

# Dairy Products China News

## Guaranteed Exclusive Analysis

Vol. 14 Issue 1 2022

Welcome to the January issue of Dairy Products China News.

Depending on the market sector involved, the last few months have shown some limited positives for exporters to China. GDP increased 8.1% in Q4, retail sales were up over the year and in December. Local consumers are expected to spend increasing amounts on foreign travel and luxury goods and even their increasing numbers of pets. Moreover, the country's consumer confidence indexes have shown signs of stabilising this month after going into freefall in Q4 2021 after what had been a year of recovery.

However, annual average retail sales growth fell to 14.2% in December vs. 14.4% in the preceding month. And the continuation of the country's zero-Covid policy after the recent spikes in Omicron cases has resulted in lockdowns and curbs in the largest port hubs and major cities across the country – cases have been reported in the key port cities of Shenzhen, Tianjin and Ningbo, as well as the key provincial capital of Xi'an. Consumers will likely be staying closer to home during the Chinese New Year holidays, and spending more than ever online, with some clear areas of focus. It was notable that in 2021 Alibaba's E-commerce platforms saw a major rise in gift purchases from Chinese medicine healthcare brands, and our team's work there on TCM this year indicates real potential.

This Government strategy seems unlikely to alter with the Winter Olympics and in a year when the Communist Party's 20<sup>th</sup> congress in the autumn is being viewed by President Xi as "a major event in the political life of the party and the country", likely a sign that he intends to stay on as party chief for a 3<sup>rd</sup> term.

Even if you're not yet exporting to China, this will doubtless affect supply chains worldwide, with a marked step up in congestion levels which are already high, and as the holiday period looms the spot rates which increasing dominate over contracted rates have started to increase on the all-important trans-Pacific route from China to the US West Coast. Ultimately, of course, this affects your ability to ship to your own export markets all over the world.

Dairy may prosper in this overall difficult situation. It continues to enjoy positive associations with health/nutritional areas such as immunity and gastro-intestinal health, for instance. Yet at the same time, growth in niches such as sheep and goat milk formulae will not suit many dairy exporters, of course; and meanwhile local milk production continues to rise and the periodic question of "have we seen stock-building or real demand" remains a conundrum.

Watch this space, as they say – for now, on behalf of all our researchers and consultants around Asia, we'd like to wish you a happy and prosperous 2022, including in your endeavours in China!

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## Headlines

- ▶ In the end of Dec., 2021, three separate dairy farms broke ground in Eryuan County, Yongping County and Weishan County of Dali Prefecture in Yunnan Province.
- ▶ Several batches of imported cows purchased by Xiongte Animal Husbandry, Bright Food and Hainan HuaAo arrived in China in Jan.
- ▶ As of 16 Dec., 2021, China had registered 169 IMF manufacturing plants, 447 IMF series and 78 FSMPs.
- ▶ On 23 Dec., 2021, China Customs released the Notice on Clarifying Inspection and Quarantine Requirements for Imported Dairy Products.
- ▶ China Customs issued the Standards for Construction of Designated Isolation and Quarantine Facilities for Imported Cattle and Sheep (or Goats) (SNIT 4233-2021) to replace the Requirements for Construction of Designated Quarantine Facilities for Imported Cattle and Sheep (or Goats) (SNIT 4233-2015).
- ▶ On 7 Jan., 2022, SAMR released a notice to reinforce supervision over the quality and safety of powdered beverage products.
- ▶ New Hope Dairy expands into northeast China by investing in Red Star Group.
- ▶ Junlebao has received approval and registration of 2 goat milk IMF products, gearing up for its market entry.
- ▶ New partnerships have seen Natural Dairy partnering with Jiangsu Nongken to establish a new dairy farm in East China, and Junlebao cooperating with 5 counties in Baoding City, Hebei Province for the same purpose.
- ▶ The local raw milk price is expected to weaken after the holiday; conversely, there have been some recent rises in trade prices for products to cushion against cost pressures.

## Major Companies and Sites Mentioned in This Issue



## Market Dynamics

### Dali, Yunnan: Three Dairy Farms Project Enter Construction Phase

**Summary:** In the end of Dec., 2021, three separate dairy farms broke ground in Eryuan County, Yongping County and Weishan County of Dali Prefecture in Yunnan Province.

Yunnan Province's famous Dali Prefecture has seen its cow numbers falling in the last few years due to the rising milk price and the cost of the environmental conservation measures required around Erhai Lake, the province's 2<sup>nd</sup> largest highland lake. In response, the local government issued the *Opinion on Accelerating High-quality Development of the Dairy Industry* in early Dec., 2021, to encourage establishment of dairy "demonstration" farms (meaning that the farm is up to the national standards).

#### Eryuan County Dairy Demonstration Farm

On 29 Dec., 2021, a ground breaking ceremony took place for a new farm project in Eryuan County. This project is co-invested by the Eryuan County People's Government and Dali Transportation Investment and Development (Group) Co., Ltd., with key features as follows:

- Area: 35.67 ha
- Total investment: USD78 million (RMB500 million)
- Estimated milk and feed production: 60,000 t/a of milk and 60,000 t/a of corn silage
- Estimated annual operating revenue: USD42 million (RMB270 million)

#### Yongping County Dairy Demonstration Farm (phase I)

On the same day the phase I construction project at Yongping County Dairy Demonstration Farm started, a JV between the Dali State-owned Capital Investment and Operations (Group) Co., Ltd. and Yunnan Ouya Dairy Products Co., Ltd.

Project overview:

- Area: 40.45 ha
- Total investment: USD48 million (RMB307 million)
- Scheduled herd size: 5,000 dairy cow (phase I), including 1,600 calves and replacement heifers, and 800 beef bull calves
- Estimated production: 30,000 t/a of milk

#### Weishan County Dairy Demonstration Farm

Prior to these projects, on 23 Dec., 2021, construction work started on the Weishan County Dairy Demonstration Farm project in the same area. The farm's construction is being managed by Weishan Benteng Construction Management Co., Ltd., a JV between the Dali Prefecture Industrial Investment Co., Ltd. and Weishan County Industrial Investment Co., Ltd. The farm will be contracted to Yunnan Royal Lesson Dairy Co., Ltd. (Lesson Dairy) to build up an IT-enabled farm with a core herd of Holsteins to be expanded through the use of frozen sexed semen.

Project overview:

- Dairy farming area: 70.67 ha
  - Buffer planting strip: 133.3 ha
  - Fodder and feed planting area: 1333.3 ha
- Total investment: USD73 million (RMB468.5 million)
- Construction period: up to 2025
- Estimated herd size:
  - 10,000 dairy cows on completion, including 6,000 mature cows
  - It is planned to introduce 3,200 calves and replacement heifers, and 1,600 beef bull calves 3 years the farm starts operations, which are expected to bring annual sales of USD58 million (RMB368.8 million)
- Estimated production and income: 60,000 t/a of quality milk, based on yields of 10 t/d amongst both the general milking cows and the nucleus breeding herd over a 305-day milk production period; this is expected to provide annual sales of USD94 million (RMB600 million)
- Estimated feed production: 80,000 t/a of feed-grade corn

Dairy buffalo farming is one differentiated feature of the agricultural activities in Weishan County. It currently has 82,200 ha of available nature grassland that can yield 440,000 t/a of fresh grass, equivalent to over 100,000 t/a of silage fodder; as of the end of Dec., 2021, there are 1,436 herd of dairy cows in the county (890 productive heifers) producing 5,765 tonnes of raw milk annually.

## Batches of Imported Cows Arrive in China

**Summary:** Several batches of imported cows purchased by Xiongte Animal Husbandry, Bright Food and Hainan HuaAo arrived in China in Jan.

### Beijing Xiongte Animal Husbandry Co., Ltd. (Xiongte Animal Husbandry)

Against the background of tightened regulatory controls to control the spread of the pandemic at home and abroad, Xiongte Animal Husbandry has advanced its importing schedule and made an earlier declaration of its import and emergency plans to China Customs.

