

Dairy Products China News

Guaranteed Exclusive Analysis

Vol. 14 Issue 9 2021

Welcome to the September issue of Dairy Products China News.

The National Week holiday is almost here, and yet China is experiencing power shortages due to constrained coal supplies, reflecting increased industrial operations and ever-tougher emission standards. It comes even though China's total power generation YTD August actually rose 10.1% YoY. This has led to some factors shutting down (for now, mainly in the most power-intensive sectors). It has also led to some downgraded economic growth forecasts – for instance Nomura has reduced its 2021 forecast to 7.7% from 8.2%. If this proves more than a blip, we will need to see if this affects dairy consumption in any way at what is usually a period of strong demand.

Although life in China may largely be back to normal for many, the pandemic has had a lasting impact on how consumers think about their health and wellness. Organic dairy products are one area we've been asked about recently. This is naturally prominent in some European dairy exporters' thinking at present. The EU's Farm to Fork strategy sets out to drive up the share of organics in the community's agriculture sector as a whole, dairy included, to levels which seem very likely to be unachievable.

It's perhaps interesting in this context to see that, in China – where the first local organic food product was certified back in 1995 – Shengmu's organic raw milk sales fell by almost 40% in the first half of this year. It was achieving a premium of a little over 17% compared with its standard raw milk – significantly less than we see in Europe. It would be interesting to know how much of its organic raw milk actually goes to organic end applications – in Europe there is a good deal of "wastage" as organic milk is sold into regular milk applications. In principal China definitely offers opportunities for imported organic dairy products and ingredients. For the local industry, lower greenhouse gas emissions on a per hectare and per cow basis should have their attractions in theory, but given its longstanding supply:demand gap, can China afford the lower productivity this implies?

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Headlines

- ▶ *Honest Dairy, Beihai Ranch and New Hope Dairy have announced that they are to be strategic shareholders of AustAsia (part of the Greenfields group) to strengthen its outsourced milk supply arrangements.*
- ▶ *YTD August, China imported 2,910,500 tonnes of dairy products (including IMF), up by 30.6% overall, with increases in SMP, WMP, fresh cheese and whey and sharp declines in IMF and lactose.*
- ▶ *In Sept., a Report on China's Large-scale Dairy Farming Industry Quality 2020 was jointly launched jointly by the College of Animal Science and Technology of China Agricultural University and the National Key Laboratory of Animal Nutrition.*
- ▶ *The draft Detailed Rules for the Review of Production Licensing of Infant Formula Milk Powder (2021) was published for comments on 14 Sept., updating the current detailed rules which came into force on 25 Dec., 2013.*
- ▶ *Yili's interim report for H1 2021 shows new highs in both revenue and net profit, breaking thresholds of USD7.73 billion (RMB50 billion) and USD773 million (RMB5 billion) respectively.*
- ▶ *Mengniu's interim report for H1 2021 celebrates YoY growth in revenue and net profit of 22.3% and 143.2% respectively.*
- ▶ *Bright Dairy's interim report for H1 2021 showed revenue up 17.4% YoY but net profit down 16.8% YoY.*
- ▶ *On 21 Sept., Kedi Dairy was penalised by the Administration for Market Regulation of Henan Province for overstatement of revenue and profit, and illegal information disclosure.*
- ▶ *Sanyuan Foods' and New Hope Dairy's Interim reports for H1 2021 both showed revenues and profits exceeding USD600 million and USD22 million.*
- ▶ *In Sept., China's average raw milk price averaged at USD658/t (RMB4,340/t), up 12.4% YoY. Four leading dairy farming companies in China were the major beneficiaries.*

Major Companies and Sites Mentioned in This Issue



Market Dynamics

Greenfields' Three New Chinese Dairy Partners

Summary: *Honest Dairy, Beihai Ranch and New Hope Dairy have announced that they are to be strategic shareholders of AustAsia (part of the Greenfields group) to strengthen its outsourced milk supply arrangements.*

Honest Dairy

On 31 Aug., Guangzhou Honest Dairy (Group) Co., Ltd. (Honest Dairy), announced the signing of a strategic investment agreement with AustAsia Investment Holdings (AustAsia). Its key takeaways include:

- A constant supply of high-quality raw milk is to be provided by AustAsia to Honest Dairy
- Honest Dairy will provide support in the form of farming technologies for the operation of the 10,000 head dairy farm
- Plans for the development, through joined efforts, of a new high-standard dairy farm in China

Additionally, Honest Dairy and AustAsia have already built up a strategic partnership in which:

- Honest Dairy has invested and started construction work on a 10,000 head dairy farm in Fengning County, Chengde City, Hebei Province
- AustAsia takes control over the operation of this farm including management and farming technology development
- The farm is expected to start producing milk in April 2022 and provide 80,000+ tonnes of milk per year

The company's Simple Love brand (Honest Simple Love brand (Honest Dairy's main brand, used in the premium fresh yoghurt segment) is now being marketed with differentiated labels like "No Sugar Added", "No Additives" and "Functional" – addressing the current health and wellness trend in China.

In 2020, Simple Love yoghurts' sales exceeded USD309.2 million (RMB2 billion), up by +70% YoY. This year, Honest Dairy has trialled Simple Love Fresh Milk, its first fresh milk.

Beihai Ranch

On 2 Sept., Beihai Ranch (Beijing) Dairy Co., Ltd. (Beihai Ranch), a yoghurt brand of Genki Forest (Beijing) Food Technology Group Co., Ltd. (Genki Forest), announced that it has become one of the strategic shareholders of Greenfields.

This cements its existing cooperation with Greenfields, giving Beihai Ranch an additional 2,000+ tonnes per month of quality raw milk (a volume set to grow with Greenfields' development).

Genki Forest, established in 2016, mainly focuses on zero-sugar and low-calorie beverages. Its founder Tang Binsen disclosed that in 2020, the company more than tripled its sales, which rose by 309% YoY to USD417.4 million (RMB2.7 billion).

Beihai Ranch was established in 2018 and since then has been a favourite in the fresh yoghurt market, as well as selling a UHT yoghurt product; these products major on claims such as "0-Sucrose, Low-calorie and High-protein" and are differentiated on-shelf by their minimal, Japanese-style packaging.

New Hope Dairy

On 7 Sept., New Hope Dairy Holdings Co., Ltd. (New Hope Dairy, Stock Code: 002946) proposed to buy 5% of equity of AustAsia from Japfa Ltd. through its wholly-owned subsidiary GGG Holdings Ltd (which was established in Hong Kong for USD58.4 million).

Meanwhile, New Hope Dairy has reached a 5-year rolling raw milk supply contract with one of the subsidiaries of AustAsia, to become effective in 2022. This allows New Hope Dairy to receive a stable milk supply from Greenfields on the premise that GGG's stake in AustAsia stays at or above the agreed shareholding.

New Hope Dairy stated that Greenfields' dairy farms are close to its dairy processing factories in Shandong and Hebei provinces, so the cooperation agreement sits well with the "fresh" positioning of the group, while also assisting cost reduction and / or the expansion of raw milk purchases.

New Hope Dairy's main focus is the development of fresh dairy products, especially in regional markets such as Sichuan, Yunnan, Hebei, Zhejiang, Shandong and Ningxia provinces.

Its business performance in H1 2021 was:

- Revenue: USD667.3 million (RMB4.3 billion), up 68.9% YoY
- Net profit: USD22.6 million (RMB146.1 million), up 90.6% YoY
- As of 30 June, 2021, the company owns 13 dairy farms and 16 dairy plants

AustAsia

To date Meiji (China) Investment Co. (25% stake), Honest Dairy, Beihai Ranch and New Hope Dairy have all become strategic shareholders in AustAsia.

On 30 Aug., Japfa (the lead shareholder with a 75% stake) introduced deals with the 3 new strategic shareholders:

- Honest Dairy offered USD58.4 million for 5% stake

- Genki Forest offered USD29.2 million for 2.5%
- New Hope Dairy's offering 5% of equity of AustAsia is to be accepted as long as the abovementioned premise is fulfilled

However, Japfa will remain the No.1 shareholder with a 62.5% shareholding, so it is still well capable of maintaining its independence and managerial control of AustAsia.

At the same time, Japfa said that the intention of introducing Chinese dairy brands as strategic shareholders is to

step up the company's development in China and become the largest independent raw milk producer in the future.

AustAsia's main focus is on investing in dairy and beef cattle breeding, production of raw milk, dairy products, etc. – its dairy farming operations in China are run by its subsidiaries set up in Shandong, Inner Mongolia Autonomous Region, and other regions.

AustAsia's operation in China, as of 7 September 2021, is as follows:

- It owns 10 large-scale dairy farms with a total of 103,000 cows – producing 580,000 tonnes of raw milk in 2020
- 2 beef cattle farms

AustAsia's main business indicators in 2020:

- Total assets: USD976.4 million
- Revenue: USD463.8 million, down 3.7% YoY
- Net profit: USD95.8 million, up 41.8% YoY.

