

Dairy Products China News

Guaranteed Exclusive Analysis

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Welcome to the August issue of Dairy Products China News.

It's a central paradox that China's stock market performance in recent times has been very poor, but its economic performance has been outstanding, even if that growth has depended heavily on investment in property, infrastructure and industry. Despite the country's severe and structural economic challenges, surveys indicate that Chinese consumer sentiment improved in August after several months of decline, although it remains weak compared to the spring. Q1 momentum did not last through Q2, when GDP growth of 6.3% YoY came off a low base in 2022 due to the two-month hard lockdown in Shanghai. Retail sales slowed down further in July and household savings remained high. This suggests that households are still cautious about the outlook, as they likely should be. Whether consumer sentiment truly improved this month is hard to really know – and after all, it depends on the personal situations and ages of who you ask. It is hard to overstate the generational change in attitudes and behaviour which has taken place in the country through recent decades.

We can see that many of our customers are redoubling their efforts to explore opportunities in China and local partners and routes to market. Some key categories such as formulae are proving tough, as the recent numbers from China Feihe might imply, but the multinational brands are still growing in the market and some businesses very relevant to dairy are in expansion mode. Luckin Coffee has recently reached the milestone of 10,000 outlets, for instance – and in Q2 moved ahead of Starbucks in terms of sales for the first time. Panda Dairy has doubled its net profit in H1.

Meanwhile, for exporters into China concentrating on finished products, niche added value lines are increasingly an area of focus here and around Asia. While domestic milk supply has grown considerably this year so far, maintaining this growth looks hard, and cattle imports have been reducing. China's economy is challenged for sure, but demand for dairy is still expected to grow.

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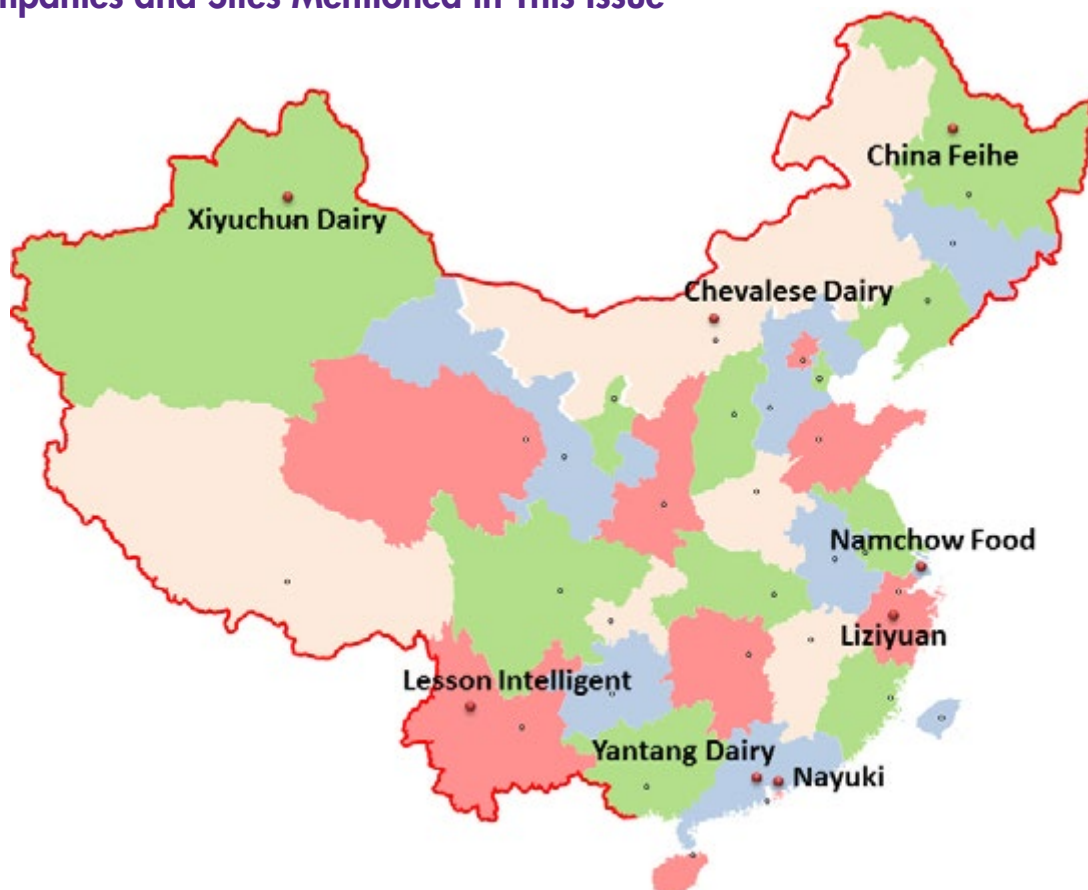
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Headlines