- On 8 Jan., it imported 5,000 dairy cows (Holsteins, Herefords, Angus) from New Zealand, all arriving in good health. Currently, these cows are undergoing a 45-day isolation and quarantine period at the Xiongte Isolation Site in Haikou Port in Hainan, before being transported to dairy farms in Hainan, Yunnan, Shandong and other provinces, if approved by China Customs
- On 13 Jan., it imported 14,000 dairy cows from Uruguay through Tianjin Port; these are also currently undergoing the same isolation and quarantine period; if approved by China Customs after this, they are due to be sent to dairy farms in Tianjin, Shandong and other provinces

Xiongte Animal Husbandry was founded in 2009 with a registered capital of USD6 million (RMB40 million), and

mainly engages in wholesaling dairy products (IMF included) and livestock importing/breeding/farming (dairy breeds, beef cattle, stud goats, etc.). It owns customs-approved isolation and quarantine sites for imported cows/goats/pigs are spread across locations in Qinhuangdao City, Hebei Province; Tangshan City, Tianjin Municipal; Qingdao City, Shandong Province; Binzhou City, Shandong Province; Fangchenggang City, Guangxi Zhuang Autonomous Region; Xuchang City, Henan Province; Yinchuan City, Ningxia Hui Autonomous Region. Each site is capable of housing 4,000-18,000 animals and receives over 250,000 per year on average.

### Bright Dairy & Food Co., Ltd. (Bright Dairy, Stock Code: 600597)

On 9 Jan., 700 New Zealand Holsteins arrived at the Bright Hachuan Dairy Farm in Fuyu County, Qiqihar City, Heilongjiang Province, after completing a 45-day isolation in Dongying City, Shandong Province. Last year, on July 2021, a cooperative agreement on a "whole-industry chain development project" was settled between Bright Dairy and the local government of Fuyu County. Under its terms, Bright Dairy would invest USD470 million (RMB3 billion) in total in the construction of a 50,000 cow dairy farm equipped with a feed plant, and reconstruction of a dairy processing factory within 3 years. Once entering full operation, this farm is expected to produce 300,000

t/a of milk, providing 1,000 t/d for processing in Heilongjiang Bright Songhe Dairy Co., Ltd.

### Hainan Huaao Livestock Co., Ltd. (Hainan Huaao)

On 8 Jan., the Hainan Huaao Imported Animal Isolation and Quarantine Site received the very first batch of dairy cows (imported from New Zealand) through Macun Port (part of the Haikou port). This comprised 4,643 head of Holsteins, Herefords and Angus, and was the largest batch of live cattle imported into Hainan Province to date. This herd will be supplied into Hainan, Yunnan, Shandong and other provinces to build up the region's animal husbandry sector.

Hainan Huaao Imported Animal Isolation and Quarantine Site, has 8 isolation buildings providing a maximum capacity of 5,000 dairy cows, and covering an area of 13.4 ha. It is owned by Hainan Huaao Livestock Co., Ltd. – after inspection by the General Administration of Customs (GACC) in March 2020, this became the first approved and largest isolation and quarantine site for imported cattle in Hainan.

Hainan Huaao indicates that, under China's increasingly preferential import and export policies in Hainan Free Trade Port, more premium foreign animal breeds will be introduced to further promote Hainan's position in the international animal husbandry industry.

## 447 IMF Series Approved for Secondary Formula Registration

**Summary:** As of 16 Dec., 2021, China had registered 169 IMF manufacturing plants, 447 IMF series and 78 FSMPs.

In 2021, the launches of new IMF-related policies such as the "three-child policy" and revised regulations concerning IMF labelling, product identification, etc., have had a significant impact on China's IMF market, and also recently on secondary formula registrations (i.e. where, in accordance with the 5-year certificate validity rule, products that received formula registrations in 2017 had to resubmit applications for registrations by the end of 2021).

Meanwhile, the State Administration for Market Regulation (SAMR) indicates that last year saw a number of new registrations – 2 IMF manufacturing plants, 7 IMF series, 18 formulae for infants and 19 FSMPs for infants.

### Distribution of IMF Plants

Currently, there are 169 registered IMF manufacturing plants across China. In considering this manufacturing infrastructure, there are 2 notable concentrations:

- Heilongjiang Province – 20.12% (=34 plants)
  - Major brands in: Yili, China Feihe, Yeeper Dairy, Batora, Beingmate, Wondersun Dairy, Nestlé, Red Star Group, Happy Prince Dairy, Bright Dairy, "Youbeikang" Dairy, "Youbeite" Dairy, Anjia Dairy, "Oubeijia", etc.
- Shaanxi Province – 11.83% (=20 plants)
  - Major brands in: Herds Dairy, "Baiyue Sheep Milk", Yinqiao Dairy, Xiaoyang Milk, Yatai Dairy, Mileyn Dairy, "Xiyangyang", Hongxing Meiling Dairy, Hengsheng Dairy, Shengfei Dairy, etc.

By comparison, there are 7 registered IMF manufacturing plants in Inner Mongolia and 7 in Hebei Province.

Differentiation based simply on whether a product contains an ingredients such as lactoferrin has evolved, of course. Consumers have increasingly bought into (or have been encouraged/persuaded to buy into) the idea of nutritional formulae based on sheep and goat milk, rather than just cow milk. Amongst the 169 registered plants there are:

- 117 producing cow milk IMF products only (69.23% of the total)
- 19 producing sheep/goat IMF products only (11.24%)
- 33 producing both cow and sheep/goat IMF products (19.53%)

### Imported IMF Ranges

There are 337 registered IMF brand ranges manufactured in China, 75.39% of the total number of ranges.

The remaining 24.61% equates to 110 registered imported IMF ranges. From these, 5 leading countries of origin stand out:

- New Zealand (24 ranges):
  - Yashili Kieember / Kieevagour, "Ruihu" / "Peiran" in Yili's Golden Collar Crown range, Blue River Sheep Milk / Mualps / Spring Goat, Annum Young Children Formula, Goldmax's Love, a2 Milk "Zhichu", I AM NZ, Purelac, Smileygrowth, "Lanjia" / "Qinrong" / Seyala (GMP Dairy), Karihome (Cow/Goat Milk), New Milk, Alula (Aspen), Keerayla (New Milk), Bioshine (New Image International), Pinrise / Healtra (Nouriz)
- Netherlands (19 ranges):
  - Kabrita "Yuebai" / "Youzhuang", "Hyproca Hollary" / "Hyproca Hypure" / "Neolac" (Hyproca 1897 series), Allnutria / Eurlate / Mygood (Ausnutria), Primavita "Helaixin" (Cow/Goat Milk), Aptamil Purefure / Nutrilon (Nutricia), Enfinitas / Enfamil / EnfaGentlease (Mead Johnson), NAN OPTIPRO (Nestlé), Ekobaby, Friso / Friso Prestige
- South Korea (12 ranges):
  - "Bekari Qibo" / Euland / Euland Qweight (Yeeper Dairy), Babikins "Liyue" / "Hengyue" / "Dianyue", Akisarang Su S / I am Mother "Shangyun" (Namyang Dairy), "Qibao" / "Zile" (Pasteur Milk), Absolute Myungjak / Absolute Goong (Maeil Dairies)
- France (12 ranges):
  - "Youbo" / "Youbo Ruimu" / "Youbo Poubeshu" (Synutra), Beta-star /  $\pi$ -star / Healthy Times (Biostime), Terroir (Biotime's customized product for E-commerce channels), Nactalia A series / Nactalia Care series (Sodiaal), Combiotic (HiPP), Babybio, Modilac
- Australia (9 ranges):
  - Doraler, Kebeisi, Augood / Extrapure / Oz Farm (Ausnutria), ViPlus (Cow/Goat milk), NatraStart (Devondale), Anbolac

### IMF Registrations by Milk Type

As of 16 Dec., 2021, the registered IMF products included 93 goat milk IMF (53 "cow-goat mixed" and 40 "pure goat") and 30 organic IMF products.

