

Dairy Products China News

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Welcome to the March issue of Dairy Products China News.

Food security remains firmly on the menu in China, as the government meetings earlier this month showed once again. In December, Beijing announced that it wanted to produce 95% of its pork by 2025 and make the country independent of soy imports. These seem somewhere between improbable and impossible, and in dairy we are very used to seeing impossible local self-sufficiency targets being announced around Asia and Africa.

China's dairy production aspirations are also ambitious but the level of support they are receiving means they can by no means be ruled out, despite some major challenges. Conversely, whilst the upward trend for domestic milk production and processing capacity continues, the country remains somewhat embattled at present on wider fronts. It continues to suffer from the pandemic which it hoped it had eradicated, with the worst wave since early 2020 – this week high case numbers have been reported in Jilin province and in key commercial locations such as Shanghai and Tianjin, and lockdowns are back in place in affected areas. The war in Ukraine is causing the country major problems, directly impacting its Belt and Road Initiative rail links into Europe. This is a severe challenge to BRI in that region – although we shouldn't forget it's a global project (in the last two years alone, more than a dozen Caribbean nations have signed on to the initiative). In 2021, container traffic between Europe and China via Russia increased by 47% and was projected to reach a million TEUs in 2023, but the war now makes the land route via Russia, Belarus, and Poland unfeasible of course – this may well disrupt some dairy supply.

Cheaper Russian oil will not be offsetting these problems by anything like enough, and prices from Chinese factories are rising rapidly – the Producer Price Index was up 8.8% YoY in February. Fortunately for food marketers, local consumer goods prices rose by only 0.9%, but will this last? And how much of a brake will the war and rising international commodity prices place upon the ability of the Chinese economy to keep its consumers' disposable incomes at levels which facilitate spending?

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Headlines

- ▶ On 16 Feb., MARA launched an Action Plan for Improving Dairy Industry Competitiveness during the "14th Five-year Plan" Period (2021–2025).
- ▶ On 9 March, China Customs published the Protocol of Inspection and Quarantine Requirements for the Export of Dairy Products from Mongolia to China.
- ▶ In Feb., details of Shanxi Youran Dairy's new 4,500 dairy farms and Weiniu Dairy's 3,000 dairy farm were disclosed in the environmental impact assessment reports.
- ▶ Shaanxi Province continues to develop its goat milk sector, as recent progress illustrates.
- ▶ Mead Johnson China has acquired Milkgoat to enter the goat milk formula business.
- ▶ Mengniu Dengkou's new Tetra Pak lines (installed in Jan. 2021) received a go-ahead for commissioning with positive environmental impact checks.
- ▶ On 2 March, Youran Dairy proposed to offer USD153.9 million (RMB970 million) for 27.16% of Zhongdi Dairy to strengthen its dairying business.
- ▶ Danone completed the acquisition of a 95% stake in Eurbest on 3 March, a move to secure domestic IMF registration status.
- ▶ Modern Dairy has proposed to acquire 75% of Ai Yang Niu for USD45.7 million (RMB288 million), a deal intended to complete its supply chain by adding operations in feed supply.
- ▶ Raw milk prices kept slipping in March, though at a slower pace than in the previous month. The downtrend since Q4 2021 is expected to continue for a while but feed cost increases will challenge this.

Major Companies and Sites Mentioned in This Issue



Market Dynamics

New Farm Constructions of Shanxi Youran Dairy and Weiniu Dairy Approved

Summary: In Feb., details of Shanxi Youran Dairy's new 4,500 dairy farms and Weiniu Dairy's 3,000 dairy farm were disclosed in the final environmental impact checks.

Shanxi Youran Dairy Co., Ltd. (Shanxi Youran Dairy)

On 21 Feb., the environmental impact checks on Shanxi Youran Dairy's new 4,500 dairy farm were made public.

Project Overview

- Location: Jialing Town, Qixian County, Jinzhong City, Shanxi Province
- Total investment: USD47.6 million (RMB300 million) 8.21% (=USD3.9 million or RMB24.7 million) of which is for environmental protection
- Total area: 37.1 ha, including 12 ha of buildings
- Scale: 4,500 head, comprising 2,700 mature cows (2,160 milking cows and 540 calving/dry/sick/weak cows) and 1,800 replacements (585 aged 0-6 months and 1,215 aged 7-24 months)
- Major construction content: cattle shed, milking house, and other supporting facilities and equipment like hay barn, silage silo, concentrates warehouse, manure treatment
- Designated construction period: 16 months from April 2022 to July 2023
- Expected output: 25,000 tonnes of raw milk, plus sale of 520 unproductive replacement cattle, 50 mature cows and 45 calves.

Established in July 2021 with a registered capital of USD9.5 million (RMB60 million), Shanxi Youran Dairy is wholly-owned by Inner Mongolia Youran Dairy Co., Ltd., focusing on dairying and raw milk sale.

TABLE I: Feed Inputs Required, Shanxi Youran Dairy

No.	Item	Consumption, t/a
1	Silage	12,900
2	Alfalfa	4,300
3	Oat hay	2,160
4	Concentrates	8,600

Source: Shanxi Youran Dairy

Weiniu Dairy Farming (Horinger) Co., Ltd. (Weiniu Dairy)

On 28 Feb., the EIA report of Weiniu Dairy's new 4,500 cow farm was published on the website of the Ecology and Environment Bureau of Hohhot City, Inner Mongolia Autonomous Region, meaning construction work can begin. Founded in Sept. 2020 with a registered capital of USD7.9 million (RMB50 million), Weiniu Dairy is wholly-owned by Inner Mongolia Weiniu Technology Co., Ltd. (Weiniu Tech), a dairy farming and fodder growing group.

The region targets a dairy sector of 3.5 million head, and production of dairy products up to 10 million tonnes worth USD47.6 billion (RMB300 billion) by 2025, according to the *Implementation Opinions on Promoting the Revitalization of the Dairy Industry* issued by the Region's General Office, prioritising standards and scale in dairying, and promoting cooperation between producers and processors. This new project aligns well with that ambition.

Project Overview

- Total investment: USD19 million (RMB120 million), 0.975% (=USD0.19 million or RMB1.17 million) of which is for environmental protection
- Location: Horinger County, Hohhot City, Inner Mongolia Autonomous Region
- Total area: 14.1 ha
- Major construction content: 10 sheds for milking cows, 3 sheds for replacement cattle, milking house and other supporting facilities and equipment e.g. outdoor exercise area, calf hutch, hay barn, concentrates warehouse, silage silo, manure treatment etc
- Scale: 3,000 head, comprising 1,500 milking cows, 1,200 replacement heifers, 200 dry cows and 100 calves
- Expected yield: each cow produces raw milk averaging at 35 kg/d of or 16,000 t/a with a 300-day lactation cycle
- Usage of feeds: 6,000 t/a of concentrates, 7,500 t/a of forage and 30,000 t/a of silage.

