ice cream products – imported from France, Poland, etc – have seen good sales, but face relatively high costs in tariffs and transport. The new factory in China will address that problem and allow greater flexibility and responsiveness to changing local tastes and demand. It is expected to supply wider broader regions than just the 1<sup>st</sup> tier cities, and the company hopes to increase demand for such products outside the summer.

*"Mars Ice Cream division is an integral part of the group's future even though it is a much smaller business compared to the multibillion-dollar candy operations"*, said Shaf Lalani, general manager for Mars Ice Cream, last Sept. During 2021, the division's ice cream sales increased 70% and it aims to triple sales to USD1.1 billion globally by 2024.

### Multinationals in China's ice cream market

We carried out our first assessment of China's ice cream market in 1990, at which time Hong Kong was much more advanced, but how the market has changed. Recently China's ice cream sales have grown rapidly from

less than USD13.0 billion (RMB90 billion) in 2015 to USD23.0 billion (RMB160 billion) to 2021 at a CAGR of 10.1%, the fastest-growing food category over the period – a 12% increase in the average price for 100ml/g of new ice cream products launched in 2019-2021 was a key driver for the overall sales value growth. These trends have attracted international brands to step up their focus on the opportunity:

- Unilever: In Jan. 2022, it opened its largest ice cream factory worldwide in Taicang City of Jiangsu Province; this was based on an investment of USD106.1 million (EUR100 million) in 15 production lines providing 150,000 t/a capacity for Wall's Magnum and Cornetto. It is also building another ice cream plant in Conghua of Guangzhou, which is expected to enter operation by 2025
- Nestlé: It has 2 ice cream plants in Guangzhou and Tianjin and has pushed cross-branding between its ice cream and confectionery brands in China in recent years with the launches of Crunchy Shark Ice Cream Cone and KitKat Ice Cream (imported)
- Mondelez: In 2022, Mondelez launched Oreo Ice Cream Cup (vanilla and strawberry flavours) on E-commerce platforms, a line produced under subcontract by GSF Kan-Pak (Hubei) Food & Beverage Co., Ltd).

## New Style Tea Drink Market Report for 2022

**Summary:** On 3 Jan., the China Chain-Store & Franchise Association released the New Style Tea Drink Market Report for 2022, suggesting growth in this estimated USD15.0 billion market is slowing down, with focus being diverted to 3<sup>rd</sup> and 4<sup>th</sup> tier cities.

New style tea drink stores have become a market segment of some importance to dairy suppliers, with stores selling freshly-made new style tea drinks, coffee, ice cream, frozen yoghurt desserts, etc. On 3 Jan., the China Chain-Store & Franchise Association or CCFA, released the New Style Tea Drink Market Report for 2022, estimating this market at USD15.0 billion (RMB104.0 billion) in 2022. There were approximately 486,000 tea drink stores serving some 200 million mainly young consumers, and visited by over 40% of the population over the year. Despite the market slowdown, the number of these outlets was growing significantly in 3<sup>rd</sup> and 4<sup>th</sup> tier cities last year.

### Growth Slowdown

- Sales by tea drink stores grew from USD6.1 billion (RMB42.2 billion) in 2017 to USD14.4 billion (RMB100.3 billion) in 2021, at a CAGR of 24.2%
- However sales growth slowed over the pandemic (2020-2022) and at USD15.0 billion (RMB104.0 billion) were up only 3.7% in 2022
- It is hoped that the recent easing of local pandemic restrictions will boost sales in Q2, taking sales to USD20.9 billion (RMB145.0 billion) this year

### Penetrating Lower Tier Cities

- By the end of 2022, there were 486,000 tea drinks stores, up by over 28% vs. 378,000 in 2020. This accounted for 61.9% of all freshly-made drinks stores in 2022, though down slightly vs. 65.5% of 2020
- These stores share a highly standardised operating model, easy to operate at a low cost, allowing rapid replication and intensifying competition: 55.2% were parts of chains or franchises in 2022, compared to 41.2% in 2020. A few small brands left the market or were acquired by larger players looking to grow their market share

- Market growth rate slipped in 1<sup>st</sup> and 2<sup>nd</sup> tier cities last year but improved in 3<sup>rd</sup> and 4<sup>th</sup> tiers. In order to take advantage of this situation, many well-known brands that had been running fully-owned stores only, started to adopt franchises in 2022 – examples being HEYTEA, KOI, and SEVENBUS – whereas some like Nayuki, LELECHA and Sexy Tea have maintained their full ownership business model

### Online Order Surge

- Online orders for tea drinks surged as more consumers opted for delivery over in-store consumption due to the pandemic, aided by a growing number of the younger generation being very familiar with online social networks and shopping. Nayuki has reported that online orders accounted for 80.1% of its total sales in H1 2022

### Lower Pricing and Coupons to Aid Demand

- Leading tea drink brands announced price reductions and started to launch low-priced products to maintain and increase their shares, as the market became difficult from Q4 2021. For example:
  - HEYTEA announced price cuts at the beginning of 2022, saying it would stop launching products of over USD4.32 (RMB30) and focus on the USD2.16-USD2.74 (RMB15-RMB19) price range, which represents 80% of its products at present
  - Nayuki rolled out new series at below USD2.88 (RMB20) in March 2022 and reduced prices of most products, keeping all items at below USD4.32 (RMB30)
- In addition, many have turned to selling product coupons and vouchers via whole network marketing to lock in consumers. In 2022 alone, the GMV (gross merchandise volume) of coupons and vouchers for new style tea drinks on Douyin (the Chinese version of TikTok) reached roughly USD1.4 billion (RMB10 billion). The big discounts on streaming platforms have facilitated online-to-offline sales, seen as a new area of growth for the tea drink market.