In the latter segment the registered products are as follows: Illuma Purie (Wyeth), Eleva (Abbott), "Firmus Zhenzhi"/"Chunrui" (Feihe Dairy), Atree (Junlebao), Healthy Times (Biostime), Arla Baby & Me, Neolac, "Oubei Star"/"Youer Star"/"Yabeile" (Red Star Group), Ruibuen (Mengniu), EQU-PURE (Bellamy's), Seine Mouiller (Yili's Golden Collar Crown range), AusNuotore (Meilu Biotech), Ankmilk (Yeeper Dairy), "Zhizhen" (Yeeper Dairy), Baby's Only Organic, Kendamil "Ourvier", Organic Animal Husbandry Pure (Wissun), Augood (Ausnutria), Euland (Yeeper Dairy), Unicare (Longwang Food), Aiem Milk Organic (Longwang Food), "Zhihu" (Niuen Milk), Ultima Enviro Pro (Wyeth), Ruibuen "Qianershuo" (Yashili), Babybio, Topnature, "Zhenmei" (Wondersun Dairy).

### Registration Status of FSMPs for Infants

There are currently 78 registered FSMPs, including 36 for infants (stages 1/2, i.e. from birth to 12-month) and 42 for children aged 1 year and upwards).

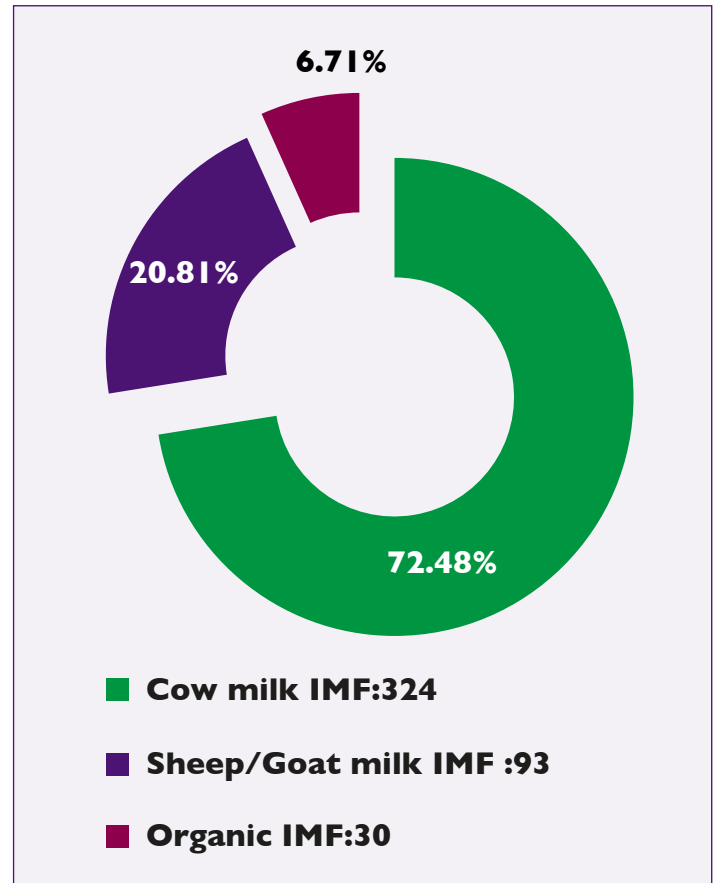
FSMPs for infants from birth to 12-months:

- Nutritional supplements for infants and young children (3): Beingmate "Xibeihu", "Youbo Quneng" (Synutra), Similac HMFortifi (Abbott)
- Formula for premature and low birth weight Infants (12): Similac / Similac Neo preterm / Similac Gro (Abbott), "Youbo Anneng" (Synutra), Infatrini (Nutricia), Enfapro (Mead Johnson), Pre NAN LBW (Nestlé), Pre NAN PDF (Nestlé), "Beixiner" (Beingmate), Ultima PDF (Wyeth), Absolute "Chen'erhui" (Maeil Dairies), "Zhen&Ai" (Yeeper Dairy)
- Partially hydrolysed protein formula (6): "Youbo Minjia" (Synutra), Similac "Qinhu" (Abbott), EnfaGentlease (Mead Johnson), NAN H.A. (Nestlé), ElevaCare (Abbott), "Shulile" (Beingmate)
- Deep hydrolysed protein formula (2): Althéra / Alfaré (Nestlé)
- Amino acid formula (2): Neocate (Nurticia), Alfamino (Nestlé)
- Lactose-free/low lactose formula (10): Beingmate, Enfagrow (Mead Johnson), Absolute "Fuerjia" (Maeil Dairies), NAN LF (Nestlé), "Youbo Rui'an" (Synutra), Linuo Kangvei (Tianjin Aumix), Baoansu (Yeeper Dairy), Ausnutria, "Beishuxiao" (Feihe Dairy), Anil (Wissun)
- Phenylketonuria formula (1): Periflex (Nutricia)

### IMF Sales Channels

It is notable that while mother & baby stores had lost ground in the market compared with other sales channels, this situation has moved back as more professional chains have started to operate in this segment, making it the most

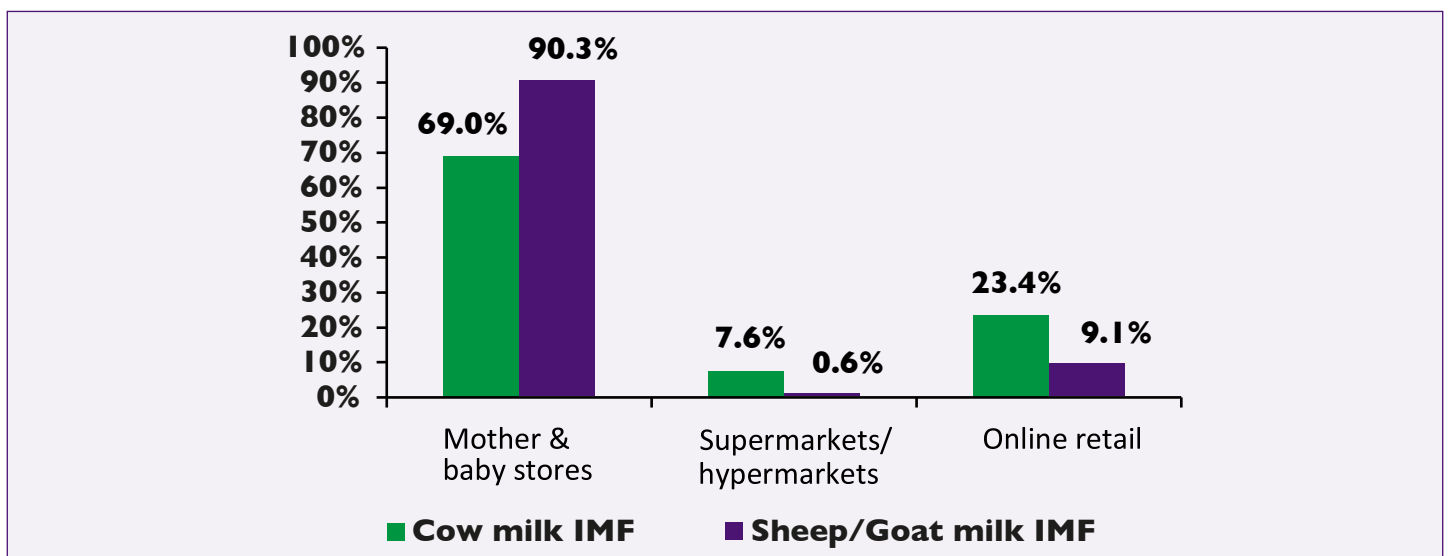
**FIGURE 1: IMF Registrations by Type**



Source: SAMR

important distribution channel to IMF products today. In 2021, sales via mother & baby stores accounted for 69.0% and 90.3% of sales of cow milk IMF and sheep/goat milk IMF respectively. These stores have demonstrated their edge in terms of product range, virtual experience, and pre- and after-sale services.

**FIGURE 2: Sales of IMF by Distribution Channels**



Source: CCM based on naifenzhiku.com; based on sales value (RMB)

Note: Online retail stores = Chinese E-commerce platforms such as Tianmao.com, JD.com, Taobao.com, etc.