- ▶ On 31 July, the environmental impact report on a project in the Tianjin Plant of Namchow Food was published; the company has reported 9.53% growth in H1 revenue, but a net loss for the period.
- ▶ Chinese cheese brands are looking for new growth drivers after the momentum has stalled in the flavoured cheese sticks for kids market segment.
- ▶ The high profile tea chain Nayuki is now planning to expand on a franchising basis after struggling over recent years with losses, the limited expansion of the number of its own stores and the intensifying competition in the marketplace.
- ▶ On 20 July, the Dairy Association of China launched the Guideline for Increasing Dairy Demand and Product Quality, projecting Chinese dairy consumption per capita to hit 45kg by 2025 and 50kg by 2030.
- ▶ In late July, Yunnan Province's Department of Agriculture and Rural Affairs drafted 6 policy measures to sustain the local dairy sector growth, spanning dairy breeding, farm construction and product development/R&D.
- ▶ In Aug., regional dairy firm Xiyuchun Dairy launched a restructuring process and listing initiative, and Chevalese Dairy re-entered the listing review process run by the BSE.
- ▶ Nestlé, FrieslandCampina and Danone have reported total sales growth of 1.6%, 4.6% and 8.4% in H1 2023, respectively, seeing positive momentum in their China operations.
- ▶ Lesson Intelligent's new 200,000t/a dairy plant has passed final environmental checks and is set to become fully operational by Sept. 2025; meanwhile Royal Group, its former owner, claims it can bounce back after being forced into selling the company back in May.
- ▶ On 15 Aug., Yantang Dairy's report for H1 showed revenue up by 7.14% and net profit attributable to equity shareholders surging by 70.29%
- ▶ In Aug, China's raw milk price saw a small recovery, after the 8-month decline which has weakened dairy producers' profitability.

Major Companies and Sites Mentioned in This Issue



Market Analysis

Namchow Food Adding Whipping Cream Production Capacity

Summary: On 31 July, the environmental impact report on a project in the Tianjin Plant of Namchow Food was published; the company has reported 9.53% growth in H1 revenue, but a net loss for the period.

On 31 July, the Ecology and Environment Department of Tianjin published its environmental impact report on an upgrade project of Tianjin Jihao Food Co., Ltd., a wholly-owned subsidiary of Namchow Food Group (Shanghai) Co., Ltd. (Namchow Food, Stock Code: 605339).

Project details are provided as follows:

- Construction nature: Conversion and expansion
- Total investment: USD3.2 million (RMB23.1 million), 1.34% (=USD43,500/RMB310,000) of which for environmental protection
- Location: Economic and Technological Development Zone of Tianjin
- Site area: 8,637 m²
- Construction content and capacity:
 - Add whipping cream capability (capacity: 48 t/d) to the existing margarine line, giving

12,000 t/a combined capacity for these products, with the production scheduling between each to be adjusted in accordance with demand

- Add a raw milk pretreatment system to sterilise raw milk for the existing margarine production
- Add new testing equipment in the lab to support a margarine and whipping cream product R&D project, with a test plan of 1,000 batches per year
- Staffing and working system: Adding 6 new employees, 2 x 12-hour shifts, 300 x 24-hour working days per year
- Construction duration: 16 months, from Aug. 2023 to Dec. 2024

Tianjin Jihao was established in Jan. 2003 with a registered capital of USD4.7 million (RMB30 million). It mainly produces margarine, bakery fillings, part-baked bread and sauce packs. In H1 2023, it made revenue of USD11.5 million (RMB82.3 million) but a net loss of USD96,800 (RMB690,000); its total assets amounted to USD28.1 million (RMB200.4 million) by the end of the reporting period.