## Governmental Direction

### New Dairy Products National Standards in Force in 2023

**Summary:** China Customs and the State Administration for Market Regulation have issued reminders of the renewed requirements for cheese and formula products starting up this year, to ensure a smooth transitional period.

In late Dec., China Customs and the State Administration for Market

Regulation posted notices highlighting new standards:

- National Food Safety Standard for Processed Cheese and Cheese Products (GB25192-2022) and for Concentrated Dairy Products (GB13102-2022) effective since 30 Dec. 2022

- National Food Safety Standards for Infant Formula Foods (GB10765-2021), for Formula foods for Older Infants (GB10766-2021) and for Formula foods for Young Children (GB10767-2021), all to come into force on 22 Feb. 2023

Government departments and manufacturers were urged to pay attention to these.

### New Standards for Processed Cheese and Cheese Products

The new *National Food Safety Standard – Processed Cheese and Cheese Products (GB25192-2022)* revises the *National Food Safety Standard – Processed Cheese (GB25192-2010)*, differentiating processed cheese and cheese products with clearer product definitions and tightening requirements for production licenses:

- 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
- Enterprises with production licenses for processed cheese issued before 30 Dec. 2022 but which have already met the new standards, do not need to apply for a change of production license. Those with products not conforming to the new

requirements (e.g. only containing 15%-50% natural cheese) should apply for a license change to "cheese products", or raise their products' content of natural cheese to 50% or above if they wish to retain their present licenses

- No on-site inspection is required where applicants indicate no change in production conditions during the reapplication process
- Review requirements for production licenses for cheese products are subject to the processed cheese-related provisions of the *Detailed Rules for the Review of Dairy Products Production Licensing (2010 version)*
- Processed cheese products made before 30 Dec 2022 can be marketed until their shelf life expiry
- In order to reduce costs and wastage, firms can report their "processed cheese products" with natural cheese content inconsistent with the new standards for processed cheese and labelled with the old national standard numbers, to the local market supervision departments for an extension of the use of these packs up to 30 June 2023

- Local market supervision departments should strengthen their supervision of manufacturers' production and licensing of processed cheese and cheese products in the policy transition and prevent cheese products from being passed off as processed cheese

### Requirements for Importers

On 30 Dec., China Customs gave notice of its requirements for imports of formula foods for infants and children and processed cheese based on the new standards, underlining:

- From the date of implementation of new standards, overseas manufacturers exporting these products to China must adhere to the new regulations. Imported products produced or imported in accordance with the old standards can remain on sale within their shelf life
- When declaring imports, the consignee of the imported goods or the customs agent must fill in a "production date" consistent with that shown on the products' labels, shown as 8 digits and in the order of year (4 digits), month (2 digits) and day (2 digits).

## Two Association Standards for Horse Dairy Products

**Summary:** On 5 Jan., Inner Mongolia Standardisation Association the first provincial/association standards published for horse dairy products in China.

On 5 Jan., Inner Mongolia Standardisation Association published the standards for horse dairy products – *Pasteurised Horse Milk (T/IMAS 054–2023)* and *Horse Milk Powder (T/IMAS 053–2023)*, effective as of 6 Jan. These have been jointly drafted by Inner Mongolia Horse Dairy Co., Ltd., the Inspection Center of the Market Supervision Administration of Inner Mongolia Autonomous Region, Inner Mongolia Horse Health Industry Co., Ltd., The Horse Society of Inner Mongolia Agricultural University, and other companies, institutions and organisations with involvement in this area.

The terminology and definitions, technical requirements, hygienic requirements for production and processing, labelling and logos, packaging, transport and storage for pasteurized horse milk and horse milk powder are stipulated.

### Pasteurised Horse Milk (T/IMAS 054–2023)

- Application scope: Pasteurised Whole Horse Milk
- Definition: Pasteurised horse milk is a liquid product produced from raw horse milk via pasteurisation, and other processes
- Requirement for raw material: Raw horse milk should comply with the Provincial Food Safety Standard – Raw Horse Milk (DBS15/011)

**TABLE 2: Composition Indicators for Pasteurised Horse Milk**

Item	Indicator
Protein, g/100g	≥1.6
Fat, g/100g	≥0.65
Lactose, g/100g	≥6.0
MSNF, g/100g	≥7.8
Acidity, °T	6–18

Source: *Pasteurised Horse Milk (T/IMAS 054—2023)*

**Horse Milk Powder (T/IMAS 053—2023)**

- Application scope: Whole horse milk powder, prepared horse milk powder, sour horse milk ("Cege") powder, prepared sour horse milk powder
  - Note: "Cege" is a traditional dairy product in Inner Mongolia, processed by traditional local techniques from raw horse milk as base material, through purification, fermentation, churning and cooling; its production is subject to the *Provincial Standard for Production Technology Specification of Mongolian Traditional Milk Product Cege*
- Definitions:
  - Horse milk powder is a processed, powdered product made from raw horse milk
  - Prepared horse milk powder is made from raw horse milk as well as other excipients, with or without food additives and nutritional ingredients, containing more

than 70% milk solids

- Sour horse milk powder is made from fermented horse milk
- Prepared sour horse milk powder is likewise made from fermented horse milk as well as other excipients, with or without food additives and nutritional ingredients, containing more than 70% milk solids
- Requirement for raw materials:
  - Raw horse milk should comply with the *Provincial Food Safety Standard – Raw Horse Milk (DBS15/011)*
  - Sour horse milk should comply with the *Provincial Food Safety Standard – Mongolian Traditional Dairy Product Cege (Sour Horse Milk) (DBS15/013)*
  - Requirement for bacteria counts: lactic acid bacteria and yeast in frozen sour horse milk powder and prepared sour horse milk powder should be ≥1×10<sup>7</sup>CFU/g and ≥1×10<sup>5</sup>CFU/g, respectively