## Governmental Direction

### Detailed Inspection and Quarantine Requirements for Imported Dairy Products

**Summary:** On 23 Dec., 2021, China Customs released the Notice on Clarifying Inspection and Quarantine Requirements for Imported Dairy Products.

On 23 Dec., 2021, the General Administration of Customs (GACC) issued the new inspection and quarantine requirements for imported dairy products. Corresponding changes and details have been updated in the *Administrative Regulations on Registration of Overseas Producers of Imported Food (Degree No. 248)* and the *Measures of the People's Republic of China for the Administration of Import and Export Food Safety (Decree No. 249)*, both effective as of 1 Jan., 2022.

Details of the notice are as follows:

- Imported dairy products require sanitary certificates signed or sealed by the competent government departments in the exporting countries or regions. Products' import destination should be shown as the People's Republic of China on the certificate, samples of which need to be pre-approved by the GACC
- Any dairy products entering China must go through the procedure of inspection and quarantine for China entry approval (with the results of this assessment being released within 24 hours after submitting the related documents)
- Overseas dairy producers are subject to the following food standards and regulations:
  - For the first import of a specific

product, they need to provide a test report for items listed in corresponding national food safety standards. If products are being imported through a port for the first time, they are regarded as first-time imports

- For products previously imported, when applying for quarantine inspection the producers must provide a copy of the test report of the first-time import, as well as a test report on the items required by the GACC. The items to be included in the latter report are determined by the GACC based on dairy product risk monitoring, before being posted on the official website
- Ensure the production date and production batch number match the test report
- Adopt China's notification and commitment system for the test reports on imported dairy products
- The test report for imported dairy products may come from a foreign official laboratory, a 3<sup>rd</sup> party testing organisation or corporate laboratory, or a food testing laboratory in China which has been recognised by China Metrology Accreditation for Food (CMAF)
- The notice covers colostrum, raw milk and all dairy products, defined as follows:
  - Colostrum: the very first type of milk produced within 7 days after dairy animal gives birth.
  - Raw milk: milk that is completely unprocessed and comes

straight from healthy animal and meeting China's standards (excluding colostrum from dairy animals, milk from dairy animals on antibiotics or in a withdrawal period, and spoiled milk)

- Raw dairy products: any made from milk that has not been pasteurized
- Dairy products: processed food based on milk including pasteurized/UHT milks, modified and fermented milks, natural and processed cheese, whipping cream, cream, AMF, condensed milk, milk powder, whey powder/whey protein powder, dairy-based infant formulae (and base powders), casein and other dairy products such as milk minerals and milk proteins

On the implementation date, the two original regulations are superseded and therefore annulled — the Announcement on the Requirements for the Implementation of Measures for the Supervision and Administration of the Inspection and Quarantine of Dairy Products to be Imported and Exported (Notice No.53 2013) issued on 15 April, 2013, and the Announcement on Adjusting the Implementation Requirements of the Measures for Supervision and Administration of Inspection and Quarantine of Dairy Products to be Imported and Exported (Notice No.3 2015). Originally these were both issued by the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), the predecessor body of the GACC.

## Standards for Construction of Designated Isolation and Quarantine Facilities for Imported Cattle and Sheep

**Summary:** China Customs issued the *Standards for Construction of Designated Isolation and Quarantine Facilities for Imported Cattle and Sheep (or Goats) (SN/T 4233-2021)* to replace the *Requirements for Construction of Designated Quarantine Facilities for Imported Cattle and Sheep (or Goats) (SN/T 4233-2015)*.

China's livestock farming sector has developed rapidly in recent years with booming demand for imported live cattle, sheep and goat. In order to improve safety flaws in existing regulations governing this trade, China Customs last year published 83 new industrial standards related to livestock imports in the Notice (No. 97-2021).

The new standards all became effective as of 1 Dec., 2021, and apply to examinations and evaluations by the departments of inspection and quarantine of China Customs in commercially-owned isolation facilities (hereafter referred as to designated facilities).

Most relevant for the dairy sector is *Standards for Construction of Designated Isolation and Quarantine Facilities for Imported Cattle and Sheep (or Goats) (SN/T 4233-2021)*, superseding the *Requirements for Construction of Designated Quarantine Facilities for Imported Cattle and Sheep (or Goats) (SN/T 4233-2015)*.

### Title

This now refers to "Designated Isolation and Quarantine Facilities" vs. the previous "Designated Quarantine Facilities" and to "Standards" vs. "Requirements", the latter term indicating a looser examination and evaluation system on such facilities for the imported livestock.

### Application Scope

This chapter clarifies the standards' scope as covering site selection, equipment and supporting facilities, and the administration system for such a facility.

### Site Selection–Port of Entry

The port of entry and the designated facilities are advised to be located within a straight-line distance of 200 km, easily accessible between one another; in addition the port must have the capability of loading and unloading animals in line with the regulatory requirements for biosafety and biosecurity.

### Site Selection–Animal Disease Control

- No incidence or epidemic of livestock or parasitic diseases should be found
- Such diseases are referred to in the Imported Quarantine Animal Diseases List and the Catalogue of Animal Epidemics of Class I, Class II and Class III.

### Site Selection–Environment

- No sites with any cloven-hoofed animals can be within 3 km of the designated facilities (referring to sites such as farms, laboratories, isolation facilities, wild animal conservation areas, treatment sites for animals and animal products, abattoirs and processing plants for meat or other animal by-products, veterinary facilities, breeding sites, livestock markets etc.)
- Although if such sites are within 2-3 km from the designated facilities and there are effective natural or artificial barriers between the two, 3<sup>rd</sup> party assessors can be used to evaluate the potential risks involved
- Moreover, officially approved slaughter facilities for imported animals can be within 1 km of the designated facilities.

### Equipment–Isolation Areas for Sick Animals

Isolation rooms for such animals should make up at least 1% of the total isolation and quarantine facility. These rooms should be relatively enclosed and equipped with sufficient facilities and equipment for disease diagnosis and treatment.

### Equipment–Harmless Treatment Stations

This is where sick or deceased animals and animal manure must be disinfected via physical, chemical or biological methods to inactivate pathogens that are harmful for human, animals and environment.

- These should border (but be fenced from) the isolation area for sick animals, with disinfectant facilities in both entrances/exits
- They must be harmless to the environment. On these stations specifically China currently lacks national standards, but all stations should be fitted with approved equipment, complying with *the Standards for Techniques of Harmless Treatment of Diseased Animals and Animal Carcasses*. If they lack such equipment, they must move and dispose of the sick animals or their carcasses in line with the related regulations and provisions contracted between the user units of the designated facilities and other qualified harmless treatment stations

### Other Equipment Required

- CCTV system keeping at least 3-month footages
- Prevention facilities to keep out rats, birds and pests where applicable
- Water supply in accordance with the *National Standards for Drinking Water Quality (GB 5749)*
- Ready-for-use disinfection equipment, heating and cooling equipment, fire-fighting apparatus, power supply facilities, power generation equipment



## Increased Supervision of Powdered Beverages

**Summary:** On 7 Jan., 2022, SAMR released a notice to reinforce supervision over the quality and safety of powdered beverage products.

The Notice of Reinforcing Supervision over Quality and Safety of Powdered Beverage was published by the State Administration for Market Regulation (SAMR) on 7 Jan., 2022 and will enter into force on 1 June, 2022. It lays out further requirements for manufacturing, identification and selling such products, although all such products manufactured before the implementation date can remain on shelves till the end of their expiry.