Development of the Dairy Goat Industry in Shaanxi

Summary: Shaanxi Province continues to develop its goat milk sector, as recent progress illustrates.

Shaanxi Province, a major goat dairying region in China, has 251+ enterprises involved in goat dairy products, 20 of which are plants with production licenses for IMF products. Moreover, 51.6% (=49) of the 95 registered goat IMF products in China are produced

here in the context of a very supportive provincial plan.

In 2018, more than USD15.9 million (RMB100 million) of government funds were allocated to the local dairy goat sector, mainly in Longxian County (Baoji City), Fuping County (Weinan City) and Qianxian County (Xianyang City).

By the end of 2020, there were 2,486 million dairy goats in the province,

producing 648,000 tonnes of milk, according to the local Ministry of Agriculture and Rural Affairs department.

In 2021, the province accounted for 48.2% of China's dairy goats and 61.4% of its goat milk production, whilst its goat dairy products made up at least 85% of the category at a national level.

TABLE 2: 20 IMF-registered Goat Dairy Plants in Shaanxi Province

City	Number of Enterprises	Enterprise
Xi'an City	7	Xi'an Baiyue Sheep Milk Group Co., Ltd.
		Xi'an Yinqiao Dairy Industry (Group) Co., Ltd.
		Shaanxi Qinlong Dairy Group Co., Ltd.
		Xi'an Annuo Dairy Corporation Limited
		Xi'an Hongxing Dairy Co., Ltd.
		Xi'an Yinqiao Beiduo Nutrition Food Co., Ltd.
		Xi'an Xiyangyang Biological Technology Co., Ltd.
Xianyang City	5	Shaanxi Baiyue Youlishi Dairy Co., Ltd.
		Shaanxi Yatai Dairy Co., Ltd.
		Mileyn Dairy Group Co., Ltd.
		Shaanxi Fineboon Dairy Co., Ltd.
		Yangling Shengfei Dairy Industry Co., Ltd.
Baoji City	3	Shaanxi Herds Dairy Group (Longzhou) Co., Ltd.
		Shaanxi Herds Dairy Co., Ltd. (Herds Dairy)
		Shaanxi Guanshan Longzhou Dairy Co., Ltd.
Weinan City	3	Shaanxi Jinniu Dairy Co., Ltd. Shaanxi Shengtang Dairy Co., Ltd.
		Shaanxi Shengtang Dairy Co., Ltd.
		Shaanxi Hongxing Meiling Dairy Co., Ltd.
Others	2	Dingbian County Milk Industrial Co., Ltd.
		Shaanxi Hengsheng Dairy Co., Ltd.

Source: CCM

On 7 March, Shaanxi Herds Dairy Co., Ltd. (Herds Dairy) launched a new "pure goat" "Aobeijia Goat Milk Formula for Children", containing phosphatidylserine (PS), Bifidobacterium animalis subsp. lactis (BB-12), vitamin D, lutein, DHA and fructo-oligosaccharide (FOS).

The firm has 100,000+ dairy goats and its 7 production lines produce over 10,000 t/a of goat and cow IMF products including:

- 4 goat IMF brands – Herds Saanen Goat, Herds Baby, "Aobeijia" and "Meibeijia"
- Other goat milk formula brands for children such as Round Care Children (for Children aged 3-15

years), Kindergarten Baby (for children aged 3-6 years), "Aobeijia Kindergarten Baby" (for children aged 3-6 years)

- 14 goat milk powder series for adults such as Round Care, "Guoli", "Heng'en Beijing", "Yushan", "Yuxikang", "Mulanshan", "Xiaoyang Guiru"
- It also produces goat milk powder products for school students and pregnant women.

Earlier, on 24 Feb., Shengtang Dairy notified that it had received organic certifications for its whole goat milk powder, modified formula milk powder (e.g. by adding sialic acid, lactoferrin,

immunoglobulins, etc.), and the raw goat milk produced at its Shengtang Anky Organic Dairy Farm (in Weinan City, Shaanxi Province). This farm has 3,000 stud goats and 50,000 dairy goats, occupying a total area of 789 ha and organic pasture area of 607 ha.

Shengtang Dairy owns 8 production lines giving 500 t/d goat milk processing capacity and 20,000 t/a of goat dairy production.

It owns three goat milk powder brands – "Shengtang", "Wanlong" and "Qinlong" – with product series for infants, pregnant women, the middle-aged and elderly, as well as school students.

Governmental Direction

Action Plan for Improving Dairy Industry Competitiveness Launched

Summary: On 16 Feb., MARA launched an Action Plan for Improving Dairy Industry Competitiveness during the "14th Five-year Plan" Period (2021–2025).

On 16 Feb., the Ministry of Agriculture and Rural Affairs of China (MARA) initiated an Action Plan for Improving Dairy Industry Competitiveness during "14th Five-year Plan" Period (2021–2025), focusing on enhancing the national dairy sector and security of dairy supply.

The plan stipulates targets for national dairying by 2025:

- Cow milk production – 41 million tonnes
- Dairy farms (100+ cows) – 75% of the total dairy farms nationwide
- Number of such farms with integrated dairying and feed growing and operating at "national-level" – to grow by 5%
- Average milk yield per cow – 9 t/a.

Key industrial data was disclosed for calendar year 2020:

- National production of processed dairy products (calculated by the National Bureau of Statistics) was 35.3 million tonnes, up by 7% vs. 2015
- Dairy farms (100+ cows) – 67% of the total dairy farms nationwide, up 18.9% vs. 2015

- Average milk yield per cow – 8.3 tonnes, up 2.3 tonnes vs. 2015
- All raw milk from the scale (national-level) dairy farms met the standards for protein / fat content seen in advanced dairying countries
- Pass rates on inspections of dairy products were the highest amongst all food categories
- Imports of dairy products were up 70% in 2020 vs. 2015; milk self-sufficiency was down 9.6% over the period.