**TABLE 3: Composition Indicators for Horse Milk Powder**

Item	Horse milk powder	Prepared horse milk powder	Sour horse milk powder	Prepared sour horse milk powder
Protein, %	≥19% MSNF	≥11.5	≥19% MSNF	≥11.5
Fat, %	≥7.5	–	≥7.0	–
Lactose, %	≥55.0	–	–	–
Acidity of reconstituted lactic acid, °T	≤15	–	–	–
Impurity, mg/kg	≤16	–	–	–
Water			≤5.0	

Source: *Horse Milk Powder (T/IMAS 053—2023)*

Horse milk is growing in popularity in China due to its distinctive composition and its providing whey protein and casein in a similar way to breast milk, making it suitable for infants with weak digestion. China has commercial scale horse farms in both Xinjiang Uygur Autonomous Region and Inner Mongolia Autonomous Region, but industrial production remains impossible due to the small supply and high costs.

There are no national-level standards for such a niche product as horse milk, but provincial/association standards have been released by both those regions. In April 2020, the State Administration for Market Regulation (SAMR) and the National Health Commission jointly drafted the *National Food Safety Standard – Milk Powders* which include yak/camel/donkey milk powders in definition.



## Company Dynamics

### China Feihe and Mead Johnson China Push Formulae for Adults

**Summary:** In late Dec., China Feihe launched 2 "AIBEN" high-end formula products and Mead Johnson China announced a new nutritional brand "AGIJOY", both targeting adults.

In late Dec. the adult nutritionals segment saw 2 new launches almost simultaneously, as China Feihe Ltd (China Feihe, Stock Code: 06186.HK) launched 2 "AIBEN" formulae and Mead Johnson Nutrition (China) Co., Ltd. (Mead Johnson China) launched a new adult nutrition brand "AGIJOY" with a single SKU for now.

#### China Feihe

Its "AIBEN Colostrum Milk Powder" and "AIBEN Phytosterol Ester Milk Powder" focus on enhancing immunity and the cardio- and cerebrovascular systems respectively. Both are low GI (glycemic index) and sugar-free, co-developed by China Feihe and Peking University Health Science Center. The launch is key to China Feihe's "AIBEN Health China" healthcare science platform to promote the adoption of a healthy lifestyle.

"AIBEN Colostrum Milk Powder":

- Price: USD99/RMB688/box (for the introduction period, discounted to USD50/RMB348/box); each box is 616g

**PICTURE 1: AGIJOY Nutritional Powders for the Middle-aged and Elderly**



Source: Mead Johnson China

- The patented "1+3" formulation focuses on nourishment, protection, digestion and absorption, to improve overall immunity
  - "1" refers to 2000mg/100g of colostrum collected within 2 days of calving with up to 25,000mg/100g of immunoglobulin (IgG), superior in nutrient content and activity vs. most such products with colostrum collected within 3 days of calving
  - "3" refers to 75mg/100g of lactoferrin, 10 billion CFU/100g of active probiotics (Bifidobacterium animalis subspecies Bb-12), and 1000mg/100g hydrolyzed whey protein, to consolidate the immunity function of the product

"AIBEN Phytosterol Ester Milk Powder":

- Price: USD98/RMB678/box (for the introduction period, discounted to USD49/RMB338/box); 616g per box
- The patented "1+3" formulation focuses on heart protection and brain health for the middle-aged and elderly
  - "1" refers to 4.6g/100g phytosterol esters, effective in controlling the serum cholesterol level

- "3" refers to 1000mg/100g conjugated linoleic acid glycerides, 200mg/100g deep-sea fish oil powder, and 70mg/100g yeast  $\beta$ -glucan, effective in improving cardio- and cerebrovascular functions and regulating lipid metabolism

#### Mead Johnson China

The brand "AGIJOY" provides nutrition solutions for over-50s. It marks Mead Johnson China's expansion from the maternal and infant segments to whole lifecycle nutrition.

"AGIJOY Nutritional Powders for the Middle-Aged And Elderly":

- Price: USD53/RMB368/box (for the introduction period, discounted to USD43/box (RMB298/box)
- 750g per box; currently selling on Tmall.com only
- The product features an innovative probiotics formulation, combined with lactoferrin, selenium and dietary fibres; it is also low GI and sugar-free

#### Adult Powders, a Growing Segment

The less-crowded adult nutritionals segment is an obvious area of growth in China, where the steady decline in the birthrate and the stricter new standards for IMF products coming into force this year are expected to cause as many as a third of infant formula brands to withdraw.

**PICTURE 2: New "AIBEN" Formulae for Adults**



Source: China Feihe

Last year, in July, Kabrita launched a series of "Yinjia Hubao Goat Milk Formula" for over 12 year olds, with GOS + probiotics or high calcium + selenium formulations; in Sept., Danone Nutricia launched its first formula range "Dare to Stride" for the middle-aged and elderly in China; in Oct., Junlebao upgraded its whole adult formula lines. Over the year Mengniu, Yili, Nestlé and others also scheduled product launches in the segment.

## Namchow Food Planning New Whipping Cream Plant in Chongqing

**Summary:** Namchow Food is planning a new whipping cream plant project in Chongqing, the 1<sup>st</sup> phase for 27,000 t/a capacity.

On 12 Jan., Chongqing Namchow Food Co. Ltd. (Chongqing Namchow), a subsidiary of Namchow Food Group (Shanghai) Co., Ltd. (Namchow Food, Stock Code: 605339), had details of its 27,000 t/a whipping cream plant project published with the related environmental impact report on the website of the Ecology and Environment Bureau of Chongqing Municipality.