Dairy Imports in Jan.-Aug., 2021

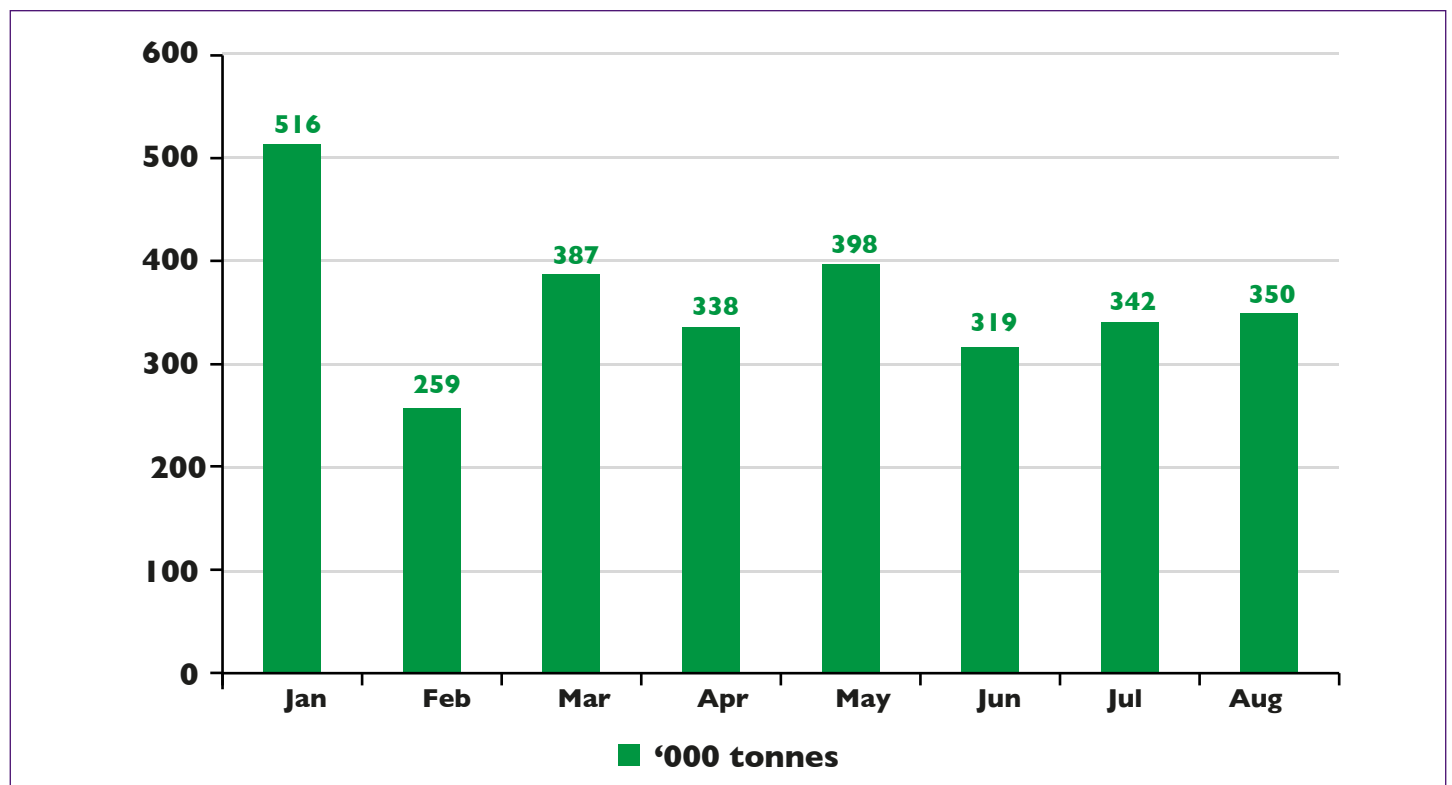
Summary: YTD August, China imported 2,910,500 tonnes of dairy products (including IMF), up by 30.6% overall, with increases in SMP, WMP, fresh cheese and whey and sharp declines in IMF and lactose.

Given the prevailing high farm milk prices in China, import demand for dairy has been strong. China imported 2,910,500 tonnes of dairy products (including IMF), up by 30.6% YoY (YTD August). Milk powder (including SMP and

WMP) accounted for 34% of the total imported volume, milk/cream 29%.

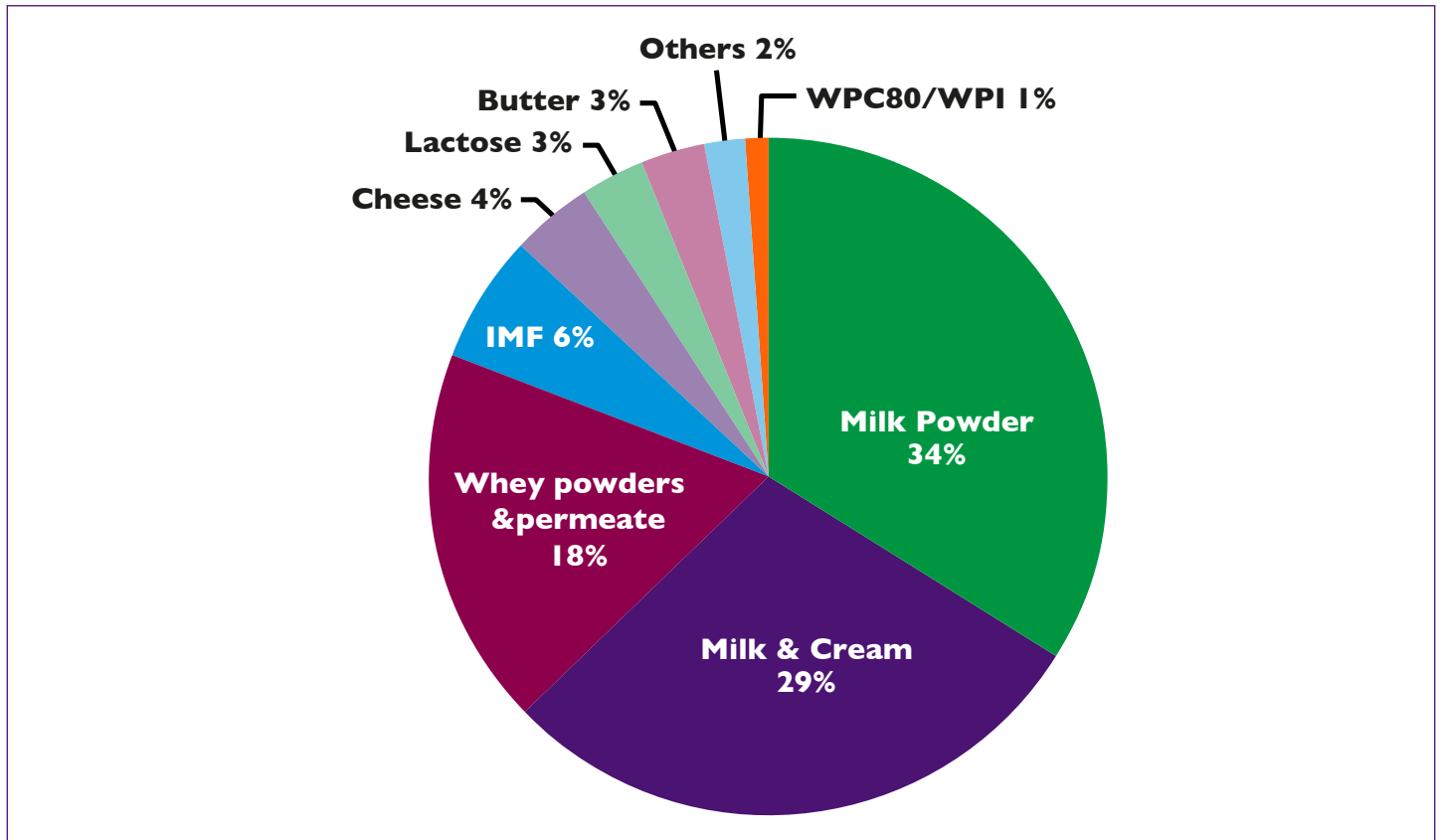
Whey powders and permeate ranked next at 523,617.7 tonnes, up by 36.7% year on year, reflecting the hog sector's recovery over the period (although hog producers' profitability is now under severe pressure). IMF, accounting for 6% of the total import volume, registered a sharp decline, down by -24.8%.

FIGURE 1: Dairy Import Volumes by Month, Jan. – Aug. 2021



Source: China customs & CCM

FIGURE 2: Proportion of Dairy Products of Jan.-Aug. 2021



Source: China customs & CCM

China's Large-Scale Dairy Farms Show Strong Improvement in 2020

Summary: In Sept., a Report on China's Large-scale Dairy Farming Industry Quality 2020 was launched jointly by the College of Animal Science and Technology of China Agricultural University and the National Key Laboratory of Animal Nutrition.