Key tasks in meeting objectives for the sector are highlighted in the MARA document as follows:

- Optimise the regional distribution of milk production:
 - Continuous support will be given to 80 major dairying counties (each producing up to 50,000 t/a raw milk) in Northeast China, Inner Mongolia Autonomous Region, North and Central China, and the Northwest
 - Hebei Province, Inner Mongolia Autonomous Region and Heilongjiang Province, the 3 key developing regions, should receive at least 50% of the governmental supports, especially plants producing between 1,000 – 10,000 t/a of dairy products

- Also key targets for support are 20 major dairying counties (each producing up to 30,000 t/a) in the southern and neighbouring cities
- Improve domestic dairy cattle breeding capacity:
 - Firm up registration of dairy breeds and extend measurement range on dairy milking performance
 - Develop a dairy breed data platform and dairy production performance database
 - Enhance the accuracy of genetic evaluation by methods like whole genome selection
 - Set up a reference cattle group with progeny testing in young bulls
 - Scale up breeding of replacement bulls and proven bulls, and facilitate establishment of national-level core breeding farms of dairy cattle
- Boost premium forage supply:
 - Prioritise support for high-quality alfalfa production areas in Inner Mongolia Autonomous Region, Gansu Province and Ningxia Hui Autonomous Region, to raise the country's self-sufficiency in alfalfa
 - Encourage dairy farming projects located near forage planting areas, to lower input costs
 - Strengthen promotion of silage alfalfa feeding technology
 - Digitalise dairy farming to make it more "intelligent"
 - Assist the expansion of family farms and farmer cooperatives
 - Upgrade key facilities and equipment for feeding, milking, healthcare, disease control, manure treatment, etc.
- Improve management of targeted feeding and resource utilisation
- Extend the supply chain:
 - Encourage dairy processors to build or acquire farms to support their milk supply; the government also suggests they should shares, profit-sharing, milk purchasing at premiums, profit guarantees and other such arrangements to dairy farmers
 - Prioritise development of fresh milk and fermented milks, cheese products and local-style dairy products, and diversifying distribution into retail stores and E-commerce platforms serving regional /local communities
- Regulate the raw milk trade:
 - Call for major dairying counties, enterprises and other financially capable producers to form their own inspection and testing systems
 - Set up a fair and equitable price mechanism for raw milk trading based on product quality
- Encourage growth in dairy processing:
 - Develop cheeses suiting Chinese consumers' taste
 - Feature dairy products sourced from goat/sheep milk, water buffalo milk and yak milk
 - Raise the utilisation of cheese whey in the production of ingredients such as whey powder and WPC
 - Encourage regional or industrial institutes to register agricultural products as regional public brands or apply for protection of geographical indication products.

Inspection and Quarantine Requirements for Dairy Imports from Mongolia

Summary: On 9 March, China Customs published the Protocol of Inspection and Quarantine Requirements for the Export of Dairy Products from Mongolia to China.

Mongolia is a very minor dairy producer and exporter which has achieved overseas sales mainly of cheese, butter and fermented milks in the past, with China as its main market. New rules now apply to this trade, as on 9 March, the General Administration of Customs of China (GACC) issued the Protocol of Inspection and Quarantine

Requirements for the Export of Dairy Products from Mongolia to China, laying out regulations as follows:

Permissible Products

- Milk or dairy products produced from heat-treated cow/goat/sheep milk including sterilised milk, modified milk, fermented milk, cheese and processed cheese, whipping cream, cream, anhydrous milk fat (AMF), condensed milk, powdered milk products, whey powder and whey protein, bovine colostrum powder, etc.

Requirements for Production Equipment

- The manufacturers of these products need to be approved by or registered with Mongolia's authority, and also have GACC sign-off (approved manufacturers are posted on GACC's website), subject to the regulations on animal health and public health both countries

Requirements for Dairy Farms

- No foot-and-mouth disease or suspected cases may be reported at least one month before milk collection

- No clinical symptoms of anthrax to be detected during milk collection
- No bovine tuberculosis, bovine paratuberculosis, rinderpest, Rift Valley fever, Peste des Petits Ruminants Virus (PPRV), sheep pox and contagious bovine pleuropneumonia may be detected in farms

• All farms should be under the supervision and control of the General Bureau of Technical Supervision of Mongolia

• All farms and their neighbouring regions are free from restrictions relating to animal disease quarantine

Requirements for Import Permit of Inspection and Quarantine

- All pasteurised milk and pasteurised modified milk from Mongolia need

to receive the Import Permit of Animal and Plant Inspection and Quarantine before entry

Required Certificates

- Sanitary certificates issued by Mongolia authority

Requirements on Food Safety

- The imported dairy products must comply with China's regulations and national food safety standards

Requirements for Packages and Labels

- The products' packaging must be in materials meeting Chinese standards
- The registration number of the original manufacturer must be printed on the outer packaging

- Country of origin, product name, production date, shelf life, storage condition, net weight, and manufacturers' registration number, name, address, and contact number, must be displayed on inner packaging labels.

Transportation and Storage Conditions

- The imported products should be transported and stored under approved sanitary conditions, free from poisonous / harmful substances
- The shipping containers of imported products should be sealed and numbered; the seal number must be written on the products' sanitary certificates
- No damages or repacking of products can occur during the transportation.

Company Development

Mead Johnson China Acquires Milkgoat

Summary: Mead Johnson China has acquired Milkgoat to enter the goat milk formula business.

On 11 Feb., Milkgoat Goat Dairy Co., Ltd. (Milkgoat) was re-registered as Mead Johnson Dairy (Tianjin) Co., Ltd., becoming a wholly-owned subsidiary of Mead Johnson Pediatric Nutrition Technology (Guangzhou) Co., Ltd., chaired by the CEO of Mead Johnson China, Zhu Dingping. It also formally became part of Mead Johnson Nutrition (China) Co., Ltd. (Mead Johnson China). This 100% acquisition is Mead Johnson China's first equity investment since its independent operation in 18 Sept., 2021 (the date Primavera Capital announced Mead Johnson China's independent operation after it completed the acquisition of a 92% stake in the business).

In recent years, Milkgoat has suffered falling sales and has been involved in multiple disputes over financial loans and leasing, hit by China's decreasing number of births and intensifying competition, so the acquisition gets the company out of the debt problems – Mead Johnson China has taken on Milkgoat's debts of around USD23.8 million (RMB150 million) including USD15.6 million (RMB98 million) which are outstanding (>60% of the total), although this acquisition was agreed with a zero settlement.