### Details of the Notice

- It is reiterated that manufacturers of powdered beverages are subject to the related food safety laws, regulations and standards on food production, and must have suitable production conditions, and test and control procedures
- Powdered beverage products must be identified as such, and so distinguished from FSMPs; the term "Powdered Beverage" shall be printed in a notable place on the product labels in a font size at least as larger as other text on the same display panel (including words in trademarks, graphs, etc.)
- Products selling B2C – protein powdered beverages, plant-based powdered beverage, powdered beverage for special purposes, flavoured powdered beverage, and any powdered beverage containing edible fungus – shall be marked with the wording "This product is not a substitute for food for special medical purpose (FSMP), infant formula, health food and other special foods". The warning text should occupy no less than 20% of its surface, and have a background of a different colour to the warning message (which must be in bold)

- The labels, descriptions and promotional materials for powdered beverage shall not express, imply or stress that the product is suitable for minors, the elderly, pregnant women, sick people, people at nutritional risk or suffering malnutrition, and other specific groups, either in text or imagery; and it is prohibited to express, imply or stress that the product is functional in preventing or treating human diseases, health care, or meeting the special needs of sick people
- Industry associations and other social organisations are encouraged to standardise and guide the manufacturing, sales and marketing of such products

This increased focus on such products is particularly intended to emphasize that they must not be passed off as FSMPs for infants with special needs. Over the past years, there have been cases highlighted on Chinese social media where such products had been sold to formula feeding mothers taking advantage of loopholes in the policies, and then repacked or renamed and re-marketed after being criticised.

- In Sept. 2021, Yikangyuan (Shenzhen) Health Technology Co., Ltd. was fined USD2.27 million (RMB14.5 million) for its powdered beverage "Terisun" being misrepresented as an FSMP on its label; the main person responsible was fined USD0.44 million (RMB2.8 million)
- In May 2020, a mother & baby store in Chenzhou city, Hunan Province, was reported as marketing a powdered beverage product as infant FSMP, leading to cases of retarded growth and skull projection in babies. The store was required to halt its misleading advertising and penalised with a fine of USD0.31 million (RMB2 million)

This policy intervention will undoubtedly benefit the genuine FSMPs on the market and infants needing such products.

## Company Development

### New Hope Dairy to Invest in Red Star Group

**Summary:** New Hope Dairy expands into northeast China by investing in Red Star Group.

On 16 Dec., New Hope Dairy announced its plan to acquire a 51%-60% stake in Heilongjiang Red Star Group Food Co., Ltd. (Red Star Group) – the exact stake is still unconfirmed for now.

Three motives for this move may be:

- Acquiring Red Star Group's large dairy farms and high quality milk

- Building up a position in northeast China, where it has been absent to date

- Diversifying its IMF product mix

"Red Star" was founded in 1956 as the very first milk powder brand after the establishment of the country (1949). In 2016, Red Star Group set up a 1,333 ha dairy farm in Songyuan City, Jilin Province, supplying its production of organic IMF, pasteurised milk and yoghurt, marketed under the brand "Red

Star". It now owns about 3,000 dairy cows and grows rye grass and alfalfa (both with China and EU organic certifications). Its product range includes 2 main IMF series "Qian Guan" and "Oubeixing" and other dairy products such as milk powders for adults, WMP/SMP, yoghurt, cheese and milk beverages.

New Hope Dairy has 47 subsidiaries, 15 dairy brands, 16 dairy factories and 13 dairy farms – the factories and farms cover all most regions

except for the northeast, so this deal aims to address that gap it seems.

### Review of New Hope Dairy

Sales in northwest and south China

made up approximately 70% of the company's total in 2020.

In terms of product mix, liquid milk, especially fresh milk products, remains the biggest sellers, followed

by powders – however its report for H1, 2021 shows that sales of the latter accounted for only 0.86% of turnover in the period, equating to USD585 million (RMB37,32 million).

**TABLE 1: Revenue of New Hope Dairy by Region, 2020**

Item	Southwest	East China	North China	Northwest	Other regions
Sales revenue, USD million	483	265	112	109	90
YoY change	-3.25%	20.67%	16.08%	2055.41%	28.15%
Regional share of revenue	45.66%	24.99%	10.55%	10.32%	8.47%

Source: New Hope Dairy's annual report 2020

"Our focus will be on stabilising Red Star's milk supply and developing its powders and cheese activities", New Hope Dairy said.

This deal follows several others struck by the company to address China's rising milk prices:

- In Sept. 2021, it purchased a 5% stake in AustAsia Investment Holdings through its wholly-owned subsidiary, GGG Holdings Ltd, established in Hong Kong, for

USD59 million (RMB378 million); it also settled a 5-year rolling milk supply contract with AustAsia Investment Holdings' affiliate company, effective from 2022

- In May 2020, it took full control of Ningxia Huanmei Dairy Development Co., Ltd. for USD268 million (RMB1,711 million). The acquired company was a manufacturer of UHT and chilled milk products (pure milk, flavoured milk and yoghurt)

- July 2019, it bought in 9.28% stake in China Modern Dairy Holdings Ltd. (Modern Dairy, Stock Code: HK.01117) for USD111 million (RMB709 million), becoming the 2<sup>nd</sup> largest shareholder in this leading dairying enterprise.

This year, New Hope Dairy's new 3-year business plan makes clear its intention to build up its milk supply capabilities as quickly as possible, both through building new farms and by acquisitions.

## Junlebao's Goat Milk IMF Products Approved for Formula Registration

**Summary:** Junlebao has received approval and registration of 2 goat milk IMF products, gearing up for its market entry.

On 28 Dec., 2021, the State Administration for Market Regulation's Center for Food Evaluation (CFE) updated the

Information to be Received for Infant Formula Milk Powder Product Formula Registration Approval Document (Decision Letter), including 2 "Zhenweiai" goat milk IMF products from Shijiazhuang Junlebao Dairy Co., Ltd. (Junlebao).

**TABLE 2: New IMF Registrations by Junlebao**

No.	Product	Applicant
1	Zhenweiai Follow-on Goat Milk IMF (6–12 months, 2 <sup>nd</sup> stage)	Junchang Dairy
2	Zhenweiai Children Goat Milk IMF (12-36 months, 3 <sup>rd</sup> stage)	Junchang Dairy

Source: Center for Food Evaluation of State Administration for Market Regulation (CFE)

The "Zhenweiai" brand is Junlebao's first goat milk IMF series, launching this Jan. It is produced by Hebei Junlebao Junchang Dairy Co., Ltd. (Junchang Dairy), a wholly-owned subsidiary of Junlebao, registered in 2019 with capital of USD24 million (RMB150 million) and located in Tangshan City, Hebei Province.

Junchang Dairy's key data are as follows:

- Total investment: USD55 million (RMB350 million)
- Floor area: 6.67 ha
- Production equipment/process: 4 production lines from Germany and Switzerland; dry and wet blend process in IMF production
- Plant capacity:
  - Daily processing: 366 tonnes of raw milk
  - Annual production: 22,000 tonnes of IMF and milk powders for the middle-aged and elderly

Prior to this, in Oct. 2021, Junchang Dairy's 8 latest IMF products ("Banner Dairy" goat milk IMF products, stages 2 & 3) passed the on-site checks by the authority. This signalled the company's imminent expansion in the market, and Junlebao's milk powder division also stated in Dec. that 4 new goat milk formulae for infants and children would be launched in the future.

The company's objectives are to:

- Expand in the IMF market, where to date it has only offered products based on cow milk

- Increase its investment in goat milk powders/formulae, taking advantage of this growing sector
- Diversify its product portfolio in a more and competitive IMF market.

This follows other large dairy firms' moves in a similar direction:

- The category leader, Kabrita, launched an upgraded version of its "Youzhuan Pro" goat milk IMF series in Nov. 2021
- China Feihe launched 3 goat milk IMF lines simultaneously – "Xiaoyang Milk", "Ruijia Milk" and "+ Love" – in Sept. 2021
- Yili became Ausnutria's major shareholder in Oct. 2021, to build up its goat milk supply
- Longer term, an established player in goat milk IMF is Blue River Dairy, initially with "Blue River Sleep Milk" launched in June 2015 and then with "Spring Goat" launched in Oct. 2017.

Now 3 top brands – China Feihe, Yili Golden Collar Crown and Junlebao – have already developed their own goat milk formulae, at a pace which will soon reshape the market landscape and threaten smaller players who lack the ability to reposition in this way in the increasingly concentrated IMF market.