According to the *Research Report on China's Large-Scale Dairy Farming Industrial Quality 2020*, jointly launched by the College of Animal Science and Technology of China Agricultural University and the National Key Laboratory of Animal Nutrition, China made a great progress in large-scale dairying in 2020:

- Milk yield reached 9.6 tonnes per cow
- TMR and milking centres were established in most large-scale dairy farms
- Coarse feed / fodder quality improved

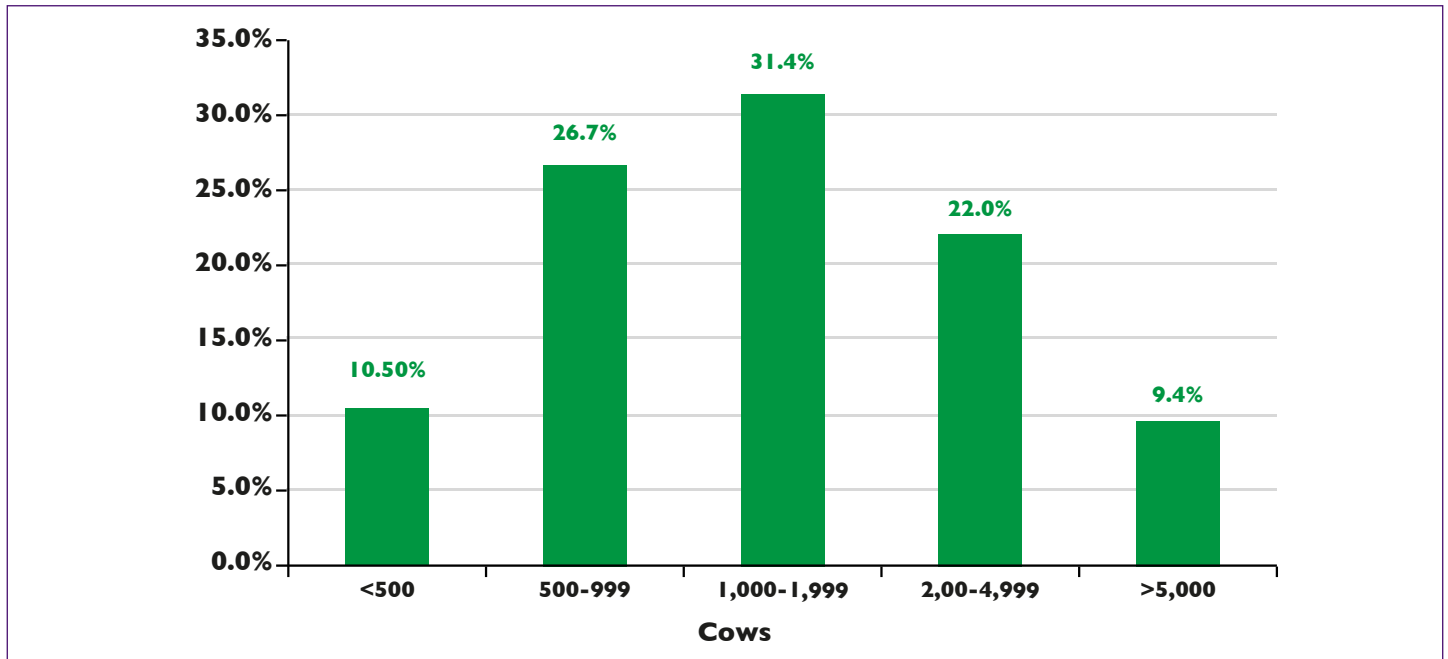
In the research for the study 191 valid questionnaires were returned from large-scale dairy farms (100+ cows) in Nov.-Dec., 2020 (a response rate of 95.5%). These farms are mainly in areas of northern China such as Hebei, Inner Mongolia, Heilongjiang, Liaoning, Shandong, Shanxi, Shaanxi, Xinjiang, Beijing and Tianjin – these northern respondents made up approximately 90% of the total research sample in terms of farm numbers and their herd sizes. This

corresponds to the actual distribution of largescale dairy farms in China (80%–90% of the large-scale dairy farms are in northern China). Around 10% of the research sample are large-scale dairy farms in the southern areas like Shanghai and Jiangsu.

Basic information gathered on large-scale dairy farms in 2020 includes:

- Operating time: 88.8% of the farms were established after 2000
- Ownership types:
 - Family-owned farms (54.5%)
 - Corporate farms (19.4%)
 - Cooperative farms (15.7%)
 - State-owned farms (10.5%)
- Dairy farms by herd size:
 - Farms with 100–500 cows (10.5%)
 - Farms with 500–999 cows (26.7%)
 - Farms with 1,000–1,999 cows (31.4%)
 - Farms with 2,000–4,999 cows (22.0%)
 - Farms with ≥5,000 cows (9.4%)

FIGURE 3: Proportion of Large-scale Farms by Herd Size in 2020



Source: Research Report on China Large-scale Dairy Farming Industry Quality 2020

Milk yield per cow rises

The study showed milk yield per milking cow ranged from 6.0–13.0 tonnes, averaging 9.6 tonnes – close to the 9.3 tonnes reported by the National Dairy Industry and Technology System on large-scale dairy farms in China in 2020, and 15.7% higher than the average 8.3 tonnes reported by the Ministry of Agriculture on all dairy farms nationwide in 2020.

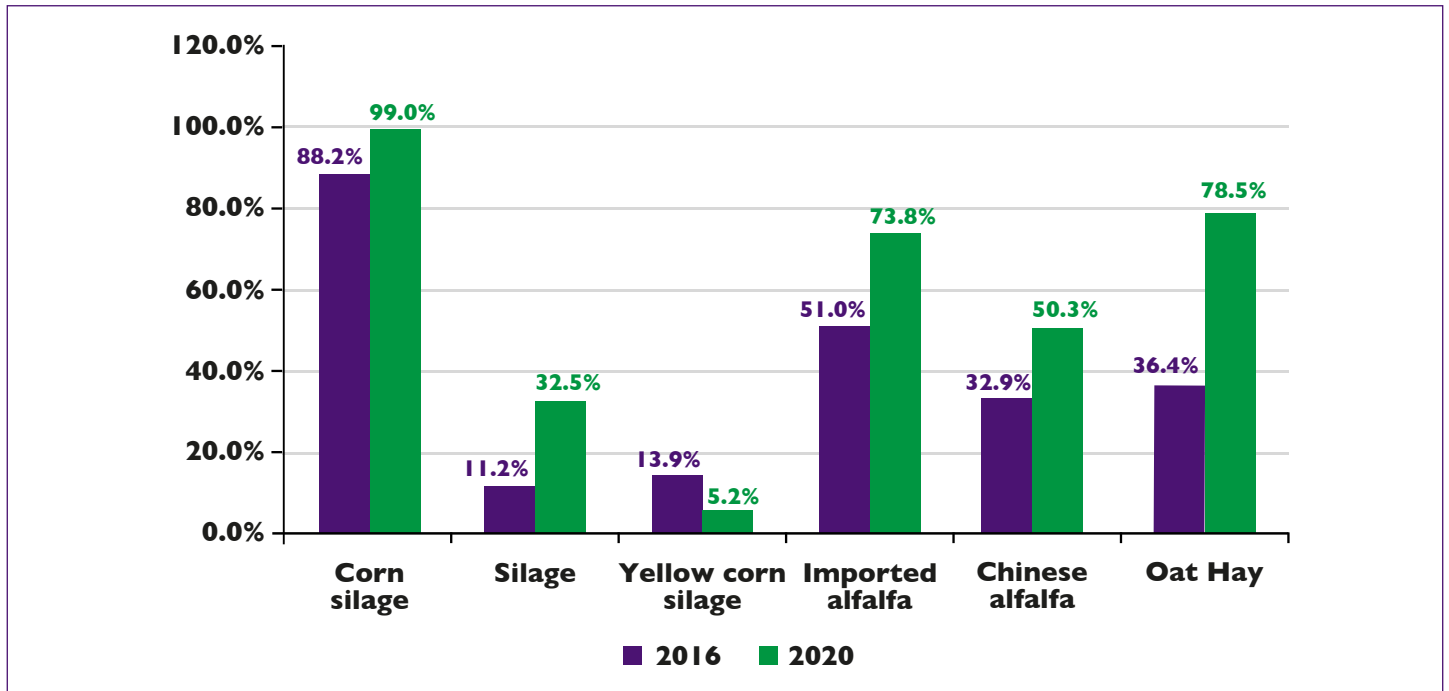
Since 2014, milk yield per cow has increased remarkably, with large-scale dairy farms averaging around 1 tonne annually more than the overall national average – illustrating the positive impact of scale on milk yield.

Additionally, the 9.3 tonnes milk yield per cow achieved by large-scale farms was only 1.4 tonnes lower than the 10.7 tonnes per cow recorded in US farms – in 2015, this difference was 2.7 tonnes, showing that China is catching up fast with more developed dairy producers in this regard.

High-quality coarse fodder application expands

- Corn silage: 99.0% of large-scale farms were using higher-quality corn silage (30.8% dry matter) in 2020, up 10 percentage points vs. 2016
- Alfalfa:
 - 74.3% of large-scale farms used imported alfalfa hay in 2020, up 23.3 percentage points vs. 2016
 - 60.7% of large-scale farms used domestic-made alfalfa hay and/or alfalfa silage, up by 35% vs. 2007
 - The share of domestically produced alfalfa was still short of the imported volume, indicating room for improvement for Chinese alfalfa in terms of production and quality in the face of intense international competition
 - Daily use of alfalfa hay for per milking cow was 3.0 kg on average
- Oat hay: 78.5% of large-scale farms used oat hay in 2020, up 42.1 percentage points vs. 2016, growth higher than seen for either imported or domestic alfalfa

FIGURE 4: Proportion of Large-scale Farms Using Main Different Coarse Fodders



Source: Research Report on China Large-scale Dairy Farming Industrial Quality 2020

TMR feeding and milking centres are prevalent

Among the research sample, there was only one farm following the traditional feeding model while 99.5% had adopted TMR by 2020 vs. 84.2% in 2016 and 36.8% in 2007.

The most prevalent TMR brands were Storti S.p.A. (Italy), accounting for 43.5%, followed by Tulip (the Netherlands), Trioliet (the Netherlands), KUHN (France) and Datong Jieteng Machinery Equipment Co., Ltd.

96.2% of large-scale farms had set up milking centres by 2020, up 15.4 percentage points vs. 2016:

- Use of fishbone milking parlours (the less efficient milking system) dropped by 13.5 percentage points
- Use of side by side milking systems was down slightly
- Use of rotary milking systems (more advanced) grew to 25.5%, up by 16.1 percentage points
- On the other hand, just 3.8% of farms still deployed a pipeline milking system – this decline was also mirrored in usage of tethered feeding

Use of Chinese frozen sexed semen declined

In 2020, 44.9% of large-scale farms used frozen sexed semen from Chinese brands, down 12.4 percentage points vs. 57.3% in 2016.