Benefits for Mead Johnson China:

- An approved and established local presence: currently, Mead Johnson China has 2 plants, one in Guangzhou and another at Nijmegen in the Netherlands; while its overseas formula registrations are likely to be delayed by the pandemic, Milkgoat brings local production capacity, resources and registered formulae to build its business in China, especially for goat milk-based products (goat IMF, goat milk powders for adults and growing-up children, FSMP for Infants)
- Market competitiveness: key domestic IMF brands such as Junlebao and China Feihe are ready for a new round of formula registrations looking at new launches 6-18 months ahead of foreign brands, so this deal will help Mead Johnson compete with them.

Milkgoat was established in 1994. In 2000, it launched the very first Chinese-made goat milk formula and rolled out a version for adults in the following year. In 2014, it obtained production permits for goat milk formulae for infants and children, and in 2017 achieved registrations of its 3 goat milk IMF brands ("Classic Red", Chunguan" and "Meigao Beibei").

Mengniu Dengkou Sets up 4 Dairy Production Lines

Summary: Mengniu Dengkou's new Tetra Pak lines (installed in Jan. 2021) received a go-ahead for commissioning with positive environmental checks.

On 28 Feb., positive environmental checks were published on 2 construction projects of Mengniu Dairy (Dengkou Bayannur) Co., Ltd. (Mengniu Dengkou). These projects, are designed to restructure the company's production operations with increased automation and production capacity:

Tetra Pak Dairy Production Line:

- Total investment: USD9.4 million (RMB59 million), 1.24% (=USD0.12million or RMB0.73 million) of which is for environmental protection
- Location: Dengkou County, Bayannur City, Inner Mongolia Autonomous Region
- Equipment: 1 Tetra Pak line (for pure milk, and flavoured milk that is filled up directly after pure milk without rinsing the machine), plus others including a filling line, a tempering tower and a straw applicator
- Production scale: 60 t/d of pure milk and 60 t/d of flavoured (UHT) milk
- Construction period: Dec. 2020-Jan. 2021

- Environmental checks: 18th-19th Jan., 2022

"Dreamy Cap" Lines

- Total investment: USD10.4 million (RMB65.8 million), 16.37% (=USD1.7 million or RMB10.7 million) of which is for environmental protection
- Location: Dengkou County, Bayannur City, Inner Mongolia Autonomous Region
- Equipment: 3 automatic A3/CF250Q Tetra Pak "Dreamy Cap" Deluxe Organic (UHT) Milk lines (resealable caps)
- Production scale: 45.5 t/d per line, totaling 136.5 t/d
- Milk usage: 52,992 t/a
- Construction period: Dec. 2020-Jan. 2021
- Environmental checks: 18th-19th Jan., 2022

Founded in July 2003 with a registered capital of USD11.1 million (RMB70 million), Mengniu Dengkou is a UHT milk plant wholly-owned by China Mengniu Dairy Company Ltd. In addition to these 4 new lines, it has 14 others: a TBA/22 250S (Tetra Pak school milk), 4 TBA/22 250B (Tetra Pak pure milk), 3 A3-200s (Deluxe Pure Milk) and 6 TPA/A3 CF250E (Deluxe Organic Milk). Altogether the 18 lines represent 1,142.5 t/d of dairy production capacity.

Youran Dairy to Take 27.16% of Zhongdi Dairy

Summary: On 2 March, Youran Dairy proposed to offer USD153.9 million (RMB970 million) for 27.16% of Zhongdi Dairy to strengthen its dairying business.

On 2 March, China Youran Dairy Group Ltd (Youran Dairy, Stock Code: HK.09858) announced an acquisition proposal offering USD153.9 million (RMB970 million) for a 27.16% stake in China Zhongdi Dairy Holdings Company Ltd (Zhongdi Dairy, Stock Code: HK.01492).

Likely acquisition motives:

- To increase milk production to better cater for the growing demand from major dairy processors like Yili

- To expand its dairy farming business and further strengthen its position in the sector
- To create synergies in areas such as feed planting, dairy breeding, farming management, product innovation and supply chain.

Operation Status of Zhongdi Dairy:

- The company mainly operates in dairying, milk production and quality dairy cattle importing/trading
- It owns 9 large dairy farms (10,000+ head) located in North China and the Northwest (in Beijing, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, Liaoning, Hebei, Shanxi, Tianjin, Gansu and Shandong provinces)

- Its total dairy herd is around 75,000 head
- Its sales of raw milk were 430,561 tonnes in 2020, up 15.2% vs. 2019.

Youran Dairy contends that Chinese dairy consumption will grow steadily in line with consumers' growing disposable income and changing diets, following the strong demand for milk seen over recent years. Its activities nowadays span production and sale of raw milk, feeds and forage, dairy and beef cattle breeding products such as frozen semen, and dairy farming supplies (sold through its own website "Whole-fair" – www.jumuc.com – and a range of physical stores). However, raw milk remains its main focus, accounting for almost 60% of its turnover.

TABLE 3: Zhongdi Dairy's Key Financials, 2020–2021, USD million

	Sales revenue	Profit after tax
2021	386.2	21.2
2020	305.8	36.9

Source: Zhongdi Dairy

TABLE 4: Youran Dairy's Sales Revenue, 2020–H1 2021, USD million

Item	2020	H1 2020	H1 2021
Raw milk	1,110	507	691
Feeds	697	314	430
Dairy farming supplies (retail only)	54	23	32
Breeding products	8	4	4

Source: Youran Dairy

Danone Buys 95% Stake in Eurbest

Summary: Danone completed the acquisition of a 95% stake in Eurbest on 3 March, a move to secure domestic IMF registration status.

On 3 March, Danone Asia Pacific Holdings Pte Ltd. (Danone) acquired a 95% stake in Hunan Eurbest Nutritional Food Co., Ltd. (Eurbest), leaving the original owner Wang Deliang with 5%. The paid-up capital of Eurbest has increased to USD47.9 million (RMB302 million) from USD19 million (RMB120 million) due to the USD45.5 million (RMB287 million) injected by Danone. Danone said a strategic cooperation deal with Eurbest was reached to develop IMF plants and products.

Motives of Danone

- Secure IMF registration status: With uncertainties like the pandemic, some overseas factories have faced deferred formula registrations, so acquiring Eurbest's factories that have registered formulae enables a swift product launch in such difficult situations
- Diversify product range: This is Danone's first goat IMF registered in China. In 2019, Danone launched Karicare Sheep Milk IMF into China via cross-border E-commerce platforms, but repeated COVID-19 cases made cross-border distribution ineffective and demonstrated the importance of production localisation to the company
- Increase competitiveness: Prominent competitors like Yili and Mengniu promoted Goat IMF series Uitstekend Geitenmelk and Doraler respectively in 2021, and

foreign-owned Mead Johnson China launched its newly acquired Milkgoat brand in Feb. this year. With frequent business activities and product launches by Chinese and overseas brands in the segment, this acquisition brings Danone into play in this growing segment. This builds on its past initiatives in the wider IMF category – after its buyout of Murray Goulburn Dairy (Qingdao) Co., Ltd. in 2020, Danone launched a new cow IMF product "Nutrilon Yunhui" (stage 3) in April 2021, taking advantage of that firm's formula registrations.