TABLE I: Tianjin Jihao's Project Materials and Consumption

Production of Whipping Cream		Production of Margarine	
Raw material	Estimated consumption, t/a	Raw material	Estimated consumption, t/a
Milk	4,200	Milk	4,200
AMF	2,400	Oils and fats	4,579
Cream	2,580	Unsalted butter	960
Whipping cream	4,200	Milk powders	640
Cheese	600	Lecithin	19.3
Condensed milk	600	Food flavours & additives	0.648

Source: Environmental Impact Report of Tianjin Jihao's whipping cream project

On 8 Aug., Namchow Food posted earnings results for H1 2023, showing revenue up by 9.53% YoY to USD219.1 million (RMB1.6 billion) and net profit down by 25.73% YoY to USD13.1 million (RMB93.4 million).

As China's bakery market gradually recovered, frozen dough became the company's fastest growing subsegment making sales of USD24.0 million (RMB171.2 million) in the period, jumping by 105.5% YoY. Whipping cream, other dairy products and fillings made sales of USD42.1 million (RMB300.2 million), USD44.2 million (RMB314.8 million) and USD1.2 million (RMB8.2 million), representing growth of 9.17%, 7.99%, and 11.79% respectively.

In oils and fats, the company continued to launch new products, including Namchow Fresh Milk Baking Oil, its first baking oil product with fresh milk as the key ingredient. This new item is said to be selling well and the company indicates that it will add other variations to this range.

However, on the other hand, Namchow Food noted that it had been under profit pressure due to the rising prices of European dairy commodities. In addition, resuming promotional activities such as participation in industry exhibitions and product promotion meetings as free movement in the market returned also sent its expenses up considerably.

Growth Stalls in Cheese Sticks for Kids

Summary: *Chinese cheese brands are looking for new growth drivers after the momentum has stalled in the flavoured cheese sticks for kids market segment.*

Over the past few years, China's retail cheese market has developed rapidly. It was announced at the China Cheese Development Summit Forum held by the Dairy Association of China on 19 July that over the period 2017–2021, cheese sales went from USD723 million (RMB5.2 billion) to USD1.8 billion (RMB13.1 billion), with yearly growth rates of 22.4%, 20.7%, 27%, 35.1% and 22.8% – representing a 5 year CAGR of 25.6% based on RMB. In 2022, the market hit USD2 billion (RMB14.3 billion), dominated by the segment of cheese sticks for kids with a 55% market share. The remaining 45% comprises a wide range of other cheese products of course, everything from cheese slices for consumers to use in home cooking to ready-to-eat cheese products, e.g., prime examples being Yili's cheese dip cup, Kiri Petit Sweets (a cube cheese snack) etc.

Growth Falters

After years of double-digit growth, 2022 saw slower growth in retail sales of cheese, just 9.2% based on RMB.

Shanghai Milkground Food Tech Co., Ltd. (Milkground Food, Stock Code: 600882) is the leading cheese business but also a victim of the recent slower growth it reported its first decline in net profit in 2022 and anticipates a continuing decline in H1 2023:

- 2019–2021: Revenue up 42.32%, 63.20% and 57.31%; net profit up 80.72%, 208.16%, and 160.60%, on a yearly basis
- 2022: Revenue up by just 7.84% to USD677.5 million (RMB4.8 billion); net profit attributable to equity shareholders of the listed company down by 12.32% to USD19 million (RMB135.4 million), its first decline in 5 years
- H1 2023 (estimated): Net profit attributable to equity shareholders of the listed company down by 74.24%–80.30% to USD3.6 million–USD4.8 million (RMB26 million–RMB34 million)

Factors

There are macro factors at play – economic growth is slowing, the recovery after the pandemic has not been as strong as hoped for and there are longer term issues confronting China's economy going forward, all of which has led to sluggish consumption of dairy products in general, intense competition and an unstable supply chain. Meanwhile, other issues presenting challenges are the wide array of other children's snacks and the limited cheese product innovation and upgrading of products in the cheese stick sector.

Among these factors, supply instability is a key concern. At present, because the overall demand for cheese products in China stands low, natural cheese production is smallscale and means the cost of domestic production is higher than imports. As a result, most Chinese manufacturers import natural cheese for their production of cheese sticks. For example, Milkground Food's cost of spend on natural cheese for its cheese sticks increased by over 100% in 2022. It has indicated that it expects the surge of material import prices in H1 2023 to reduce its profit by about USD14 million (RMB100 million).

Searching for New Growth Points

Although the retail cheese market has grown rapidly with children's cheese sticks being the key driver, the market penetration rate of cheese as a snack is low, only 33.5% by 2022 (and likely the rate is even lower in the foodservice channel). According to the State Food and Nutrition Consultation Committee, the per capita consumption of cheese in China in LME terms was 1 kg in 2022, representing only 2.5% of milk consumption but also reflecting a huge opportunity for growth.