Meanwhile, trade data showed that imports of frozen sexed semen were worth USD61.2 million in 2020, up 147.1% vs. USD24.8 million in 2016; the major import supplier was the US accounting for 5.3 million doses in 2019, up 135.8% vs. 2015.

In most recent years, China's herd size in large-scale dairy farms has remained unchanged or has even declined somewhat. As a result, coupled with the prevalence of imports, Chinese frozen sexed semen is expected to see a continuing decline in both production and sales.

Governmental Direction

Changes in Draft of Detailed Rules for the Review of IMF Production Licensing

Summary: The draft *Detailed Rules for the Review of Production Licensing of Infant Formula Milk Powder (2021)* was published for comments on 14 Sept., updating the current detailed rules which came into force on 25 Dec., 2013.

On 14 Sept., SAMR published the draft *Detailed Rules for the Review of Production Licensing of Infant Formula Milk Powder (2021)* (Draft) with marked amendments and new requirements over the exercising *Detailed Rules for the Review of Production Licensing of Infant Formula Milk Powder (2013)*, after issuing drafts for *Further Regulating the Labelling and Identification of Infant Formula Milk Powder Products* on 28 July and *Detailed Rules for the Review of Dairy Products Production Licensing* on 2 Aug. this year. The further regulations show China's determination to set up a quality IMF industry with safe and high-standard products.

Five major changes are made in the Draft compared to the current detail rules (established in 2013).

Definition and Classification

In Chapter 1, Infant Formula Milk Powder is redefined as powdered formula food for infants aged from 0 to 36 months, made from cow (sheep) milk and/or its milk protein products as the main protein sources and adding limited amounts of vitamins, minerals and/or other raw materials, and processed only by physical methods.

The modification in definition details the product's protein sources (cow/sheep) which is consistent with the composition of most IMF products in the market and basically coincides with the *National Food Safety Standard – Infant formula (GB 10765-2021)*.

Meanwhile, IMF product is removed from the original classification as a milk powder (No. 0502) and moved under its own food category

(No. 2901) as the following table illustrates.

In addition, it is worth noting the draft regulates that "infant formula milk powder shall not be produced with compound ingredients of the national standards for food safety of infant formula food as raw materials"; as for base powders, its definition is clarified: "A compound ingredient which is used in the production of infant formula milk powder by dairy company, processed with cow (sheep) milk and/or its milk protein products (whey powder, whey protein powder, whole milk powder, skim milk powder, etc.) as the main raw material and added nutrition and/or other ingredients added."

The ban of the use of compound materials as raw material and detailed requirement of base powders are China's moves to secure the quality of IMF products.

TABLE 1: Draft Classification of IMF Products

Food category	Category No.	Product name	Product Specification	Remark
Infant Formula Food	2901	Infant Formula Milk Powder	Formula Milk Powder for 1 st Stage (0-6 months), 2 nd Stage (7-12 months) infants and 3 rd Stage (13-36 months) infants: Wet process, dry process, dry and wet composite processes	Registered Number of Product Formula

Source: SAMR & CCM

Production sites, equipment and facilities, layout and processing flow

Additional requirements are listed in the Chapter II to IV concerning these aspects to build a higher-standard IMF production environment:

- Cleaning work area, quasi-cleaning work area and common work area should be clearly separated by the different production techniques
- Detailed access rules of cleaning work area and storage facilities are added
- Production equipment and facilities for different products are revised or added, and requirements of other supporting facilities like water treatment facilities, waste disposal system, ventilation
- Production process is revised and added the key control points such as milk storage temperature and period, and digital product information (DPI) system with error proofing design in standardised wet and dry processing techniques of auxiliary materials to perform material mixing automation without manual review

Personnel Management

Enterprise is required to provide professional trainings to its operators with no less than 40 hours each year.

Management System

Multiple changes are made concerning management systems for IMF production:

- Raw materials:
 - Article 31 and 32 are especially established in lists laying out the currently applicable materials (protein, carbohydrate, microelements) alongside newly-added ingredients such as raw milk, vegetable fat powder,

amino acids, along with corresponding specification requirements

- Regulations for water in refined production and control of air purification are also included
- Raw material suppliers: According to the Draft, approval requirements for raw material suppliers and adoption of imported raw or other ingredients remain largely the same: relevant documents and materials are required by China Customs such as qualification papers of overseas exporters, agents and importers, and relative safety certificates issued by China

Inspection and Quarantine

- IMF producers: A traceability system of food safety (Article 35) with strict monitoring measures is required throughout the production. "QR code, Radio Frequency Identification Devices (RFID) and other applications of information technologies are recommended in recording information of each link ranging from raw material procurement, product production and processing, logistics and transportation, to marketing, and in realising a synchronous documenting system of the logistics and information flow of raw material-end product process".

Company Dynamics

Yili Achieves Record Performance

Summary: Yili's interim report for H1 2021 shows new highs in both revenue and net profit, breaking thresholds of USD7.73 billion (RMB50 billion) and USD773 million (RMB5 billion) respectively.

On 31 Aug., Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) delivered better-than-expected interims for H1 2021, marking all-time highs in revenue and net profit:

- Revenue
 - USD8.74 billion (RMB56.5 billion), up 18.9% YoY
 - This exceeds its target of USD7.73 billion (RMB50 billion) in H1, seemingly putting it on course to beat its target of USD15.5 billion (RMB100 billion) for 2021 as a whole
- Net profit
 - USD822.5 million (RMB5.3 billion), up 41.6% YoY and exceeding its USD773 million (RMB5 billion) target

Yili's diverse product mix is one of the key factors driving its performance. In H1, its main business (liquid milk) achieved high-level growth, and in particular fresh milk, IMF and other sectors saw jumps in both the company's sales and market share.

Key business data by product category in H1 2021 are as follows:

- Liquid dairy:

- Revenue = USD6.56 billion (RMB42.4 billion), up by 19.7% YoY
- A market-leading 9% market share in retail liquid milk according to Nielsen, so up by 0.7 percentage points YoY
- UHT pure milk sales increased by 30+%
- Fresh dairy recorded a substantial growth in sales as well — products selling under the Yili umbrella brand and others like "Jindian" shot up by 200%+, far outpacing the segment's overall growth; its market share here was up by 5.7 percentage points
- Powders and other dairy products
 - › Revenue = USD1.18 billion (RMB7.6 billion), up by 14.8%.
 - › IMF sales were up 20+% YoY vs. +7.7% for overall sales in China's IMF and adult formula market (Nielsen)
 - › Yili's IMF sales in mother & baby stores jumped by 35.2% (sales of products under the brand "Zhenhu" in its Golden Collar Crown range grew by 37%!)
 - › Its IMF market share grew by 0.9 percentage points YoY
- Its cheese market share was up by 6.7 percentage points YoY (China's cheese sales in retail grew +35.3% YoY)

Online and Offline Growth

In terms of sales channels, Yili has been developing both online and offline business models. Notably, it has proactively developed an innovative online marketing mode — "consumer operation" — offering fast and effective services like "instant order", "online payment" and "1v1 infant nutritionist service" on its own platform and on a Wechat mini-app for its brands Ambrosial (UHT yogurt), Jindian (premium UHT milk, chilled

milk) and Yili Yousuanru (milk beverage). This has definitely improved its brand awareness among consumers.

Data from Kantar shows that, as of June 2021, the penetration rate of Yili's UHT liquid dairy products in the market rose by 1.5 percentage points YoY to 85.7%. During this period on E-commerce platforms, Yili's revenue in the liquid dairy category (where it leads) rose by 21.8% YoY (data from Syntun).

TABLE 2: Yili's Key Business Data in H1 2021

Product	Amount (USD million)	Proportion	YoY change
Revenue	8,703.4	100.0%	18.9%
Liquid milk	6,556.5	75.3%	19.6%
Milk powder and other dairy products	1,179.1	13.5%	14.8%
Ice cream/popsicles	856.3	9.8%	13.8%
Others	12.6	0.1%	-39.0%
Net profit	822.8	/	42.5%

Source: Yili

Note: Liquid milk — UHT/chilled milk/yogurt/beverage, plant milk, milk beverage, etc.; Milk powder and dairy products — Cow/goat milk IMF, adult formula, cheese, milk tea powdered beverage (milk tea powder); Others — Packaged water for drinking, lactobacillus beverage, etc.

Mengniu Achieves Double-digit Growth

Summary: Mengniu's interim report for H1 2021 celebrates YoY growth in revenue and net profit of 22.3% and 143.2% respectively.

On 25 Aug., China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319) published its interim financial report for H1, 2021. This

shows rises of 22.3% and 143.2% in revenue and net profit YoY. Its main liquid dairy business showed particularly strong momentum, with sales up 21.1%.

TABLE 3: Mengniu's Key Business Data in H1 2021

Sector	Amount (USD million)	Proportion	YoY change
Revenue	7,097.3	100.0%	22.3%
Liquid dairy	6,099.0	85.9%	21.1%
Powdered milk / IMF	393.8	5.5%	11.6%
Ice cream	464.4	6.5%	34.8%
Others	140.1	2.0%	98.2%
Net profit	455.6	/	143.2%

Source: Mengniu

Note: Liquid dairy — UHT milk, milk beverage, yogurt and fresh milk Others — Mainly refers to cheese and trading

Liquid Dairy Moving Fast

Mengniu's UHT pure milk and fresh milk delivered a combined turnover of USD6.1 billion (RMB39.4 billion), up 21.1%YoY.