Eurbest, founded in 2010, owns a wide range of formula products:

- IMF: goat milk brand "YangCC" and cow milk brands "Ousuli" and "Keweian"
- GUMPS: goat milk brand "Xiaoyang Gaogao" and cow milk brands "Me Strong", "Yuebeitong" and "Yuebeigao"; also a lactoferrin formula, "Strong"
- Formulae for the middle-aged and elderly: cow milk brand "Oujian" and goat milk brand "Shutang Shandian" (sucrose-free)
- "YangCC" is its flagship brand with sales in 2021 reported at around USD47.6 million (RMB300 million).
- Its plant in Changsha City (Hunan Province) has capacities of 25,000 t/a IMF products, 15,000 t/a milk formulae for adults, 15,000 t/a rice cereals for infants and 8,000 t/a powdered beverages.

Modern Dairy to Buy 75% of Ai Yang Niu

Summary: Modern Dairy has proposed to acquire 75% of Ai Yang Niu for USD45.7 million (RMB288 million), a deal intended to complete its supply chain by adding operations in feed supply.

On 15 March, China Modern Dairy Holdings Ltd. (Modern Dairy, Stock Code: HK.01117) proposed a USD45.7 million (RMB288 million) deal to buy a 75% stake in Inner Mongolia Ai Yang Niu Technology Co. Ltd. (Ai Yang Niu) from Inner Mongonia Mengniu Dairy (group) Co., Ltd. (Inner Mongolia Mengniu, currently with a 73.66% stake) and 3 other shareholders. After this acquisition, Inner Mongolia Mengniu will keep a 25% stake.

The inter-relationships:

- Modern Dairy owns 26 farms with 250,000+ dairy cattle and with annual milk production of 1.5 million tonnes. Mengniu holds a 1.6527% interest in Modern Dairy

- Inner Mongolia Mengniu is 99.99% held by China Mengniu Dairy Company Ltd and currently holds 48.66% which Ai Yang Niu acquired for USD1.5 million (RMB9.3 million)
- Ai Yang Niu, founded in 2015, focuses on animal husbandry E-commerce and online services, feed sales, and consulting services for trading of feed additives, veterinary drugs and animal products; its consolidated net profit after tax was USD2.7 million (RMB17.2 million) in 2021 calendar year, up 67.27% from USD1.6 million RMB10.3 million in 2020

Ai Yang Niu stands out with its online service platform for animal husbandry, which:

- Uses a transparent quotation system in facilitating procurement
- Consolidates information of 1,000+ suppliers to the livestock farming sector

- Monitors the whole supply chain of farming materials from suppliers to the farms; and executes quality control checks on products
- Helps the development of online credit and financial services based on data from platform transactions.

Through this acquisition, Modern Dairy will become better integrated, able to gain closer insights into market dynamics related to farming materials (feeds, veterinary drugs and farm facilities and equipment) to reduce its procurement, operational and management costs. This is especially valuable at a time when milk prices are relatively stable but prices of soybean meal, alfalfa and other feeds are rising, putting great stress on farmers. Its profitability is expected to pick up from this online sharing platform that provides services in areas such as digital technologies, supply-chain finance, farming techniques, etc. for operators throughout the value chain. Other similar such business integration deals are to be expected in the sector.

Raw Milk Supply

Raw Milk Price in a Slow Retreat

Summary: Raw milk prices kept slipping in March, though at a slower pace than in the previous month. The downtrend since Q4 2021 is expected to continue for a while but feed cost increases will challenge this.

Despite the continuous declines since Dec. 2021, the March milk price remained high. As of 9 March, it averaged USD667/t (RMB4,200/t), down 1.4% vs. USD676/t (RMB4,260/t) in Feb. and down 1.9% YoY. The fall from the Dec. 2021 high of USD686/t (RMB4,320/t) was 2.8%. This downtrend is normally expected to persist during the current slack season, based on demand, with a slight dip expected in the short term before first half of April. But this will potentially threaten some producers' profitability if cost increases continue.

Ongoing feed price rises are pushing up farming costs.

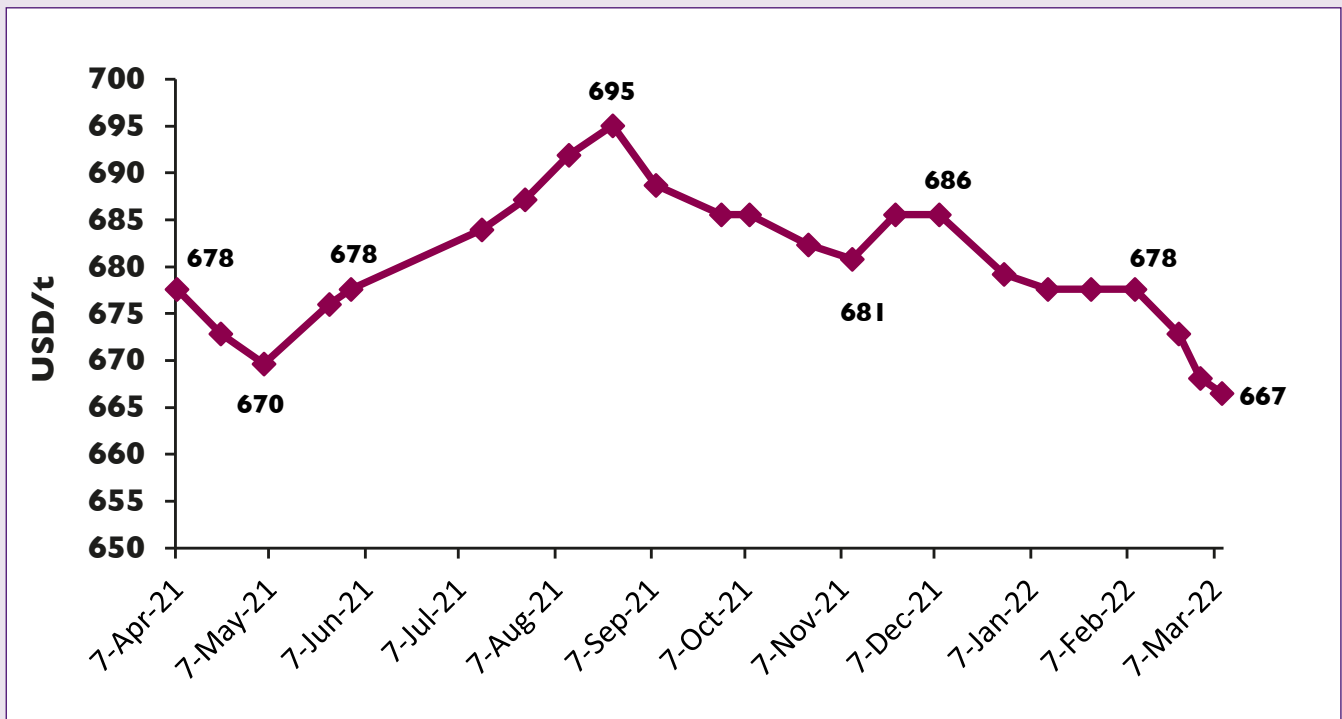
- Corn prices rose in March following two stable months where they stayed at USD449/t (RMB2,870/t). As of 9 March, the average national corn was USD462/t (RMB2,910/t), up 1.3% MoM, though down 3.0% YoY
- Soybean meal prices on 15 March averaged USD782/t (RMB4,928/t), up 27% vs. USD614/t (RMB3,870/t) in the first half of Feb. and up 27.3% YoY