## Natural Dairy and Junlebao Invest in New Farms

**Summary:** *New partnerships have seen Natural Dairy partnering with Jiangsu Nongken to establish a new dairy farm in East China, and Junlebao cooperating with 5 counties in Baoding City, Hebei Province for the same purpose.*

### Natural Dairy & Jiangsu Nongken

On 12 Jan., 2022, Inner Mongolia Natural Dairy Co., Ltd. (Natural Dairy, Stock Code: HK.09858) and Jiangsu Dongxin Farm Co., Ltd. (Dongxin Farm) – a subsidiary of Jiangsu Nongken Group Co., Ltd. (Jiangsu Nongken, Stock Code: SH 155213) – held a signing ceremony confirming their joint investment in a new dairy farm.

Details were given as follows:

- Total investment: USD94 million (RMB600 million)
- Location: Guanyun County, Lianyungang City, Jiangsu Province, East China
- Dairy herd: 12,000

Rationale for this cooperation:

- The milk deficit in the eastern region (Shandong, Jiangsu,

Anhui, Jiangsu, Fujian provinces and Shanghai) is a longstanding issue, so selling in milk these regions at a higher price will remain profitable for the foreseeable future

- Supply for Yili's plants (Yili owns a controlling 40% stake in Natural Dairy). These sites are positioned to take advantage of the strong consumer demand and growth potential in the eastern region

In recent years, Natural Dairy has focused on expanding its dairying activities in this region and now has 11 dairy farms in operation or under construction – these are expected to contain 100,000 dairy cows once they are all in operation.

Jiangsu Nongken is an SOE and the largest agricultural producer in Jiangsu Province. Dongxin Farm is one of its key farms, with an area of 20,000 ha in total. Its annual production of rice, vegetables and fruits is reportedly around 150,000 tonnes, its annual milk production is about 30,000 tonnes from approximately 7,000 dairy cows. This includes its 100% ownership of Lianyungang Dongwang Dairy Cow Farming Co., Ltd.

## Junlebao & Baoding City

On 13 Jan., Shijiazhuang Junlebao Dairy Co., Ltd. (Junlebao) and 5 counties (Shunping County, yi County, Quyang County, Gaoyang County, Li County) in Baoding City, Hebei Province, initiated a signing ceremony for a dairy farm project.

Project Overview:

- Total investment: USD180 million (RMB1,150 million)
- Dairy herd: 23,000
- Scale: 150,143 ha
- Estimated milk production: 120,000 t/a

This is referred to as a "demonstration family dairy farm", which in Hebei Province means a herd of 500-2,000 dairy cows including milking cows, typically with a milk yield of over 9 t/a.

Prior to that, on Dec. 2021, Junlebao inked a deal with the government of Huanghua City, Hebei Province for a similar project. This project involves a total investment of USD19 million (RMB120 million) in 3,000 cows and the related construction work and equipment, etc., looking at annual milk production of up to 20,000 tonnes.

Junlebao is very focused on an integrated business model described as "1+1+N", meaning 1 plant, 1 self-owned farm and a number of family farms, and suggests that it plans to set up 100+ "family dairy farms" over the next 5 years.

## Raw Milk Supply

### Milk Price Expected to Weaken After Chinese New Year

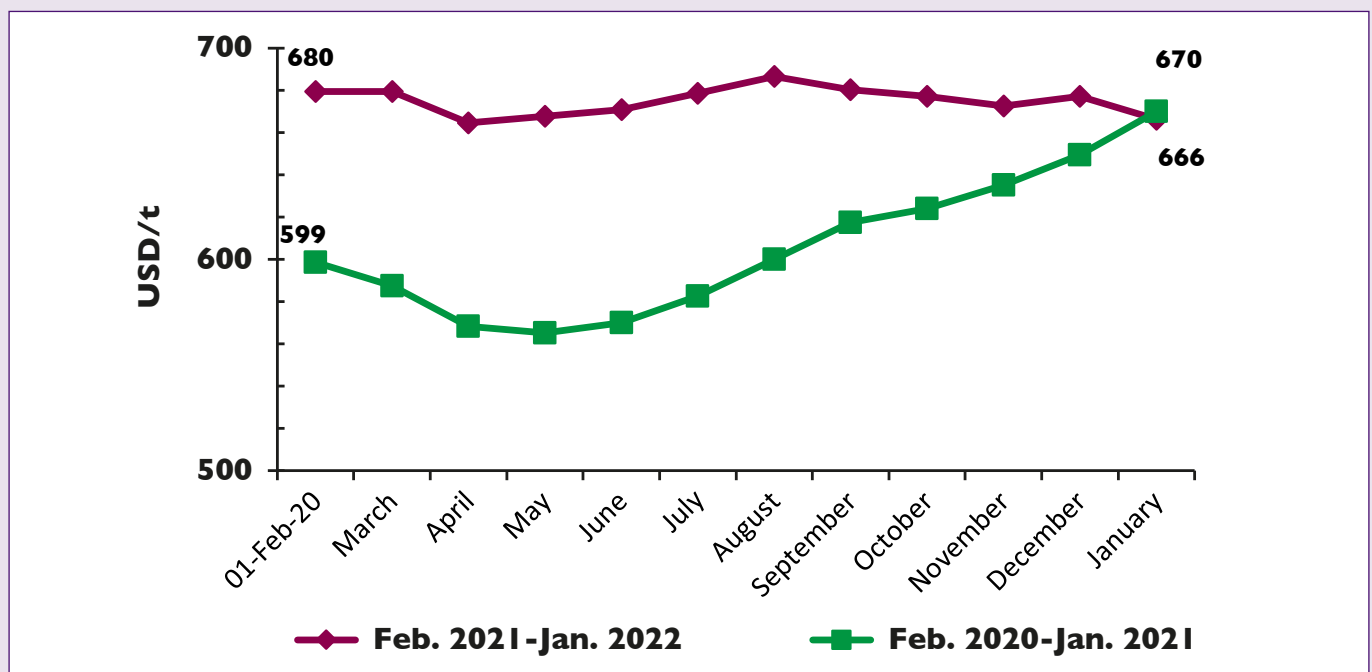
**Summary:** *The local raw milk price is expected to weaken after the holiday; conversely, there have been some recent rises in trade prices for products to cushion against cost pressures.*

The price data on 10 major dairying provinces (in the first week of Jan. shows a raw milk price averaging at USD666/t (RMB4,250/t), down 0.6% MoM and up 0.8% YoY.

This reflects the mix of several factors:

- Supply shortages resulting from multiple aspects such as bad weather, labour shortage, increased input costs
- Strong nationwide demand for dairy during the Chinese Spring Festival
- The counter-trend of increased local supply capabilities and increased dairy imports.

**FIGURE 3: National Average Raw Milk Price, Jan. 2020–Nov. 2021**



Source: MARA (based on data from 500 county markets and milk collection stations)

The expectation is for the domestic raw milk price to soften in the coming months:

- Tapering demand after the holiday: Around Chinese New Year, the market focuses on consuming the heavy dairy inventory—supply of dairy products on shelves during this period is x1.5 or even x2 the regular amount—and spending less on placing dairy purchases
- Decreased dairying cost: Since Jan. 2022, US Federal Reserve has signalled to raise interest rates, very likely to draw down the prices of international commodities to some extent. In the context, cost of dairying in China may go down regardless the current high prices of feeds and alfalfa imports.

However the raw milk price remains high, and it is this, coupled with rising labour and transport costs,

which has led to dairy firms raising prices recently:

- On 30 Dec., 2021, Panda Dairy Corporation (Panda Dairy, Stock Code: SZ. 300898) gave notice that it was raising wholesale prices of some of its products (mainly condensed milk) by 3%-10%, effective as of 1 Jan
- In mid-Dec., 2021, Mengniu raised prices on some of its chilled milk products by 4-5%
- In Nov. 2021, Yili raised prices of "Jindian Pure Milk" (UHT milk), Ambrosial (UHT yoghurt) and other dairy products by 5% in general.