Sales in the offline channel continued to grow, with double-digit rises in both convenience stores and smaller independent grocery stores). Meanwhile, as an increasing number of people tended to make purchases online during the period, its sales in the "O2O" channel also grew well (mainly home deliveries based on orders made on platforms/apps such as JD.com, ELEME.com, Meituan etc) .

UHT products (milk, lactobacillus drinks, milk beverages):

- Here its retail market share rose to 28.8%, +0.7 percentage points YoY
- The recent trading up by consumers in this category has led Mengniu to develop its range of mid-market and premium products such as organics and its "O-Sucrose" series. These efforts were rewarded by sales of "Deluxe Milk" and "Mengniu" pure milk products outpacing the category in terms of growth
- In addition, it has dedicated itself to exploring potential in "New Retail" sales options such as click & collect and home-delivery services — based on close "O2O" cooperation with retailers liked JD.com, ELEME.com, Meituan (China's leading one-stop-shop e-commerce platforms providing delivery services for food,

daily commodities etc.) — sales in this overall area increased at a triple digit rate in H1

Chilled products: here it focused on product innovation and building of new sales channels.

- Yoyic (chilled lactobacillus drink) promotion: Outdoor advertisements provided 2.8 billion "opportunities to see" across 3 million sites in public spaces (transport hubs etc.) with an advertising reach rate up to 72% of the target audience
- New launches: Low Sugar, Non-fat and Plain new yoghurt and lactobacillus drinks were rolled out; the same was done with fresh milk, with new focuses on "A2" and "High Protein" products
- E-commerce platforms: its "O2O" service covered a wide number of consumers and recorded substantial results

Ice Cream Looking for New Growth

Over H1 ice cream sales of USD464.4 million (RMB3.0 billion) were up 34.8% YoY. Despite this strong underlying growth, Mengniu still launched new products of innovative flavors and features under brands like "Suibian", "Deluxe" and "Green Mood":

- Suibian: Mengniu launched new flavours targeting young consumers — Caramel Bubble and Rum, each with liquid centres

- Deluxe: A new herbal range was launched to attract people looking for a healthy food choice

Powders/IMF Diversifying Distribution

Mengniu's powders/IMF sales of USD393.8 million (RMB2.55 billion) were up 11.6% YoY mainly due to its success in opening up new distribution channels for its main brand "Yashili" and its sub-brand "Ruibuen", as well as the brand "Bellamy's" (acquired from Bellamy's Australia).

- Focus on ruiboen brand
- Yashili launched 5 premium products for the middle-aged and elderly in the Yourui range
- Additionally other specialised products such as "Mengniu M8 Children's Formula" were developed

Yashili continued strategic cooperation with new retailers such as JD.com and Alibaba and of course, the traditional ones, mother & baby stores and supermarkets. During the pandemic, home-delivery services have become very popular and this looks like remaining the case in the future.

It is also noted that during H1 Mengniu's Bellamy's brand increased its share of sales through cross-border E-commerce platforms thanks to the strong performance of its platinum edition product "Organic A2" and more offline marketing of Jingyue Organic.

Bright Dairy: Revenue Rises but Profit Declines

Summary: Bright Dairy's interim report for H1 2021 showed revenue up 17.4% YoY but net profit down 16.8% YoY.

On 31 Aug. Bright Dairy & Food Co., Ltd. (Bright Dairy, Stock Code: 600597) issued its interim financial report for H1 2021. This shows that during the period Bright Dairy's business surprisingly performed less convincingly than the market's two major dairy groups.

- Revenue: USD2.2 billion (RMB14.3 billion), up 17.4% YoY
- Net profit:
 - USD40.4 million (RMB261 million), down 16.8% YoY
 - The decline mainly resulted from its overseas operations

TABLE 4: Bright Dairy's Key Business Data in H1 2021

Sector	2021H1	2020H1	YoY change
Revenue	2,205.3	1,879.0	17.40%
Liquid dairy	1,280.2	1,026.8	24.7%
Other dairy products	621.5	623.3	-0.3%
Animal husbandry products	190.4	143.1	33.1%
Others	84.6	70.5	20.0%
Net profit	40.4	48.5	-16.8%

Source: Bright Dairy

Note: Liquid dairy – Fresh milk, fresh yoghurt, UHT yoghurt, lactobacillus beverage, etc. Other dairy – IMF and milk powders for the middle-aged and elderly, cheese, butter, ice cream, etc. Animal husbandry products – Raw milk, feeds, etc.

Strong Liquid Dairy and Husbandry Sector Results

Kantar survey suggests in H1 this year, liquid milk consumption in Chinese urban households grew consistently by 18% YoY, UHT and fresh milk combined.

In line with this, Bright Dairy reported a robust growth in its liquid dairy business:

- Revenue: USD1.28 billion (RMB8.28 billion), rising by 24.7% YoY
- In H1, its activities in this category have focused on two main aspects:
- Product innovation: new launches included "Zhiyou A2 β -Casein fresh milk", "O-Surcrose Rushi" fresh drinking yoghurts, a new white peach DAFU flavour of Momchilovtsi (UHT yogurt) and "Youjia 3.8% Protein Pure Milk"
- Channel expansion: It continues to strengthen sales through traditional distribution channels by establishing its integrated CRM platform, and has placed increasing attention on E-commerce platforms like Tianmao, JD.com, and "New Retailers" such as Douyin (also known as Tiktok) and Kuaishou (video-sharing site, similar to Douyin), achieving wide product exposure in its target segments

As for animal husbandry segment in H1:

- Revenue: USD190.4 million (RMB1.23 billion), surging up by 33.1% YoY, driven mostly by increased sales of feed products
- Current herd size: total 36,502 mature cows and 30,370 calves (data sourced as of 30 June, 2021)

Earlier in March this year, Bright Dairy put out a non-public offering aimed at raising up to USD298.4 million (RMB1.93 billion) for the construction of farms and to supplement its working capital. The new farm lands are mainly located in Anhui, Ningxia and Heilongjiang provinces, close to its factories in these areas to maximise

supply chain efficiency. Bright Dairy plans to add 31,000 cows after the new projects are completed.

Overseas Operation Met Challenges

According to the report, Bright Dairy's sales growth in China contrasted with trends in its overseas markets which consequently pulled down its overall performance in H1:

- Domestic revenue: up 24.3% in Shanghai and 22.8% in the other regions YoY
- Overseas revenue: down 1.7% YoY (led by loss in its core division Synlait)

Synlait (Synlait Milk Ltd. in New Zealand, focused on IMF – especially supplied to a2, now hard-hit in China – and other milk powders, as well as certain liquid dairy lines):

- In H1, 2021, Synlait's revenue of USD482.5 million (RMB3.12 billion) led to a loss of USD11.8 million (RMB76 million)
- This was a real contrast to H1 in 2020 when sales of USD490.1 million (RMB3.17 billion) enabled a net profit of USD43.3 million (RMB280 million)
- The company is due to report its full year figures at the end of this month but is currently preparing for a significant reduction in its headcount

Bright Dairy ascribed the downturn at Synlait to 3 temporary external factors:

- Increasing raw milk price due to currency issues
- Lower shipments due to weak shipping capacity in New Zealand and the much higher international shipping costs during the period
- Sales to key distributors being affected by repeat COVID-19 cases

The latter is likely in particular a reference to a2 Milk Company's problems with its IMF business through cross-board E-commerce platforms. Since 2010, Synlait and others milk suppliers in Canterbury have established

supply agreements with a2MC for its A2 IMF production. Meanwhile, a2MC indirectly owns 8.2% of Synlait.

On 26 Aug., a2MC disclosed its FY 2021 Performance (30 June, 2020-30 June, 2021):

- Total revenue fell by 30.3% to USD859.3 million (NZD1.21 billion, 1 USD=1.4081 NZD as of 10 Sept., hexun.com), hit by wide-spread problems due to COVID-19 and the major changes underway in

China's IMF market

- Net profit was down by 79.2% YoY to USD57.3 million (NZD 80.7 million)

Overall, however, Synlait's sales of Chinese labelled IMF products grew by 15.4%, in contrast to the fall in its sales of English labelled products (mainly through cross-border E-commerce and Daigou channels) due to the impact of the pandemic.

Kedi Dairy charged with overstating revenue of USD 130.4 million

Summary: On 21 Sept., Kedi Dairy was penalised by the Administration for Market Regulation of Henan Province for overstatement of revenue and profit, and illegal information disclosure.

On 21 Sept., Henan Kedi Dairy Co., Ltd. (Kedi Dairy, Stock Code: 002770) stated that it received a Letter of Decision on Administrative Punishment and Market Entry Prohibition from the Administration for Market Regulation of Henan Province of the China Securities Regulatory Commission. According to this, Kedi Dairy is charged with the following illegal activities:

- Overstating revenue and profit over 2016–2018
- Not disclosing its affiliates' uses of funds
- Providing financial guarantees to its major shareholders and affiliates

Hence, the Henan regulatory bureau banned Zhang Qinghai, President of Kedi Dairy from entering the securities market for 10 years and fined him USD139,146.6 (RMB900,000) and the company USD92,764.4 (RMB600,000).

Falsification started in the 2nd year after listing

Kedi Dairy focuses on regional markets such as Henan, Shandong, Jiangsu and Anhui provinces. It is an integrated business producing UHT milk, modified milk, flavoured milk, milk beverage, fresh milk and cultured milk.