Impact from the Russia-Ukraine conflict is significant on agriculture products, of course. Ukraine made up 29.07% (=8.24 million tonnes) of China's corn imports in 2021. The import price of corn has escalated from USD302/t (RMB1,900/t) at the end of 2021 to USD413/t (RMB2,600/t), and looks set to keep climbing.

As a result, by mid-March many Chinese feed firms such as Jiangxi Zhengbang Sci & Tech Co., Ltd. (Jiangxi Zhengbang, Stock Code: 002157), New Hope Liuhe Co., Ltd. (New Hope Liuhe, Stock Code: 000876) and Fujian Aonong Biological Technology Group Incorporation Limited (Stock Code: 603363) have increased their prices by anything between USD4/t (RMB25/t)–USD79/t (RMB500/t) vs. Dec. 2021.

One positive factor was that on 24 Feb. China approved Russian wheat imports. Jiangxi Zhengbang suggested that although Ukraine wheat was at lower prices, it would consider a switch to sourcing from Australia or France as an alternative. New Hope Liuhe said the feed manufacturers' research into low protein diet (LPD) and soybean meal substitutes could help optimise feed formulations, improve the utilisation of soybean meal and reduce its usage, so as to reduce reliance on soybean imports.

FIGURE 1: Trends in China's Raw Milk Price, April 2021 -Mar. 2022



Source: Ministry of Agriculture and Rural Affairs (MARA)

News in Brief

Dairy Imports in January-February 2021

The January/February import data shows strong growth for WMP in both months, providing a YTD increase of 23.9%. SMP put in a much more muted performance, picking up in February YoY after the -20.6% drop in January, this despite higher prices – although the volume is still -13% YTD.

Most notable for permeate exporters, Chapter 4 whey continues to drop – after July last year, the pig sector's problems has led to the volume dropping every month, and the volume YTD is -45%.

The surge in demand for butter last year was followed by a downturn YoY in January's volumes, but this was followed by +31.7% in February, so in combination only -1% YTD. Demand for AMF grew by over 200% in both months, also building on the increased volume seen last year and reaching +17% YTD – not bad at all given the challenges this commodity has increasingly faced in core applications in many Asian markets.

No doubt the March and April volumes will be interesting as the Ukraine conflict begins to have an impact and brings food security issues even higher up the agenda.

TABLE 5: 2022 January Imports, tonnes

HS code	Product	202101	202112	202201	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	12,961.4	13,925.8	11,693.6	-16.0%	-9.8%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	78,446.4	74,798.8	79,089.2	5.7%	0.8%
04014000	Milk & cream, 6%	5.1	11.7	1.5	-86.9%	-69.8%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	23,465.5	28,051.9	20,341.7	-27.5%	-13.3%
04021000	SMP	60,437.0	20,150.3	47,986.1	138.1%	-20.6%
04022100	WMP, unsweetened	189,848.1	31,727.8	228,989.2	621.7%	20.6%
04022900	WMP, sweetened	1,475.6	149.3	164.8	10.3%	-88.8%
04041000	Whey and modified whey	70,034.0	39,641.4	35,492.4	-10.5%	-49.3%
04049000	Products consisting of natural milk constituents, nes	228.3	691.9	781.6	13.0%	242.3%
04051000	Butter	15,351.8	7,637.0	13,324.5	74.5%	-13.2%
04059000	AMF	4,329.5	802.1	2,899.8	261.5%	-33.0%
04061000	Fresh cheese, incl. whey cheese, curd	8,531.6	4,766.7	4,836.5	1.5%	-43.3%
04062000	Grated or powdered cheese	4,715.4	4,994.6	2,293.8	-54.1%	-51.4%
04063000	Processed cheese	1,717.1	1,998.2	1,437.0	-28.1%	-16.3%
04064000	Blue cheese	7.8	8.5	10.2	19.2%	30.4%
04069000	Cheese, nes	4,482.6	1,883.0	3,498.1	85.8%	-22.0%
17021100	Anhydrous lactose, lactose wt. ≥99%	8,695.4	8,568.3	8,822.0	3.0%	1.5%
17021900	Lactose syrup & other lactose	1,416.2	479.5	439.1	-8.4%	-69.0%
19011010	Infant formula	21,692.2	28,617.0	18,370.4	-35.8%	-15.3%
35011000	Casein	1,852.4	826.7	916.5	10.9%	-50.5%
35019000	Caseinates	2,325.3	2,324.5	1,826.2	-21.4%	-21.5%
35022000	WPC80/WPI	3,744.1	3,004.5	2,547.8	-15.2%	-32.0%