The subsidiary was registered on 15 Aug., 2022 operating in the production of food, food additives and dairy products. This new project involves building new whipping cream lines and related logistics facilities to address the insufficient supply during peak seasons when there is increasing demand from the fast-growing bakery and new style tea drinks markets.

This work is the 1<sup>st</sup> phase of the company's 3-phase Project of Processing Plant of Whipping Cream and Frozen Dough.

More details for the 1<sup>st</sup> phase construction:

- Construction nature: New construction
- Total investment: USD48.65 million (RMB 338 million), 4.44% (=USD2.16 million or RMB 15 million) of which for environmental protection

- Location: Degan Industrial Park, Jiangjin District, Chongqing Municipality
- Site & floor area: 66,666.67 m<sup>2</sup> & 21,010 m<sup>2</sup>
- Construction content: whipping cream processing workshop, refining workshop, office building, hazardous chemicals storehouse, oil discharge station, wastewater treatment station, plus other production equipment and facilities
- Product scheme: whipping cream (27,000 t/a) and fatty acids (140.332 t/a)
- Production plan: Use purchased vegetable oil to produce refined oil for production of whipping cream (adding other excipients)
- Designated construction period: 19 months

Namchow Food's Q3 reports showed its revenue in the quarter was down 5.71% YoY to USD94.09 million (RMB 653.72 million) and the net profit attributable to equity shareholders of the listed company fell by 90.90% YoY to USD1.03 million (RMB 7.13 million). It explained that its regional sales took a hit during the pandemic, and delayed logistics meant high costs – this effect was worsened by reduced government subsidies, although the price of its raw materials had reduced to some extent.

**TABLE 4: Project's Estimated Raw Material Demand , t/a**

Product	Refined oil		Whipping cream	
	Raw / auxiliary materials	Vegetable oil	11,040.0	Deodorized vegetable oil (produced on-site)
Activated clay		52.3	Milk powders	1,260.2
Citric acid		8.0	Butter	1,500.0

Source: Environmental Impact Report of Chongqing Namchow

## Adopt A Cow Questioned in IPO Process

**Summary:** On 12 Jan., Adopt A Cow was asked by Chinese regulators to comment on questions relating to its IPO prospectus.

On 12 Jan., the China Securities Regulatory Commission (CSRC) published its review of the IPO prospectus from Adopt A Cow Holding Group Co., Ltd. (Adopt A Cow)'s, raising 48 questions on its business programme, milk source and supply cooperation, production model and distribution costs.

Established in July 2014, Adopt A Cow primarily produces pure milk, yoghurt, cheese sticks and milk powder products for younger children, selling via E-commerce platforms. In early July, its prospectus for an IPO on Shanghai Stock Exchange (SSE)'s main board was accepted. It showed the company's revenues in 2019–2021 were USD124.5 million (RMB864.7 million), USD234.5 million (RMB1.6 billion), USD369.4 million (RMB2.6 billion), with a CAGR of 72.27%; online sales accounted for 62.30%, 77.5%, 77.67% respectively of these annual turnovers.

### "Adopt a Cow" Programme

Adopt A Cow enables consumers to pay for an adoption right or a right to be a farm co-operator, allowing it to attract customers and seed funding. The CSRC views this programme as impractical, as consumers cannot know whether the milk they receive is made from the cow they adopted. CSRC questions the legality of this, asking if it has involved pyramid selling, illegal fundraising, illegal public offerings, and if there are any existing or potential disputes.

### Milk Source and Supply Cooperation

According to its website, Adopt A Cow owns 7 dairy farms and 60,000+ dairy cows, selling products to over 20 million customers. However, the prospectus shows it owns 5 farms in Heilongjiang and Hebei and around 37,000 cattle. Two farms, Junhong Animal Husbandry (Weixian County) Co., Ltd. and Leyuan Junkang Animal Husbandry (Weixian County) Co., Ltd., are co-run by Adopt A Cow and Hebei Leyuan Animal Husbandry Co., Ltd. (a subsidiary of Junlebao) – Adopt A Cow owns only 49% of these.

Further details are requested on the ambiguous statement on farm ownership as well as the arrangements for farming and milk supply cooperation and management.

### Dairy Processing

The prospectus indicates that Adopt A Cow's finished products are either produced in-house (the majority) or contracted to external processors.

However, it appears that the production of the pure milk and yoghurt (which together represent over 80% of its total sales) is in reality heavily dependent on external processors. In the years 2019 to 2021, their shares of the volumes were 100%, 92% and 36% for pure milk, and 100%, 92% and 36% for yoghurt, respectively. Its top 5 suppliers for pure milk, yoghurt and milk powders are Bright Dairy, Junlebao, Zhongken Huashanmu Dairy Co., Ltd. (wholly-owned by Zhongken Dairy Co., Ltd), Beingmate, Jinan Jiabao Dairy Co., Ltd.

CSRC requires the company to justify such large-scale outsourcing and to specify the cost difference between internal and external processing.

### Distribution Expenses

Disclosed data show that in 2021 Adopt A Cow's sales exceeded most of the listed dairy firms in China, behind only Yili, Bright Dairy, New Hope Dairy and Sanyuan Foods, whereas its distribution cost ratio of 18.82% in 2021 was obviously higher than those vertically integrated competitors (Yili 17.46%, Bright 12.50%, New Hope Dairy 13.91%, Sanyuan Foods 15.45%).