On 30 June, 2015, Kedi Dairy went public. In the following 3 years, the company disclosed its annual financial performance for 2016–2018 as follows:

- Revenue: USD124.5 million, USD191.6 million and USD198.7 million (RMB805 million, RMB1.24 billion and RMB1.29 billion)
- Total profits: USD18.6 million, USD23.7 million and USD25.0 million (RMB120 million, RMB153 million and RMB162 million)

However, the Letter points out that Kedi Dairy had fraudulently inflated these numbers by the following values:

- Inflated revenues: USD51.9 million, USD32.5 million and USD45.9 million (RMB336 million, RMB210 million and RMB297 million), accounting for 41.7%, 17.0%, and 23.1% of the yearly disclosed revenues respectively
- Inflated profits: USD18.3 million, USD10.6 million and USD17.4 million (RMB118.4 million, RMB68.6 million, and RMB112.8 million), accounting for 98.7%, 44.8% and 69.6% of the yearly disclosed profits respectively

The sum of inflated revenues over the 3 years came to USD180.4 million (RMB843.4 million) and inflated profits totalled at USD46.4 million (RMB299.8 million). The year of 2016, in particular, marked the biggest falsified numbers, with the company making almost zero actual profit.

Aside from financial fraud, the Notice alleged that Kedi Dairy disobeyed information-disseminating regulation:

- Between 2016 and 2018, the company offered a total amount of USD1.55 billion (RMB10.0 billion) of funds to Kedi Food Group Co., Ltd. (Kedi Group, one of its shareholders) and other affiliates
- Moreover, in 2017–2019, it provided 11 financial guarantees to Kedi Group and affiliates amounting to USD70.0 million (RMB453 million)
- It failed to report these actions within the regulated period or to state them in its annual reports, constituting a major act of omission

Business returns to growth in H1, 2021

On 13 Sept, Kedi Dairy answered questions raised on an interactive investor platform, suggesting the punishment will not pose threats to its operation, and that in the near future, a new president will be appointed. It also stressed that its interim report for H1 2021 issued on 30 Aug. is authentic, legal and valid:

- Revenue: USD41.7 million (RMB269.5 million), up 44.8% YoY
 - UHT dairy products: USD33.0 million (RMB213.5 million), accounting for 79.2% of the total revenue
 - Fresh dairy products: USD8.1 million (RMB52.4 million), accounting for 19.4% of the total revenue

- Net profit: USD1.2 million (RMB7.7 million) vs. -USD8.6 million (-RMB55.8 million) in H1, 2020

The double-digit growth in revenue and reduced losses seem to indicate that

Kedi Dairy is making a new start.

Nevertheless, deducting the sum of USD7.4 million (RMB47.8 million) of non-current assets, state aids and extraordinary gains/losses such

as allowance for bad debt received from Kedi Group during the reporting period, the company still faces a high net loss (excluding extraordinary gains/losses) of up to USD6.2 million (RMB40.1 million).

TABLE 5: Kedi Dairy's Key Financials for 2016 – 2018, Falsified vs. Actual, USD million

Item	2016	2017	2018
Disclosed revenue	124.4	191.5	198.7
Inflated revenue	52.0	32.5	45.9
Actual revenue	72.4	159.0	152.7
Growth rate of actual revenue	-31.0%	119.5%	-4.0%
Growth rate of disclosed revenue	18.0%	53.9%	3.7%
Disclosed profit	18.6	23.7	25.0
Inflated profit	18.3	10.6	17.4
Actual profit	0.3	13.1	7.5
Growth rate of actual profit	-96.0%	4334.7%	-42.2%
Growth rate of disclosed profit	127.0%	27.2%	5.5%
Actual operating margin	0.4%	8.2%	4.9%
Disclosed operating margin	15.0%	12.4%	12.6%

Source: Kedi Dairy & Administration for Market Regulation of Henan Province of China Securities Regulatory Commission

Financial Performance in H1, 2021: Sanyuan Foods vs. New Hope Dairy

Summary: Sanyuan Foods' and New Hope Dairy's Interim reports for H1 2021 both showed revenues and profits exceeding USD600 million and USD22 million.

Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429) focuses on manufacturing dairy products, cold drinks and snacks and other foods and beverages.

Its revenue split by product segment in H1, 2021, are as followed:

- Liquid milk (47.3%),
- Ice cream (17.14%),
- Spread (10.26%),
- Cheese (8.07%),
- Others (17.23%, mainly referring subsidies and interest income).

TABLE 6: Sanyuan Foods' Business Performance by Divisions in H1 2021

Division	Share by Revenue	Revenue, US million	YoY change	Operating Cost, USD million	Margins	YoY change
Liquid milk	47.30%	354.683	16.94%	306.34	13.63%	-3.92%
Ice Cream	17.14%	128.53	-	95.42	25.76%	-
Overseas	9.94%	74.549	-	38.51	48.35%	-
E-commerce	9.90%	74.215	-	59.24	20.17%	-
SMP, WMP and other dairy products	8.07%	60.496	-	46.86	22.54%	-
Home-delivery service	6.60%	49.494	64.20%	34.91	29.47%	-1.25%
Others	0.49%	3.692	74.29%	2.08	43.69%	9.58%
HQ and other subsidiaries	0.35%	2.648	-	1.37	48.20%	-
"Taizinaï"	0.20%	1.506	-	1.43	4.73%	-
Intercompany eliminations	-	-131.109	-	-130.68	0.33%	-
Total revenue, USD million	618.704					

Source: Sanyuan Foods

Note: "Taizinaï": is a lactobacillus drink brand acquired by Sanyuan Foods in 2012;

New Hope Dairy Holdings Co., Ltd. (New Hope Dairy, Stock Code: 002946)

- Its business covers the breeding of dairy cows, and production and sales of dairy products.

- In H1, 2021, its liquid dairy sector made up 92.11% of the total revenue including sales of milk, yoghurt and milk beverages (all available in both fresh and UHT formats) as well as various powdered milk products

TABLE 7: New Hope Dairy's Business Performance by Divisions in H1 2021

Division	Share by Revenue	Revenue, US million	YoY change	Operating Cost, USD million	Margins	YoY change
Liquid milk	92.11%	614.596	67.79%	454.38	26.07%	-9.02%
Other products	7.03%	46.886	-	0	0.00%	-
Milk powder	0.86%	5.770	15.38%	0	0.00%	-
Others	0.00%	0.000	-	36.47	0.00%	-
Total revenue, USD million	667.254					

Source: New Hope Dairy

Note: Milk powder: SMP, WMP, and other formula milk powder

Business indicators in H1, 2021

The two companies both achieved revenues exceeding USD600 million, although their growth rates were rather different.

Remarkably, Sanyuan Foods registered a spike in revenue up by 68.85% YoY while Sanyuan Foods recorded net profit shooting up by 244.02% YoY.

TABLE 8: New Hope Dairy's Business Performance by Divisions in H1 2021

Item	Beijing Sanyuan	YoY change	New Hope Dairy	YoY change
Revenue	618.704	17.56%	667.254	68.85%
Net profit	22.556	244.02%	22.591	90.58%

Source: Sanyuan Foods, New Hope Dairy and CCM

Profitability

Both companies' showed signs of weakness in terms of their short-term solvency, although their outstanding performances this H1 have strengthened their positions.

TABLE 8: Financial Performances of Sanyuan Foods and New Hope Dairy in H1, 2021

Item	Sanyuan Foods	YoY change	New Hope Dairy	YoY change
Gross margins	26.38%	-19.57%	25.88%	23.2%
Return on net assets	2.88%	236.74%	5.52%	32.81%
Net profit margins	3.65%	222.51%	3.39%	12.87%
Debt-asset ratio	54.17%	-5.41%	67.71%	1.77%
Working capital ratio	0.82%	-27.89%	0.52%	0.96%
Quick ratio	0.69%	-20.94%	0.4%	-5.48%