Of course the wider picture has seen contracting milk production in key exporter regions and high farmgate prices also driven by high input prices outside China. For example:

- In Nov. 2021, the FAO reported a 16% YoY increase of global dairy price, breaking the record in the past decade — whilst Germany marked a historic peak farm milk price at USD608/t (RMB3,878.7/t)
- Oceania has seen significant supply disruption throughout 2021: GDT results on 4 Jan., 2022 saw Fonterra SMP close at USD3,773/t, up 0.7% MoM and up 23.9% YoY, while Fonterra WMP settled at USD3,866/t, staying flat from the preceding month but still up 16.9% YoY.

In 2022, therefore, China seems likely to experience lower profitability in dairy farming in the face of ongoing inflation and increasing costs, as prices ease and dairy farming projects enter production, increasing national supply as a result.

## News in Brief

### Dairy Imports in December 2021

Notable trends in December's monthly import volumes were marked downturns YOY for both WMP and SMP and also for whey and AMF, whilst cheese had mixed fortunes; growth was seen in other significant segments including butter and lactose – and even infant formula stayed positive, just.

For the year overall numbers have been strong of course, however – for instance, SMP +27%. Notably, as Phase One of the Sino-US trade deal expires, this is one area where the US has really increased its trade – its exports of SMP/NFDM to China more than doubled in 2020 and had doubled to >50,000 tonnes in the first 11 months last year! This was especially valuable for the US industry given slower sales in much of Asia last year, with Vietnam the only other key buyer showing strong demand growth in this product segment. How much of China's demand has been driven by stockpiling remains unclear though – the pandemic has certainly had an impact, but picking out in detail how it has affected each specific segment remains a challenge.

**TABLE 3: December Dairy Imports, tonnes**

HS code	Product	2021 I 1	2021 I 2	2020 I 2	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	8,078.9	13,925.8	14,133.6	72.4%	-1.5%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	70,094.2	74,798.8	85,142.1	6.7%	-12.1%
04014000	Milk & cream, 6%	7.5	11.7	1.2	56.8%	878.1%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	26,075.5	28,051.9	19,110.9	7.6%	46.8%
04021000	SMP	31,017.9	20,150.3	25,715.3	-35.0%	-21.6%
04022100	WMP, unsweetened	64,429.5	31,727.8	51,173.6	-50.8%	-38.0%
04022900	WMP, sweetened	189.6	149.3	700.2	-21.2%	-78.7%
04041000	Whey and modified whey	48,679.4	39,641.4	58,230.7	-18.6%	-31.9%
04049000	Products consisting of natural milk constituents, nes	464.1	691.9	524.7	49.1%	31.9%
04051000	Butter	4,829.5	7,637.0	6,510.1	58.1%	17.3%
04059000	AMF	1,445.1	802.1	2,173.6	-44.5%	-63.1%
04061000	Fresh cheese, incl. whey cheese, curd	7,379.8	4,766.7	4,656.7	-35.4%	2.4%
04062000	Grated or powdered cheese	4,352.0	4,994.6	3,009.2	14.8%	66.0%
04063000	Processed cheese	1,726.2	1,998.2	1,782.9	15.8%	12.1%
04064000	Blue cheese	9.8	8.5	12.9	-13.3%	-33.7%
04069000	Cheese, nes	2,567.1	1,883.0	2,140.8	-26.6%	-12.0%
17021100	Anhydrous lactose, lactose wt. ≥99%	9,637.7	8,568.3	7,163.5	-11.1%	19.6%
17021900	Lactose syrup & other lactose	823.7	479.5	837.8	-41.8%	-42.8%
19011010	Infant formula	25,062.6	28,617.0	28,579.6	14.2%	0.1%
35011000	Casein	982.8	826.7	1,469.5	-15.9%	-43.7%
35019000	Caseinates	2,396.5	2,324.5	2,042.7	-3.0%	13.8%
35022000	WPC80/WPI	3,180.5	3,004.5	3,420.3	-5.5%	-12.2%

Source: China Customs

## Mengniu Commissions its 61<sup>st</sup> dairy plant, in Qujing City, Yunnan Province

Mengniu Dairy (Qujing) Co., Ltd. (Mengniu Qujing) began operating in Dec. 2021 – the group's 61<sup>st</sup> modern dairy plant worldwide.

Key details:

- Total investment: Approximately USD157 million (RMB1 billion)
- Area: 19.87 ha, including 11.73 ha of building area
- Location: Luliang County, Qujing City, Yunnan Province
- Production scale: 14 production lines—8 UHT lines and 6 chilled lines
- Economic benefits (phase I project): 550 tonnes of daily capacity from 6 running UHT production lines

Mengniu Qujing is 100% owned by Mengniu and was founded in 2019 with a registered capital of USD16 million (RMB100 million). It is supplied by Modern Dairy's Fanghua Dairy Farm in Luliang County, Qujing City – which has a herd of 2,146 head which is due to expand to 4,000.

The location ensure Mengniu a high-quality milk supply as a basis for supplying the markets in Southwest China markets such as Yunnan Province, Guizhou Province and Guangxi Zhuang Autonomous Region. There is also potential for it to supply the group's new dairy plant in Indonesia, supporting business development in the South East Asia region.

## Western Animal Husbandry Advances Milk Purchase

On 25 Dec., 2021, Xinjiang Western Animal Husbandry Co., Ltd. (Western Animal Husbandry, Stock Code: SZ 300106) indicated that its wholly-owned subsidiary, Xinjiang Tianshan Yunmu Dairy Co., Ltd. (Tianshan Yunmu Dairy) and holding subsidiary, Xinjiang Shihezi Tianshan Garden Dairy Co., Ltd. (Garden Dairy) had signed milk supply contracts for 2022 in full with Xinjiang Tianshan Junken Dairy Co., Ltd. (Tianshan Junken Dairy) and its subsidiaries including Shihezi Tianshan Guanghe Animal Husbandry Co., Ltd. (Tianshan Guanghe, 51% owned by Tianshan Junken Dairy).

At the moment, Western Animal Husbandry has settled the prepayment of USD3.1 million (RMB20 million), and the overall supply deal is estimated to be worth up to USD78.4 million (RMB500 million).

The deals cements pre-existing sourcing arrangements: in Jan.–Nov., 2021, the transactions between these companies were worth of USD44.1 million (RMB281.5 million).

Western Animal Husbandry said its decision to prepay for part of its 2022 milk supply from both is intended to mitigate against further price volatility and to cut costs.

## Biggest Dairy Farm of ZTE Animal Husbandry Auctioned off

On 26 Dec., 2021, Heihe ZTE Animal Husbandry Co., Ltd. (ZTE Animal Husbandry) announced the sale of Huolongmen Dairy Farm (its biggest) at auction to pay Heihe Longhua Construction Installation Co., Ltd., its debtee over a dispute in a cooperative project.

According to ZTE Animal Husbandry, there are 8,457 dairy cows in Huolongmen Dairy Farm, mostly milking cows that need consistent feeding and periodic milking management. Presently, the company is still running normally and maintains cooperative relationships with several downstream dairy firms including Mengniu. However, it is uncertain whether this deal would affect its current performance.

ZTE Animal Husbandry was founded in Sept. 2011 with a registered capital of USD18 million (RMB116 million), focusing on dairy farming and raw milk selling. By now, it has around 20,000 imported Holsteins (40% in Huolongmen Dairy Farm). In 2021, their total milk production came to 80,000 tonnes, providing sales of USD53 million (RMB340 million). In addition to the Huolongmen Dairy farm located in Nenjiang County, Heihe City, Heilongjiang Province, ZTE Animal Husbandry has 3 more dairy farms, all situated in Aihui District, Heihe City.

## Mengtuandu Completes Plant in Inner Mongolia

On 4 Jan., 2022, Zhenglanqi Mengtuandu Agriculture and Animal Husbandry Co., Ltd. (Mengtuandu) posted that construction work on expanding its dairy processing plant had concluded.