Source: China Customs

TABLE 5: 2022 February Imports, tonnes

HS code	Product	202102	202201	202202	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	9,978.5	11,693.6	6,791.1	-41.9%	-31.9%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	54,679.4	79,089.2	52,604.6	-33.5%	-3.8%
04014000	Milk & cream, 6%	1.9	1.5	9.3	504.4%	383.5%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	16,389.4	20,341.7	22,518.6	10.7%	37.4%
04021000	SMP	26,909.1	47,986.1	28,318.3	-41.0%	5.2%
04022100	WMP, unsweetened	50,742.9	228,989.2	71,258.4	-68.9%	40.4%
04022900	WMP, sweetened	223.0	164.8	107.2	-34.9%	-51.9%
04041000	Whey and modified whey	55,643.3	35,492.4	33,777.1	-4.8%	-39.3%
04049000	Products consisting of natural milk constituents, nes	315.4	781.6	272.2	-65.2%	-13.7%
04051000	Butter	5,618.4	13,324.5	7,396.7	-44.5%	31.7%
04059000	AMF	1,183.3	2,899.8	3,571.0	23.1%	201.8%
04061000	Fresh cheese, incl. whey cheese, curd	5,164.4	4,836.5	5,452.9	12.7%	5.6%
04062000	Grated or powdered cheese	3,052.5	2,293.8	2,659.8	16.0%	-12.9%
04063000	Processed cheese	1,027.6	1,437.0	1,469.7	2.3%	43.0%
04064000	Blue cheese	3.4	10.2	10.0	-1.5%	190.5%
04069000	Cheese, nes	1,979.9	3,498.1	2,912.2	-16.7%	47.1%
17021100	Anhydrous lactose, lactose wt. ≥99%	4,322.5	8,822.0	5,933.8	-32.7%	37.3%
17021900	Lactose syrup & other lactose	244.4	439.1	104.0	-76.3%	-57.4%
19011010	Infant formula	16,330.4	18,370.4	17,136.9	-6.7%	4.9%
35011000	Casein	1,020.1	916.5	838.9	-8.5%	-17.8%
35019000	Caseinates	2,165.7	1,826.2	2,163.5	18.5%	-0.1%
35022000	WPC80/WPI	2,134.7	2,547.8	2,339.2	-8.2%	9.6%

Source: China Customs

Myanmar Exports Pilot Batch of Silage Corn to China

In late Feb., Myanmar's first batch of silage corn (51 tonnes) was exported to China through the border trade port in Qingshui River, Kunming City, Yunnan Province, by Lincang Pengxin Import & Export Trade Co., Ltd.

The port animal and plant quarantine office stated that the rapid development of the animal livestock sector in the province had led to a supply shortfall of silage feeds, so supply from neighbouring Myanmar can play a part in minimising dairy/beef cattle raising costs in the region.

New Development Plan for Forage Industry

On 16 Feb., the Ministry of Agriculture and Rural Affairs (MARA) launched a Development Plan for the National Forage Industry during the "14th Five-year Plan" period (2021–2025).

It is a response to the increasing demand for dairy products and beef/mutton over the last decade, against the relatively slow-growing domestic production. Insufficient supply of forage, especially the premium varieties, is a contributor to this scenario. According to the preliminary estimate, if China wants to secure its self-sufficiency targets for raw milk and beef/mutton for 2025, the national production of premium forage should exceed 120 million tonnes by then – almost 50 million tonnes higher than the current level.

China's targets for 2025:

- National production of premium forage: 98 million tonnes
- Self-sufficiency rate for forage for cattle/goats/sheep: above 80%
- Self-sufficiency rate for forage seeds: above 70%
- Mechanisation level of forage production and processing: above 65%

In 2020, China's arable area for premium forage approached 32 million ha with production at 72 million tonnes, an increase of 24 million tonnes vs. 2015. The area and production split as follows:

- Silage corn: 15 million ha & 40 million tonnes
- Oat for feed use and Italian ryegrass: 4 million ha & 8.2 million tonnes
- High-yield premium alfalfa: 2.6 million ha & 3.4 million tonnes
- Other annual forage: 6 million ha & 12 million tonnes
- Other perennial forage: 4 million ha & 8 million tonnes

In 2021, land switched to forage production from grain exceeded 8 million ha, providing an additional 55 million tonnes of premium forage. The amount of corn and soybean meal used in cow/goat/sheep farming was down 7.2 million tonnes, equivalent to a cut of 11 million ha in corn and soybean growing and a reduction of 2.4 million ha in land.

Sunshine Dairy Going Public on SZSE

On 24th Feb., Jiangxi Sunshine Dairy Co., Ltd. (Sunshine Dairy)'s application for an IPO on the main board of the Shenzhen Stock Exchange was approved by China Securities Regulatory Commission.

Information Disclosure of Sunshine Dairy:

- The issuing shares will account for above 25% of the company's total equity after issue
- The IPO aims to raise USD95.4 million (RMB601 million):
 - USD44.9 million (RMB283 million) for a 36-month project (Phase I) to expand production and upgrade product testing and R&D at its Jiangxi site, targeting an output capacity of 70,000 t/a of dairy products
 - USD22.7 million (RMB143 million) for a 36-month Phase II to expand its Anhui plant to an output capacity of 40,000 t/a of dairy products
 - USD27.8 million (RMB175 million) for marketing and branding

Sunshine Dairy focuses on liquid milk and milk beverages with a range of 100+ products (chilled/UHT liquid milk and milk beverages) within its core market in Jiangxi Province and neighbouring regions like Hunan, Hubei, Anhui and Zhejiang provinces.

Butter Officially Listed on Shandong International Commodity Market

On 28 Feb., butter was officially listed on the Shandong International Commodity Exchange Market, with transactions for that day reaching USD5 million (RMB31.8 million) in total.

So far, this is the first listing of a dairy commodity on any Chinese Exchange.

China has low domestic production of butter and the growth in demand from the foodservice and bakery channels has fuelled rising imports, which have almost quadrupled over the last decade to 97,466 tonnes in 2021, an increase of 13.8% YoY. If we exclude several EU countries, this volume makes China the 2nd largest importer of butter in the world after Russia, which imported 111,558 tonnes last year. This listing offers local businesses a new procurement challenge and must lead to speculation as to whether other dairy commodities will follow the same path.

Bright Dairy Allocates over USD301.5 million to Investment Projects

On 7 March, Bright Dairy & Food Co., Ltd. (Bright Dairy, Stock Code: 600597) posted a Notice of Initiation of Investment Projects Financed by Raised Funds totalling USD304.5 million (RMB1,919 million) to support sound implement of the investment projects, improve the company's capital strength and bring down its own asset-liability ratio as well as those of its husbandry subsidiaries. No further details on these projects have been disclosed at this point.