The CSRC requires explanations of the main content of each promotion, the main contract terms, the sales uplift achieved and the monthly promotion costs on each platform and how these match the sales, along with statement of whether marketing promotion expenses were used to fund external capital flows and for inflating profits.

These regulatory questions may well impede Adopt a Cow's IPO – the company needs to reply within 30 days (before 11 Feb.) for its application to progress.

## Raw Milk Price

### Demand-Supply Imbalance Keeping Milk Prices Low

**Summary:** In Jan 2023, China's average milk price remained low. There is excess supply and growing pressure on farmers, despite many state interventions to try to help restore market stability.

As of 11 Dec., China's raw milk price averaged USD591.58/t (RMB4,110/t), down 3.7% MoM

vs the highest USD613.89/t (RMB4,265/t) point in Jan. 2022.

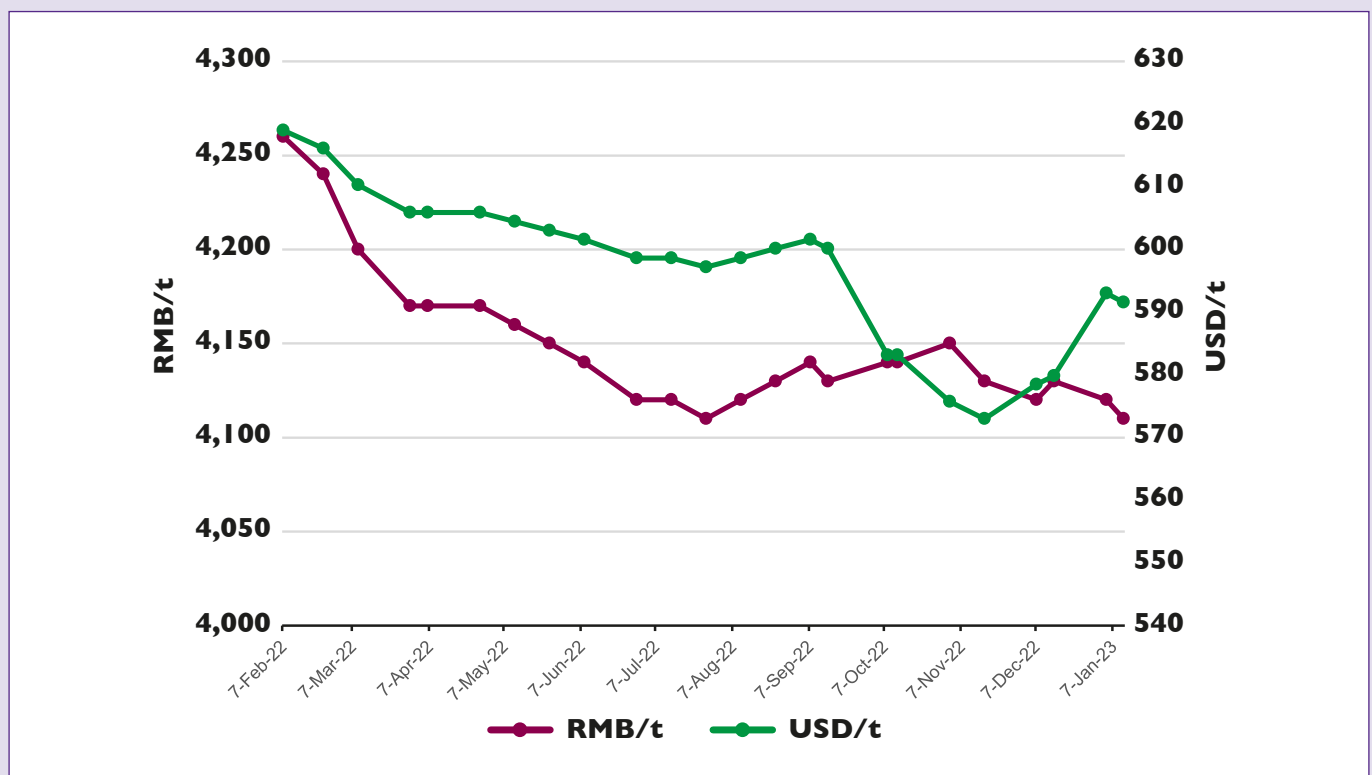
#### Feeds market:

- Domestic: The national price of corn averaged USD436.13/t (RMB3,030/t), down 0.3% from the first week and up 5.2% YoY, based on data sourced on 11

Jan. by the Ministry of Agriculture and Rural Affairs (MARA)

- Imported: The CIF price of imported alfalfa averaged USD510.83/t, up 35.4% YoY, and the CIF price of imported oat hay averaged USD427.17/t, up 25.9% YoY, based on data from China Customs

**FIGURE 1: Trends in China's Raw Milk Price, Feb. 2022–Jan. 2023**



Source: Ministry of Agriculture and Rural Affairs (MARA)

### Supply and Demand Imbalance

The persistent decline in the milk price reflects the recent imbalance between supply and demand in China.

Encouraged by the high milk prices in H2 2020–2021 and national policy supports, producers moved to establish more farms or expand their current ones, meaning that in 2022, China's milk production rose 6.8% to 39.32 million tonnes. But waves of COVID infections have led to falling

footfall on streets since Q4 2022 and even during the Spring Festival sales season, demand for dairy has been subdued compared with previous years.

### Increasing Pressure on Upstream Operators

In addition to the depressed demand due to the pandemic, the cessation of supply for school students on winter holidays over Jan. to Feb. has also forced dairy producers to slow their

production. Inventories went up and businesses have been resorting to spray drying despite the higher cost, even though they have then been finding it difficult to move the product, with many buyers withdrawing from extending their milk contracts. This may well see some small and middle-sized farms dumping milk, culling cows, starting to raising beef cattle or even leaving dairying, given that this situation poses real problems even for largescale farms.