Source: CCM

Raw Milk Supply Price Analysis in H1 2021

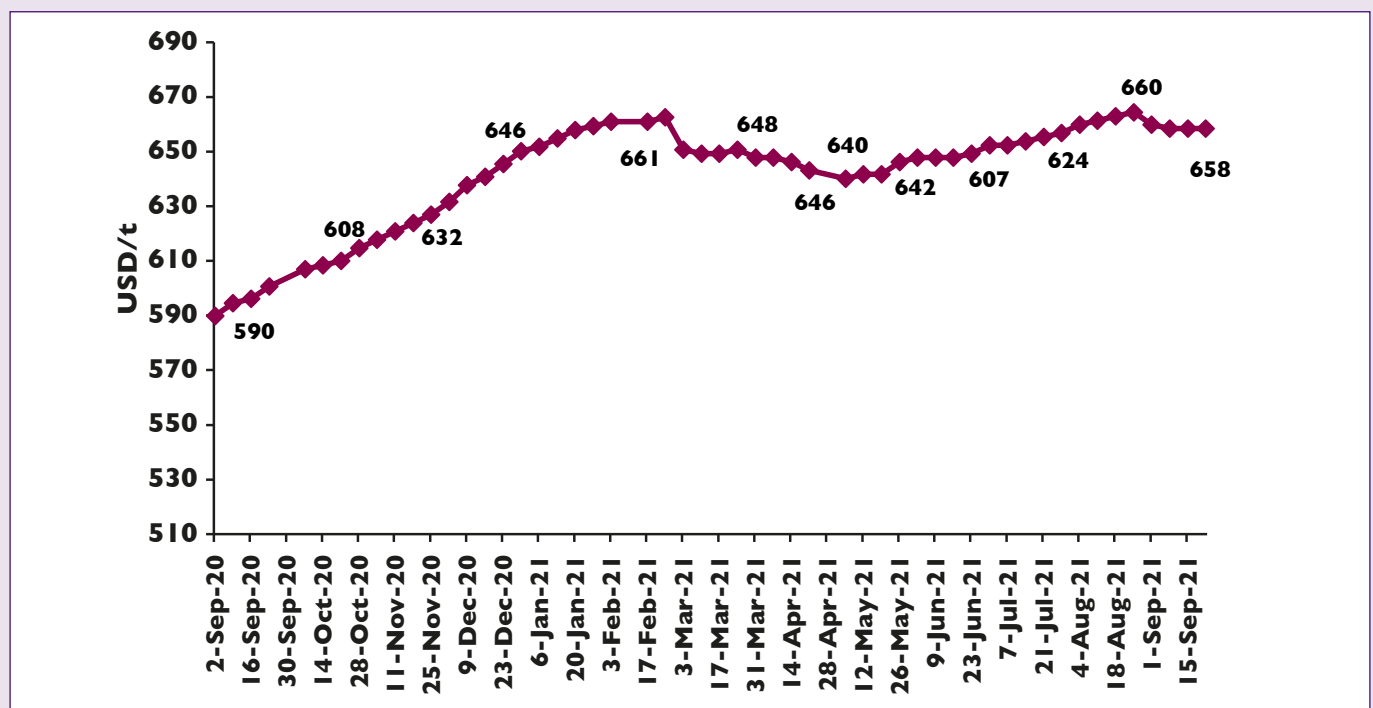
Summary: In Sept., China's average raw milk price averaged at USD658/t (RMB4,340/t), up 12.4% YoY. Four leading dairy farming companies in China were the major beneficiaries.

According to Ministry of Agriculture and Rural Affairs of the People's Republic of China (MARA), raw milk price averaged at USD658/t (RMB4,340/t) in Sept., down slightly

MoM but still up 12.4% YoY.

(Monitoring data is in 10 major dairy growing provinces on 500 county markets and designated collecting points, as of 22 Sept.)

FIGURE 5: National Average Raw Milk Price, Sept. 2020–Sept. 2021



Source: MARA

Recently, China's dairying enterprises have also started to release their H1

financial reports, with Youran Dairy the outstanding performer in terms of

topline growth (+36.40% YoY):

TABLE 9: Financial Performances of the 4 Companies in H1 2021

	Sales, USD million	YoY change	Net profit	YoY change	Gross profit, USD million	YoY change	Margins
Youran Dairy	1,127.36	36.40%	183.60	59.60%	330.69	29.30%	30.10%
Modern Dairy	491.60	12.40%	78.17	123.42%	182.68	12.30%	37.20%
China Shengmu	223.59	15.60%	41.98	63.85%	84.62	81.40%	37.80%
Yuanshengtai Dairy	129.47	11.50%	19.16	-20.90%	60.95	5.40%	27.30%

Source: CCM

Great Potential in Dairy Farming

Benefiting from the surging raw milk price this year, most dairying companies have enjoyed strong growths in net profits, the following 4 companies especially:

- Youran Dairy (actual holding company: Yili): USD183.6 million, up 59.60% YoY
- China Modern Dairy Holdings Ltd. (Modern Dairy, Stock Code: HK.01117; actual holding company: Mengniu): USD78.17 million, up 123.42% YoY
- China Shengmu Organic Milk Limited (China Shengmu, Stock Code: 1432; actual holding company: Mengniu): USD41.98 million, up 63.80% YoY
- Yuanshengtai Dairy Farm Limited (Yuanshengtai Dairy, Stock Code: HK.01431; actual holding company: China Feihe): USD19.16 million, up 20.9% YoY.

Notable points:

- Youran Dairy: Sales growth is the highest among the four
- China Shengmu: Its gross margins were the highest of the four — according to the company, it is due to its exemption of the enterprise income tax exclusive for dairy cow breeding industry and primary good sectors (Enterprise income tax shall be levied at the rate of 25% as a general rule in China)
- Yuanshengtai Dairy: By contrast, despite growing sales and gross profit, its net profit was down 20.9% YoY — according to the company, this results from increased costs of USD 12.5 million (RMB 80.85 million), particularly as the average market price of 24-month-old dairy cows surged in H1
- Modern Dairy: Its strong revenue figures included USD8.256

million (RMB53.4 million) from subsidies and interest income

Industry Outlook

The rapid development of dairying enterprises is inseparable from China's supporting policies over recent years. Song Liang, the dairy sector commentator, suggests that while they should continue to prosper in H2 of the year, growth in net profitability for these businesses and the main dairy processors will likely slow and cost reduction and efficiency will prove vital to their ongoing success.

Key points:

- Youran Dairy: Its sales of 927,832 tonnes were up 23.1% YoY, the highest of the 4 companies
- Modern Dairy: Its raw milk price of USD678.73/t was the lowest amongst the 4 companies

TABLE 10: Raw Milk Supplies from the 4 Companies in H1 2021/2021

	Herd size	Unit price of raw milk, USD/t	YoY change	Sales volume, tonne	YoY change
Youran Dairy	375,654	725.11	10.70%	927,832	23.10%
Modern Dairy	251,876	678.73	13.40%	724,564	-0.75%
China Shengmu, of which	72,321	776.13	19.50%	287,856	-3.30%
Organic	/	820.96	6.30%	103,603	-39.60%
Regular	/	698.82	24.70%	/	/
Yuanshengtai Dairy	115,935	720.01	8.80%	179,824	2.48%

Source: CCM

News in Brief

Dairy Imports in August 2021

In August China's import demands proved strong across most categories, particularly for milk powders and fresh cheese.

TABLE 11: Dairy Imports, tonnes

HS code	Product	202008	202107	202108	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	18,269.9	13,428.1	11,714.5	-12.8%	-35.9%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	61,261.7	62,287.0	83,254.5	33.7%	35.9%
04014000	Milk & cream, 6%	0.1	4.7	10.2	117.3%	17836.8%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	15,049.1	17,579.8	21,600.7	22.9%	43.5%
04021000	SMP	27,527.0	46,142.4	33,802.8	-26.7%	22.8%
04022100	WMP, unsweetened	29,977.3	73,631.1	73,930.9	0.4%	146.6%
04022900	WMP, sweetened	593.5	155.1	292.8	88.8%	-50.7%
04041000	Whey and modified whey	55,522.4	65,102.1	62,125.5	-4.6%	11.9%
04049000	Products consisting of natural milk constituents, nes	250.6	224.8	531.9	136.6%	112.2%
04051000	Butter	5,034.6	9,296.8	5,456.7	-41.3%	8.4%
04059000	AMF	3,252.8	3,994.6	4,084.9	2.3%	25.6%
04061000	Fresh cheese, incl. whey cheese, curd	4,324.0	5,530.2	8,038.1	45.4%	85.9%
04062000	Grated or powdered cheese	2,409.7	4,753.4	1,937.0	-59.2%	-19.6%
04063000	Processed cheese	1,314.1	2,057.1	2,753.0	33.8%	109.5%
04064000	Blue cheese	4.9	5.4	12.6	132.5%	154.1%
04069000	Cheese, nes	2,377.6	3,354.6	2,917.8	-13.0%	22.7%
17021100	Anhydrous lactose, lactose wt. ≥99%	11,431.6	11,601.3	9,387.9	-19.1%	-17.9%
17021900	Lactose syrup & other lactose	1,239.5	263.7	630.4	139.0%	-49.1%
19011010	Infant formula	29,405.1	16,931.5	21,388.7	26.3%	-27.3%
35011000	Casein	1,292.7	928.9	1,449.1	56.0%	12.1%
35019000	Caseinates	1,861.2	2,296.4	2,095.4	-8.8%	12.6%
35022000	WPC80/WPI	3,251.1	2,625.3	2,813.1	7.2%	-13.5%

Source: China Customs

Ganwei Dairy's 1,200 t/d Dairy Plant Construction Starts Up

According to local reports on 15 Sept., Gansu Ganwei Dairy Co., Ltd. (Ganwei Dairy) held the opening ceremony of its 1,200 t/d plant construction.

This project represents an investment of USD154.61 million (RMB1.0 billion) in Lanzhou New Area (set up in the valley around Lanzhou Zhongchuan Airport, 30 km from the old city of Lanzhou in Gansu Province) covering an area of 18.56 ha (278.366 mu).

The construction divides into 2 phases:

- Phase I:
 - Investment: USD92.76 million (RMB0.6 billion)
 - Content: A 1,200 t/d liquid dairy processing plant
- Phase II:
 - Investment: USD61.84 million (RMB0.4 billion)
 - Content: A 600 t/d SMP production line
- Number of workers: The plant will create over 400 job opportunities.

On 7 April, 2020, Ganwei Dairy was established by Gansu Qianjin Animal Husbandry Science and Technology Co., Ltd. (Qianjin Animal Husbandry). Set up in 2008, Qianjin Animal Husbandry is currently worth USD0.32 billion (RMB2.1 billion). It is one of the leading dairy enterprises in Gansu Province with 45,000 cows spread across 18 dairy farms producing 600+ t/d of premium raw milk. Its herd is mainly fed from its own fodder base of 5,667 ha. Up to now, there is no news for the completion date of this construction from Ganwei Dairy or Qianjin Animal Husbandry.