- Total investment: USD1.97 million (RMB12.6 million)
- Location: Shangdu Town, Zhenglan Banner, Xilingol League, Inner Mongolia Autonomous Region
- Consumption of raw materials:
  - Raw cow milk: approximately 44.4 t/a (self-supplied)
  - Milk powder: about 222 t/a purchased from New Zealand
- Production plan (400 t/a): "Milk Doufu" (fermented milk curd) – 129 t/a; "Vrum" (the protein skin which forms on the surface of liquid milk) – 43 t/a; milk chunks (snacks) – 43 t/a; milk tablets – 29 t/a; milk tea powder – 70 t/a; cheese snack sticks – 43 t/a; milk candy – 43 t/a

Established in Sept. 2012 and registered with USD156.7 thousand (RMB1 million), Mengyuandu markets its range of dairy products, milk tea powder and other beverages, and ice cream, whilst also being active in cow/goat/pig farming and breeding, as well as fodder processing and sale.

## Junlebao's Jianchun Yoghurt Sales Break 1.4 billion Cups/Bags in 2021

The yoghurt division of Shijiazhuang Junlebao Dairy Co., Ltd. (Junlebao) announced that the sales of its "O-Sucrose Jianchun Flavoured Yogurt" series exceeded 1.4 billion units (a mix of cups and bags) in 2021. The yoghurt market is dominated by Yili, Mengniu and Bright Dairy, collectively making up almost 60% of the market. Despite this strong competitive backdrop, Jianchun Flavoured Yoghurt, has been very successfully differentiated by its sugar-free positioning.

Junlebao also claimed market shares for the period Jan.– Oct., 2021 as follows:

- 43.8% in the UHT sugar-free segment (91% from Jianchun Flavoured Yogurt)
- 46% in the chilled sugar-free segment (90% from Jianchun Flavoured Yoghurt).

Seeing the market opportunity, Junlebao launched the series in 2017 and continues to develop and push its sugar-free products to build on its success in taking the early lead in this category.

The range mainly comprises milk (content  $\geq 98\%$  vs. national standard  $\geq 80\%$ , sourced from its dairy farms); the protein content is  $\geq 3.0\text{g}/100\text{g}$  (vs. national standard  $\geq 2.3\text{g}/100\text{g}$ ) and the calcium content is  $100\text{mg}/100\text{g}$ .

## Aufamil Launches Two New Formulae for Adults and Children

On 26 Dec., 2021, the Australian-produced Aufamil range was extended with 2 milk formula for the middle-aged and elderly, and for children, selling exclusively in the iLoHas Cross-border Duty-free Pharmacy under a long-term strategic cooperation agreement:

- Aufamil Aged Care Formula Milk Powder (protein:  $31.7\text{g}/100\text{g}$ , calcium:  $1,000\text{mg}/100$ , GI (glycemic index)  $\leq 55$ , 0 sucralose)
- Aufamil Child Growth Formula Milk Powder (protein:  $25.3\text{g}/100\text{g}$ , calcium:  $1,100\text{mg}/100$ , lactoferrin:  $5\text{mg}/100\text{g}$ , 0 sucralose)

LoHas Cross-border Duty-free Pharmacy, styled as the Cross-border Offline Experience City – a physical retail store of covering an area of 0.8 ha) – is located at the Hainan Boao Lecheng International Medical Tourism Pilot Zone. It markets a wide range of products from 100+ international manufacturers, and from 40+ countries and regions – each product accompanied by its import and export certificate, testing document from the original country, international inspection certification, etc. These products enter the Chinese mainland through the Ningbo Bonded Warehouse and Haikou Bonded Warehouse.

In 2020, Aufamil launched its first formula products for adults in China and proved successful. The business is based on taking advantage of the recent development of Hainan Free Trade Port and Hainan Boao Lecheng International Medical Tourism Pilot Zone, and is now focusing on increased segmentation of its formula range, targeting different segments of Chinese consumers.

The Aufamil range now covers WMP/SMP, formula for the middle-aged and elderly and GUMPs. These 2 new products are manufactured by Australia's Cottee Group.

## Yili's New Capital Investment Plan

On 13 Jan, Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) announced a plan to invest USD830.8 million (RMB5.3 billion) in its wholly-owned subsidiaries to fund a wide range of projects – this involves USD196.3 million (RMB1.25 billion) for the subsidiaries' registration capital accounts and USD645.7 million (RMB4.11 billion) for boosting their working capital. All the projects listed below are either under construction or operational.

**TABLE 4: Details of Paid-Up Capital and Capital Increase**

No.	Project	Construction unit	Paid-up capital, USD million	Capital increase, USD million
1	Liquid Milk Production Base Construction Project	-	-	-
1.1	Huhhot Liquid Milk Global Leading 5G Green Production and Artificial Intelligent Application Demonstration Project	Inner Mongolia Jinhao Yili Dairy Co., Ltd.	117.6	1 757.8
1.2	Lindian (County) Liquid Milk Production Base Project	Daqing Yili Dairy Co., Ltd.	7.8	15.3
1.3	Wuzhong (City) Milk Industrial Park Yili Dairy Products Green and Intelligent Manufacturing Project	Ningxia Yili Group Co., Ltd.	-	4.8



No.	Project	Construction unit	Paid-up capital, USD million	Capital increase, USD million
1.4	Huhhot 530,000 t/a Liquid Milk Green Production and New Artificial Intelligent Model Demonstration Project	Hulunbuir Yili Dairy Co., Ltd.	-	21.2
1.5	Xing'an League Application of New Intelligent Manufacturing Technology on "5G Industrial Internet Platform" for Liquid Milk Industry Demonstration Project	Inner Mongolia Xing An Yili Dairy Co., Ltd	53.5	86.7
2	IMF Intelligent Manufacturing with Global Leading 5G+ Industrial Internet Demonstration Project	Inner Mongolia Jinze Yili Dairy Co., Ltd	-	159.9
3	Changbai Mountain Natural Mineral Water Project	Antu Yili Changbai Mountain Natural Mineral Beverage Co., Ltd.	17.4	-
4	Dairy Industry Innovation Base Project	Inner Mongolia Dairy Technology Research Institute Co., Ltd.	-	82.3
<b>Total</b>			<b>196.3</b>	<b>645.7</b>

Source: Yili's Notice on Asset Replacement of Pre-invested Capital with Fundraising Proceeds

## Valio IMF Fails Sample Check on Iron Content

On 14 Jan., the State Administration for Market Regulation (SAMR) published the latest results of sample checks on 419 batches of food from 28 categories. These included 2 batches of IMF which failed inspection due to having iron levels below 80% of the figure shown on their labels. These products were from Chinese agent, Mille Dairy (Shanghai) Co., Ltd., and originally manufactured by Valio in Finland.

**TABLE 5: Nonconformity of 2 Sample Batches of IMF Products**

No.	Nominal Manufacturer	Sampled entity	Sample product	Specification	Production date	Non-conforming item	Inspection results	National food standards	Indicator on product package label
1	China agent: Mille Dairy (Shanghai) Co., Ltd. Manufacturer: Valio Ltd. (Lapinlahti plant, Finland)	Zhangqiu City Mingshui Royal Baby Mother & Baby Store	Infant Formula, stage 1	500g/box	2020/4/22	Iron	0.182mg/100kj	0.10-0.36mg/100kj (actual iron content shall be above 80% of the indication on product label)	0.3mg/100kj
2		Guangzhou Cancheng Biotechnology Co., Ltd.							

Source: SAMR

## **Yashili IMF Approved by EU Food Safety Authority**

On 18 Jan., Yashili International Holdings Ltd. (Yashili, Stock Code: HK.01230) was approved to EU standards for infant formula foods, and certified for SQF and FSSC22000 by the international certification company SGS. The following day, Intertek granted Yashili its FSSC22000 certificate. These 3 awards made Yashili the first IMF enterprise in China to be approved by EU food safety authorities, and the SGS representative noted that they recognised Yashili's world-class IMF production.

These awards came after SGS conducted on-site inspections at 4 of of Yashili's IMF manufacturing plants which include sample checks on all the production lines including for the "Ruibuen" range, making this the first SGS-certified Chinese IMF product.

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