International press has reported milk dumping in China due to these difficulties. However these rumours arose when a dairy farmer in Anhui Province said that "dumping milk and killing cows" had begun in major milk production regions in northern China, such as Hebei, Inner Mongolia and Shandong, while in the south, where supply and demand are temporarily normal, there was no such behaviour. This does not really seem to be the case in the north yet at least, and such claims have been denied by senior sources at Mengniu and by farmers in Inner Mongolia, who suggest that these negative reports may just want to give voice to farmers' discontent

over the current dismal state of the market. However, there has to be a real possibility that such behaviour will occur in the future given the current difficulties in the market.

### Government Support

To address this situation, regional government departments have introduced various subsidy programmes, for spray drying for example, and encouraged processors to purchase the produce from farmers as much as possible and to renew contracts on time.

Reference trading prices for raw milk among major provinces for Q1/H1 2023:

- Hebei Province: USD590.1/t (RMB4,100/t), with a minimum price of USD565.7/t (RMB3,930/t).
- Shandong Province: USD554.2/t–USD590.1/t (RMB3,850/t–RMB4,100/t)
- Shaanxi Province: USD561.4/t–USD590.1/t (RMB3,900/t–RMB4,100/t)
- Sichuan Province (for H1): USD751.3/t (RMB5,220/t), with a minimum price of USD715.4/t (RMB4,970/t)

## News in Brief

### Dairy Imports in December 2022

Import volumes in December bucked the trend over most of the year, showing solid increases across most HS codes – the main exceptions were liquid dairy products, infant nutritionals, some cheeses and caseinates.

Over the year, however, in product volume terms, the only segments seeing gains were MPC, butter, AMF, blue cheese, anhydrous lactose, infant nutritionals and casein. Total product volumes imported were down 16% vs. 2021, or 14% in LME terms.

**TABLE 5: 2022 December Imports, tonnes**

HS code	Product	2021 12	2022 11	2022 12	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	13,918.4	8,110.7	6,998.1	-13.7%	-49.7%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	74,806.2	55,325.0	42,785.4	-22.7%	-42.8%
04014000	Milk & cream, 6%	11.7	0.0	3.2	/	-73.0%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	28,051.9	21,662.7	23,469.3	8.3%	-16.3%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	20,150.3	25,184.6	29,097.0	15.5%	44.4%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	31,716.3	34,543.8	38,684.3	12.0%	22.0%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	148.7	69.5	212.8	206.5%	43.2%
04041000	Whey and modified whey	39,641.4	56,576.3	57,590.2	1.8%	45.3%
04049000	Products consisting of natural milk constituents, nes	691.9	440.0	402.2	-8.6%	-41.9%
04051000	Butter	7,637.0	6,779.1	9,121.6	34.6%	19.4%
04059000	Other fats & oils derived from milk	802.1	3,829.5	1,845.7	-51.8%	130.1%
04061000	Fresh cheese, incl. whey cheese, curd	4,766.7	3,259.1	4,625.3	41.9%	-3.0%
04062000	Grated or powdered cheese	4,994.6	3,653.9	4,139.4	13.3%	-17.1%
04063000	Processed cheese, not grated or powdered	1,998.2	1,375.6	1,157.0	-15.9%	-42.1%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	8.5	8.1	10.2	24.8%	19.2%
04069000	Cheese, nes	1,883.0	1,965.6	1,660.5	-15.5%	-11.8%
17021100	Anhydrous lactose, lactose wt.≥99%	8,568.3	10,065.1	8,153.0	-19.0%	-4.8%
17021900	Lactose syrup & other lactose	479.5	11.4	109.1	859.2%	-77.2%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	28,610.8	24,447.5	22,147.1	-9.4%	-22.6%
35011000	Casein	826.7	1,980.1	1,708.4	-13.7%	106.7%
35019000	Caseinates	2,324.5	2,118.3	2,020.7	-4.6%	-13.1%
35022000	WPC80/WPI	3,004.5	3,462.8	3,594.4	3.8%	19.6%

Source: China Customs

## Milkground Food Retreats from Acquisition of Ground Dairy

On 13 Jan., Shanghai Milkground Food Tech Co., Ltd. (Milkground Food, Stock Code: 600882) announced the termination of its acquisition of a 42.88% stake in Ground Dairy Industry Co., Ltd. (Ground Dairy) from Inner Mongolia Mengniu Dairy (Group) Co., Ltd. (Inner Mongolia Mengniu, a subsidiary of China Mengniu Dairy Company Ltd) via private placement.

Milkground Food explained that the deal — proposed on 30 June 2022 — took longer to prepare than expected due to various factors including the extended pandemic and capital market volatility. This has apparently led it to consider other methods such as a cash purchase — certainly its financial report would suggest that it has good cash flow and credit, meaning it could progress such a deal on the basis of its own funds or through fundraising by some other means.

The termination of the transaction is not expected to adversely affect Milkground Food, and there are no disputes between the 2 parties.

Ground Dairy is the biggest producer of liquid dairy products in Jilin, where its brand "Ground (Guangzhe in Chinese)" is a household name, taking over 50% of the local liquid dairy market.

## FrieslandCampina Launches New IMF Range for Healthy Digestion

On 22 Dec., FrieslandCampina announced the new formula range Friso NATURA, aimed at aiding healthy digestion, a growing focus among Chinese families. According to the China's White Paper on Infant Intestinal Health published in 2019, 84.2% of families report that their babies experienced digestion problems, and nearly 30% found this to be a constant issues. In 2022, a Nielsen study reported that digestion and absorption functions are among the top considerations when buying baby formulae.