Yakult Fined for False Advertising

On 31 Aug., Shanghai Yakult Co., Ltd. (Shanghai Yakult) was fined USD69,573.3 (RMB450,000) for "unfair competition" (false advertising).

Its illegal activities are indicated as having included:

- Claiming "Probiotics play an important role in preventing and treating Covid-19" and improperly citing the Scheme for Diagnosis and Treatment of Novel Coronavirus Pneumonia as a way of justifying itself and boosting consumers' awareness of and confidence in its lactobacillus drinks
- Claiming "The intake of active probiotics every day is necessary to maintain the balance of intestinal flora because probiotics inside the intestines tend to pass through the digestive system without being absorbed" – misleading consumers to believe that not consuming probiotics daily is harmful to one's health
- Claiming "Each 100ml bottle of Yakult contains over 10 billion of *Lactobacillus paracasei* Strain Shirota (LcS), sufficient for an adult's daily consumption of probiotics" giving a false impression that the LcS in its products can provide all the probiotics necessary to humans and dismissing the need for other types of probiotics

On 7 Sept., Shanghai Yakult posted a statement on its Weibo official account apologising for the lack of appropriate controls over its promotional activities' management.

Shanghai Yakult was established in 2004 and is 100% owned by Yakult (China) Corporation, which in turn is fully controlled by the Japanese parent, Yakult Honsha Co., Ltd.

By March 2019, Yakult had captured over 60% of China's probiotic beverage market. According to the group's 2020 annual reports, on the basis of bottles sold per day, China was its best-performing overseas markets, next only to Japan. The average daily sales of 76.09 million bottles in the China mainland market accounted for almost 20% of its global sales.

Financial Supports to the Dairy Industry in Inner Mongolia

In recent years, the government of the Inner Mongolia Autonomous Region has required local banks and insurance institutions to support the development of the dairy sector. A recent summary over the years up to June 2021 shows that these supports have been substantial:

- Total USD10.4 billion (RMB67.1 billion)
- Credit balances to different sectors:
 - Forage grass planting and processing: USD159.1 million (RMB1.03 billion)
 - Cow (goat) breeding and farming: USD1.17 billion (RMB7.56 billion)
 - Dairy processing / manufacturing: USD2.29 billion (RMB14.8 billion)
 - Other projects: USD2.88 billion (RMB18.7 billion)

Supports from insurance institutions:

- Total insurance premia under China's "Revitalization of Dairy Industry" plan: USD7.29 billion (RMB47.2 billion)
- Cumulative benefits for dairy producers: USD8.82 billion (RMB57.1 billion)

Two Provincial Draft Measures for FSMPs

On 7 Sept., Anhui Province's Administration for Market Regulation issued a draft Administrative Measures of Operation and Use of Specially Formulated Food for Medical Use for public comments. The Draft is divided into six chapters: General Provisions, Basic Requirements, Use Requirements for Medical Institutions, Operation Requirements for Network Subjects, Other Sites and Requirements, and Supplementary Provisions.

In 29 Dec., 2020, Jiangsu Province issued a similar draft, subsequently implementing this on 1 Feb., this year. It focused on 3 key areas:

- Roles and responsibility of regulatory department of operation and use of specially formulated food for medical use
- Principles of admittance and prohibition of specially formulated food for medical use
- Application scope as Specially Formulated Food for Medical Use in medical institutions

Coca-Cola's JV KeNiule to Start Production

During Sept., KeNiule Dairy Co., Ltd. (KeNiule) has moved forward in a number of areas

- Announcing completion of food patent registrations for its "可NIU了", "KENIULE" and "KeNiule" brands
- Introducing its US fresh milk brand "Fairlife" at a product launch event held in Shanghai (24 Sept.)
- Gaining the approval of the Ecological Environment Sub-bureau of Wuhe County of Anhui Province for its environmental impact assessment on its fresh milk production project (phase I) (on 6 Sept., having been filed by KeNiule on 6 Aug.)

Overview of KeNiule's fresh milk production project (phase I):

- Project nature: New construction (relocation)
- Location: The idle (rented) liquid milk plant of Modern Farming (Bengbu) Co., Ltd. (Modern Bengbu) in Zhuding Town, Wuhe County, Bengbu City, Anhui Province
- Floor area: 8,417.13 m²
- Total investment: USD3.38 million (RMB41.31 million), 0.1% (=USD77,303 (RMB500,000)) of which for environmental protection
- Designed production capacity:
- Fresh milk: 550t/d or 165,000t/a
- Specification: 710ml (600,000 cartons per day); 180ml (1,100,000 cartons per day)
- Main raw materials: raw milk from Modern Bengbu
- Working system: 70 workers in 3 rotating shifts (8 hours each); 300 working days per year
- Construction period: 6 months

KeNiule is a JV established in Oct., 2020 between Coca-Cola and China Mengniu Dairy Company Limited (Mengniu, Stock Code: HK.02319) with registered capital of USD68,859,400. It is currently run by CEO Vmasi Mohan Thati (also the president of the Operations Division of Coca-Cola (China) and GM Luo Yan (also the acting VP of Mengniu's Fresh Milk Division).

It is Coca-Cola's first move into China's dairy market, a decade after its investment in Fairlife in 2012 in the US market, a producer of dairy-based beverages such as high-protein milkshakes, sports drinks and UF milk. In 2020, Coca-Cola acquired the remaining 57.5% of Fairlife from the former major shareholder Select Milk Producers, giving it 100% ownership.

Mengniu's Ice Cream Stores Open at Universal Beijing Resort

On 20 Sept., coinciding with this year's Mid-Autumn Festival holiday, the Universal Beijing Resort (UBR) formally opened to the public, including a "Cutie Cones" store set up by China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319)'s. During the opening, Mengniu introduced a range of 20 products in UBR-exclusive packaging under its 8 brands; these included ice cream products variously aimed at children, youngsters and adults and selling in-store for between USD6.96-USD13.60 (RMB45-RMB88).

Back in 2017, Mengniu signed a cooperation agreement with UBR, setting up a partnership to run until 2034. This followed its signing of a similar cooperation in 2016 to become the sole designated dairy partner for Shanghai Disney Resort.

Niu Mao Hei Hei Closes RMB10 Million-Level Angel Financing Round

The functional dairy brand Niu Mao Hei Hei has announced the completion of a RMB10 million-level angel financing round via QF Capital. The funds will be used mainly for marketing and talent introduction. Earlier in Nov., 2020, the company had completed a strategic financing worth over USD154,607 (RMB1,000,000) led by Qinghai Jiangheyuan Investment Group.

Established in June, 2020, Niu Mao Hei Hei made its debut on TMALL.com (the biggest B2C platform in China) in mid-Sept. of the same year, targeting young white-collar consumers in high-tier cities.

The company's "Probiotic Yogurt BR-97™" was launched on 16 Aug., 2021, adding a probiotic compound comprised of bifidobacterium animalis subsp. lactis CP-9 and lactobacillus rhamnosus bv-77. Each bottle contains 10 billion patented probiotics (China's invention patent name: Anti-obesity Lactic Acid Bacteria Strains and Their Application in Food and Pharmaceutical Components; patent NO.: ZL 201510074689.7).

Niu Mao Hei Hei has focused on a zero-sucrose formulation. Now its key focus is on using lactase to hydrolyse lactose to glucose and galactose to generate a moderate level of sweetness, so that – even without adding sucrose and sugar substitutes – the products can still satisfy consumer tastes. This technique has been adopted for its fresh sugar-free yoghurt and is expected to be applied in functional probiotic yoghurts production line, and even fresh cheese, fresh milk and yak dairy products.

For milk supply Niu Mao Hei Hei is focusing on Qinghai Province, where it has worked hard on integrating local agriculture and animal husbandry resources to set up an organic milk production line.

Yili to Boost Liquid Milk Production

On 26 Aug., the environmental impact assessment of the World-leading 5G Green Production Artificial Intelligence Application Demonstration Project (phase III) of Inner Mongolia Jinhao Yili Industrial Dairy Co., Ltd. (Jinhao Yili) was approved by Hohhot Bureau of Ecology and Environment. The project is to build a liquid milk plant.

Project Overview:

- Location: Tumed Left Banner, Hohhot City
- Floor area: 224,353.33 m²
- Construction content:
 - Plant with 5 lines for "Jindian" (UHT milk, 250ml), 2 lines for "Deluxe Milk" (UHT milk, 250ml) and 2 lines for "Yili Pure Milk" (UHT milk, 250ml)
 - Supporting equipment and facilities such as milk reception centre, milk cooling centre and laboratory
- Production capacity: 197,400 t/a liquid milk
- Total investment: USD13.61 million (RMB88.02 million), 6.67% (=USD9.08 million (RMB58.75 million)) of which for environmental protection

Jinhao Yili, established on 27 Feb., 2020, is wholly-owned by Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887).

Mengniu to Build up Pure Milk Production

An environmental impact assessment carried out by China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319) on its UHT milk production line construction project undertaken by its UHT Division and Helin No. 3 Plant staff was approved by Hohhot Bureau of Ecology and Environment on 12 Aug.

Project Overview:

- Project nature: New construction
 - Location: Mengniu Helin No. 3 Plant, Shengle Economic Park, Helingeer County, Hohhot City
 - Floor area: 230m²
 - Construction content: To establish a new 250e (i.e. packaging production line for 250ml UHT) production line to replace the existing original 250s production line
 - Scheduled capacity: 37,500 t/a Pure milk (UHT milk)
 - Total investment: USD6.52 million (RMB42.16 million), 9.39% (=USD0.54 million (RMB3.50 million)) of which is for environmental protection
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