TABLE 6: Investment Projects of Bright Dairy, USD million

No.	Project	Executive body	Affiliation with Bright Dairy	Paid-up capital
1	12,000 Dairy Farming Project in Huaibei City, Anhui Province	Huaibei Bright Ecological Smart Pasture Co., Ltd. (Huaibei Bright Pasture)	Wholly-owned	47.2
2	10,000 Dairy Farming Project in Zhongwei City, Ningxia Hui Autonomous Region	Zhongwei Bright Ecological Smart Pasture Co., Ltd.	Wholly-owned	22
3	7,000 Dairy Farming Project in Fuyang City, Anhui Province	Fuyang Bright Ecological Smart Pasture Co., Ltd.	Wholly-owned	24.1
4	2,000 Dairy Farming (phase II) Project in Hachuan Village, Qiqihar City, Heilongjiang Province	Fuyu Bright Ecological Demonstration Dairy Farming Co., Ltd.	Wholly-owned	11.1
5	National-level Core Dairy Breeding Farm (Jinshan Dairy Breeds Farm) Upgrading and Expansion Project in Jinshan District, Shanghai	Bright Animal Husbandry Co., Ltd.	Wholly-owned	8.1
6	Capital Increase in Bright Animal Husbandry Co., Ltd.	Bright Animal Husbandry Co., Ltd.	Wholly-owned	215
7	Replenishment of Working Capital	Bright Dairy	Corporate	89.7

Source: Bright Dairy

Yimuxin Dairy Starts Up 500 t/d Dairy Plant

On 1 March, Ili Yimuxin Dairy Co., Ltd. (Yimuxin Dairy)'s 500 t/d dairy plant entered operation officially, after the company received its production licence on 30 Jan. Its first batch of liquid milk products was sold to markets outside the Xinjiang Uygur Autonomous Region where it is based.

Project at a glance:

- Total investment: USD30.6 million (RMB193 million)
- Location: Economic Development Zone of Khorgas, Xinjiang Uygur Autonomous Region
- Area: around 37.2 ha
- Construction progress: Commencement of construction work was in May 2020; at the moment, the main construction work in phase I project has been concluded

- On Feb., Yimuxin Dairy launched its dairy brand "I'M FROM ILI" with a range of UHT pure milk (TetraBrik/Tetra Pak pillow packaged), fresh milk, milk beer, etc.

Based in Xinjiang Uyghur Autonomous Region, Yimuxin Dairy's wholly-owned subsidiary Yimuxin Agriculture and Animal Husbandry Development Co., Ltd. (Yimuxin Husbandry) holds 2,500 head of Holsteins in 3 farms in Yining City, capable of producing 20 t/d of milk collectively. In 2021, Yimuxin Husbandry acquired a nearby dairy farm in Ili Kazak Autonomous Prefecture for USD4.8 million (RMB30 million); this added 3,000 dairy cattle (including 1,000 imported breeds) that milk 50 t/d.

Adopt A Cow Completes Buildup of New Pure Milk and Yoghurt Capacities

On 1 March, Shandong Adopt A Cow Dairy Co., Ltd. (Adopt A Cow)'s 196,000 t/a UHT pure milk and 110,000 t/a UHT yoghurt production project was approved after the required environmental inspection.

Project at a glance:

- Construction type: transformation and expansion
- Total investment: USD22.82 million (RMB143.8 million), USD0.16 million (RMB1 million) of which is for environmental protection
- Floor area: 9.18 ha, 4.2 ha of which formed the construction area of the original plant
- Location: Pingyi County, Linyi City, Shandong Province
- New construction:
 - 4 new lines representing a total capacity of 350 t/d of UHT pure milk and an aggregate of 850 t/d capacity (including the previously operational line).
 - 1 new 10 t/h boiler for sterilization
- Upgrading and transformation:
 - Adding a pre-pasteurisation process step in the pure milk production line
 - Adding second-time pre-pasteurization process after fermentation step in the yoghurt production line
 - Adding steps for pasteurisation and adding fruit pulp into yoghurt products (approx. 66,000 tonnes)
- Designed capacity:
 - UHT pure milk: 196,000t/a, an increase of 126,000 t/a vs. the previous capacity
 - UHT yoghurt: 196,000t/a, previous capacity unchanged
- Construction period: Oct.-Dec. 2021

TABLE 7: Project's Raw and Auxiliary Materials

No.	Item	Annual consumption, t/a
1	Raw milk for UHT pure milk	211,509
2	Raw milk for UHT yoghurt	101,568
3	Whey protein powder	225
4	Fruit pulp	4,500

Source: Adopt A Cow

Huaibei Bright Pasture Takes in 5,000 Holsteins

On 28 Feb., Huaibei Bright Ecological Smart Pasture Co., Ltd. (Huaibei Bright Pasture) introduced its first batch of premium Holsteins – 5,000 heifers from New Zealand and Australia. More such imports will follow according to the company.

Company Background

- Total investment: USD98.4 million (RMB620 million)
- Location: Suixi County, Huaibei City, Anhui Province
- Area: 410.7 ha
- Designed stock level: 12,000 dairy cattle
- Production capacity: 70,000 t/a of raw milk
- Farm construction period: The company started its dairy farm construction in Aug. 2021 and expects to complete it in June 2022

Huaibei Bright Pasture was incorporated in March 2021 with a registered capital of USD47.6 million (RMB300 million), and is wholly-owned by Bright Animal Husbandry Co., Ltd.

First Approved Batch of IMF Products Released

On 2 March, the Centre for Food Evaluation of the State Administration for Market Regulation, released the first approved batch of IMF products subject to the new national standards.

TABLE 8: First Approved Batch of IMF Products Subject to the New National Standards

No.	Item	Applicant
1	Yili BES-KIDO Formula for Infants (0-6 months, stage 1)	Inner Mongolia Jinhai Yili Dairy Co., Ltd.
2	Yili BES-KIDO Formula for Older Infants (6-12 months, stage 2)	Inner Mongolia Jinhai Yili Dairy Co., Ltd.
3	Yili BES-KIDO Formula for Young Children (12-36 months, stage 3)	Inner Mongolia Jinhai Yili Dairy Co., Ltd.
4	Banner Formula for Infants (0-6 months, stage 1)	Banner Infant Dairy Products Co., Ltd.
5	Banner Formula for Older Infants (6-12 months, stage 2)	Banner Infant Dairy Products Co., Ltd.
6	Banner Formula for Young Children (12-36 months, stage 3)	Banner Infant Dairy Products Co., Ltd.

Source: Centre for Food Evaluation, the State Administration for Market Regulation

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