The company highlights the following features:

- Made with NOVAS Signature Milk produced by FrieslandCampina's farms in the Netherlands
- Containing NvHMO helpful for the strains growth for healthy digestion (NvHMO refers to the 4'-GL structure found in HMO, which is also one of the structures in breast milk oligosaccharides)
- Produced by single-stage drying of fresh milk, preserving 90% of natural nutrition molecules, facilitating easier digestion and absorption
- A natural, plain taste (no white sugar or flavours)

FrieslandCampina is the first overseas formula manufacturer that has passed China's examination and verification since the pandemic started, enabling the successful registration of this range as early July 2022. In Jan-Oct., Friso's IMF market share reached 6.6%, ranking 5<sup>th</sup> in the market.

**PICTURE 3: New Launch of Friso NATURA**



Source: FrieslandCampina

To date, the NATURA products have been marketed in 5,000+ retail stores in China. Since Dec. they have been selling alongside Friso Prestige, marketed for immune system development (450mg/100g high lactoferrin content). Prestige took a record 8.1% of the ultra-premium IMF segment last year, up from 6.4% in the same period in 2021.

## Shanghai Want Want Fined for False Advertising

Last month, Shanghai Want Want Network Technology Co., Ltd. was fined USD2,202.2 (RMB15,300) by the Shanghai Municipal Administration for Market Regulation for false advertising of "Want Want High Calcium Pure Milk" in its flagship store on Pinduoduo (the E-commerce giant also known as Temu in the US).

According to the administrative decision letter, the product page showed a description of "high calcium and rich in quality protein" and labelled nutrition information showed a protein content of 3.6g/100ml and NRV (nutrient reference value) of 6%, whereas the actual NRV for protein was calculated to be 5.95% based on the Standard for Nutrition Labelling of Prepackaged Foods (GB28050-2011), lower than the regulated levels for "high or rich in protein" food:  $\geq 20\%$  NRV per 100g,  $\geq 10\%$  NRV per 100mL or  $\geq 10\%$  NRV per 420kJ.

Shanghai Want Want Network Technology Co., Ltd. was set up in Aug. 2010 with a registered capital of USD14.5 million (RMB100.8 million), a sub-subsidiary of Want Want China Holdings Ltd. (HK. 0151), directly owned by Zhejiang Ming Want Dairy Ltd. (99.21%) and Shanghai Want Want Trading Co., Ltd. (0.79%)

## Moutai Ice Cream Sales Predicted at RMB262 million in 2022

On 29 Dec., Kweichow Moutai Co., Ltd. (Moutai) projected the sales of the Moutai Ice Cream it launched on 29 May last year to reach USD37.7 million (RMB262 million) in 2022 overall. These products (in classic, plum wine and vanilla favours) sell at around USD8.5-USD9.5/75g (RMB59-RMB66/75g) through online and offline channels in 160 cities across 41 provinces. Reportedly, Moutai Ice Cream has been purchased by about 3.4 million consumers. These are the company's first non-alcoholic products, so represent a significant strategic move for the well-established spirit brand to reach and cultivate a new generation of consumers. More efforts will be put into product innovation and market expansion, said the company.

In 2022, Moutai's total revenue was USD18.3 billion (RMB127.2 billion), up 16.2%; from this figure, alcoholic products accounted for USD17.8 billion (RMB116.4 billion).

## Danone Introduces YoPRO Animal and Plant Dual Protein Drink

This Jan. Danone has launched YoPRO Animal and Plant Dual Protein Drink (oat flavour) in China, so far on JD.com only. The brand YoPRO (or "Youbai" in Chinese) is positioned middle- to high-end in the milk drinks category. It has 10g of protein from milk, soybean and oats per 250ml bottle, equating to around 4g/100g, 4 times higher than the national minimum protein level for milk beverages, and is selling at RMB49.9 per 6-bottle pack. It is also marketed as "low fat", "high calcium + vitamin D" and as providing "dietary fibre" for breakfast, fitness and light meals, targeting the 18-40 year age bracket in particular.

Danone highlights that the new product has been developed and tailored for Chinese nutritional needs, and it fits the clear trends towards combined plant- and animal-protein products in recent years. More flavours such as coffee latte will be out soon, and the plan is for the YoPRO range to enter wider markets through online and offline retailers in March.

The product is made by Yichang Ziquan Beverage Industry Co., Ltd. In Yichang City, Hubei Province. Its key ingredients are soy protein isolate, SMP and powdered oats.

**PICTURE 4: YoPRO Animal and Plant Dual Protein Drink**



Source: Danone China

## Yakult Lactobacillus Drink Denied Entry to Chinese mainland

Recently, the General Administration of Customs (GACC) released the list of foods denied market entry in Nov. 2022, which included a 9 tonne batch of Yakult Lactobacillus Drink

It is notable for being the 7<sup>th</sup> batch of Yakult's products banned since the start of 2022 (4 in Jan. – Yakult Lactobacillus Drink and Yakult Lactobacillus Drink (low sugar) were banned – 5,630 kg in aggregate; 2 in Feb., Yakult Lactobacillus Drink and Yakult Lactobacillus Drink (low sugar), 9,650 kg in aggregate). As a result, these bans affected 24.28 tonnes of Yakult products in total over the first 11 months last year. All the offending products were made in Hong Kong by Hong Kong Yakult Co., Ltd.

## First Batch of 6,000 Imported Cattle in 2023 Arrives

On 7 Jan., 6,000 Australian breeding cattle were imported by Beijing Juhe Import and Export Co., Ltd. (Beijing Juhe), arriving at Weifang Port in Shandong Province. This batch includes Holsteins and Simmental aged 12 to 16 months, to be sent to farms in Inner Mongolia Autonomous Region, Xinjiang Uygur Autonomous Region, Heilongjiang and Shandong after their 45-day inspection and quarantine.

Beijing Juhe has operated in cattle import from Australia and New Zealand since its establishment in July 2020. In 2022, it imported 3 cattle shipments from Australia and 2 from New Zealand, amounting to over 30,000 head. Given New Zealand is banning on live cattle exports by sea from 30 April 2023, it plans to import more from Australia, Uruguay and Chile to fill the gap.

According to China Customs, China imported 316,800 live cattle in Jan.–Nov. 2022, up 0.8% YoY—120,400 head from Australia, 118,100 from New Zealand, 57,600 from Uruguay and 20,700 from Chile.

Recently China has been importing goats by air from New Zealand. This has happened with dairy cattle also, but only in a very small way. Some examples have been:

- 27 May 2019, 339 breeding cattle purchased from Australia by the Inner Mongolia Autonomous Region Government via Singapore Airlines
- 22 November 2016, 221 breeding cattle flown from Melbourne, Australia to Shanxi Province
- 23 November 2015, 240+ breeding cattle from Australia to Shanxi Province



## Huacheng Biotech and Youzhuo Food Ink Strategic Cooperation Deal

Hunan Huacheng Biotech, Inc. (Huacheng Biotech) and Hunan Youzhuo Food Technology Co., Ltd. (Youzhuo Food) signed a strategic cooperation agreement on 10 Dec. to develop innovative applications for monk fruit sweetener (monk fruit blended with erythritol) in fresh milk and yoghurt products. The signing came after their joint development and launch of a "0-sugar" flavoured yoghurt product named "Jumping Yoghurt", including monk fruit-flavoured popping candy, earlier in the same month. Monk fruit sweetener is a trending natural sugar substitute used in dairy products. A prime example is the chain Nayuki, which has been allowing customers to choose monk fruit sweetener in all its products since 7 Nov.

Huacheng Biotech, founded in Aug. 2008 with a registered capital of USD11.0 million (RMB76.2 million), is a high-tech and integrated monk fruit enterprise, involved in planting, extraction, comprehensive application, development and industrialisation of natural products from plants. Its main products are monk fruit extract, monk fruit juice concentrate and monk fruit blend sweeteners.

Youzhuo Food focuses on the local market in Hunan province. It was founded in Nov. 2015 with a registered capital of USD11.5 million (RMB80.0 million) and produces fresh/UHT milk and fresh yoghurt with milk from the farms of its parent Hunan Youzhou Animal Husbandry Co., Ltd.

**PICTURE 5: 0-Sugar Flavoured Yoghurt Jumping Yoghurt**



Source: Huacheng Biotech & Youzhuo Food

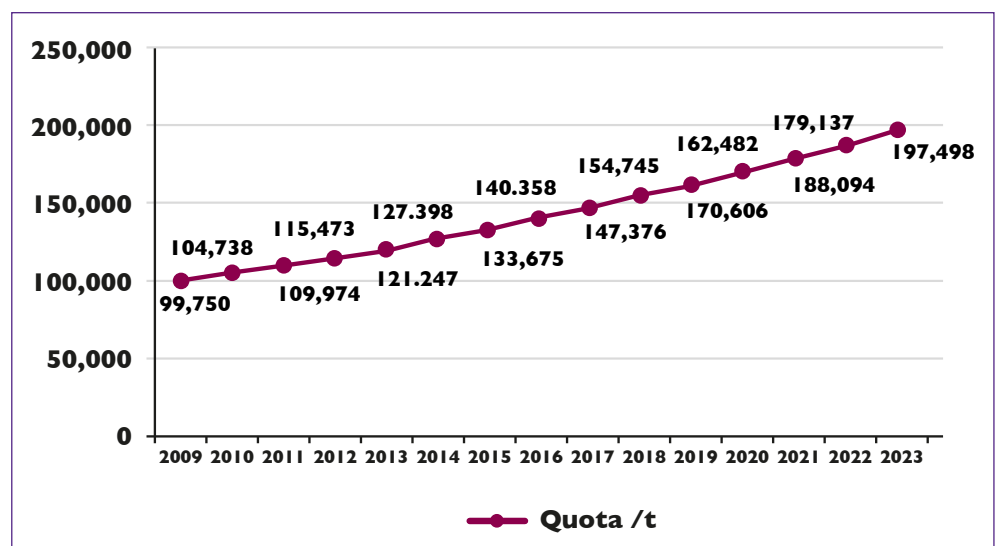
## New Zealand Dairy Imports to Hit Triggering Level

On 29 Dec., 2022, China Customs noted that the imports of milk powders from New Zealand (HS codes 04021000, 04022100, 04022900, 04029100) had reached the trigger level of 197,498 tonnes specified by the FTA between the 2 countries, with the remaining quota for 2023 being 1,136 tonnes, as of that date. Volumes over the trigger level attract the MFN tariff rate of 10%.

The current special safeguard measures on milk powder under the FTA are expiring by the end of 2023 and will be replaced by the Upgrade Protocol issued in April 2022, under which New Zealand's bulk milk powders, liquid milk, butter and cheese entering China will be duty-free from 1 Jan., 2024.

Over the FTA period from 2009 to 2023, the agreed quotas have been growing at a steady rate as follows – providing New Zealand with competitive advantage – although one could debate how beneficial this has really been for the New Zealand industry.

**FIGURE 2: Quantity Trigger Level for New Zealand Milk Powders, 2009-2023, tonnes**



Source: China Customs

Note: HS codes 04021000, 04022100, 04022900, 04029100

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