At present, many brands are innovating in other cheese market segments by studying different ingredients, specifications and consumer groups. In recent months launches have included:

- Milkground Food – goat milk cheese sticks, spreadable cream cheese (to align with the recent bagel trend) and "Drinkable Meirixi Cheese" (targeting consumption in the 1–6 year old age bracket). The recent bagel trend stems from Chinese consumers growing health awareness to some extent, but likely

especially from coffee chains pushing such products – it has been reported that in 2022, Tim Hortons sold over 9.5 million bagels in China

- China Feihe – ZhuoRan Chewy Milk Powder Cheese, targeting kids of 3 years or above
- Panda Dairy – the "MEISHI LAOLAO Cheese Snack" range of 3 items: cheese popcorn, crunchy cheese triangle and cheese flavoured nori chips (roasted seaweed)

Nayuki to Expand via Franchising

Summary: *The high profile tea chain Nayuki is now planning to expand on a franchising basis after struggling over recent years with losses, the limited expansion of the number of its own stores and the intensifying competition in the marketplace.*

In late July, the Chinese company Nayuki Holdings Ltd. (Nayuki, Stock Code: 02150) – well-known as a leading chain offering freshly-made tea drinks – announced it is open to growth via franchising. This is a clear break with the company's business model which has been in place since its establishment in 2015. Franchisees are required to invest around USD140,285 (RMB1 million) per store – such stores should have a floor area of 90–170m² and be located outside 1st/2nd-tier cities.

Operating Problems

The performance of Nayuki's business to date has fallen far short of expectation, leading to years of losses and limiting its expansion.

- Losses: According to Nayuki's prospectus and financial reports, although it made a relatively small profit of USD2.3 million (RMB16.6 million) in 2020 the company has made consecutive losses of USD7.9 million (RMB56.6 million) in 2018, USD1.6 million (RMB11.7 million) in 2019, USD20.3 million (RMB145 million) in 2021, and USD64.7 million (RMB461 million) in 2022
- Troubled store-level sales: In 2019, Nayuki's sales per store reached USD1.1 million (RMB7.7 million); in 2022 the figure had fallen to only USD563,809 (RMB4 million), a 48% plunge
- Such a dramatic sales decline was difficult to offset due to the chain's slow expansion in the number of its own stores. In H1 2023, Nayuki opened 145 self-operated outlets

including 88 added in Q1 – the total chain comprised 1,194 at the end of H1. In comparison, HEYTEA – a high profile rival tea drinks chain – started franchising in Nov. 2022, and added 278 stores in March–May 2023 alone, taking its total store count to 2,121 and achieving consecutive monthly growth in store sales in H1

In this market segment, achieving sufficient and sustainable growth via a directly-owned operation only seems very challenging.

Fierce Competition

In early 2022, Nayuki adjusted the prices of most of its drinks down to USD2.8 (RMB20) or less per cup, a shift away from its premium pricing strategy, meant to attract China's increasingly price-sensitive consumers. However, this move positioned it in the crowded mid-market where problems such as a lack of product differentiation and competition are prominent.

To boost footfall and sales, brands are launching different kinds of campaigns, including the frequently used method in China of IP collaboration – effectively a co-branding approach where 2+ brands merge their brand assets (logos, colours, mascots etc) to create a new product or service. It is a sign of the times that Nayuki, HEYTEA, ChaPanda and many other tea drink brands have rolled out more such co-branded products YTD than in the whole of 2022. For instance, Nayuki has over 20 such collaborations announced, compared with fewer than 10 last year.

But the appeal of collaborations can diminish with so many such launches. In order to counter profit margins squeezed by reduced product prices and sustain growth amid intense competition, granting franchises to stores in the lower-tier cities which are home to 70% of China's population could prove to be Nayuki's best shot.

Governmental Direction

Dairy Association of China's New Guideline to Boost Dairy Demand

Summary: On 20 July, the Dairy Association of China launched the *Guideline for Increasing Dairy Demand and Product Quality*, projecting Chinese dairy consumption per capita to hit 45kg by 2025 and 50kg by 2030.

On 20 July, the Dairy Association of China (DAC) presented the *Guideline for Increasing Dairy Demand and Product Quality* (the Guideline) at the 14th China Dairy Industry Conference as part of a package of measures to improve and develop the industry.

As pointed out at the conference, China's dairy demand has been sluggish in 2022:

- Processors with turnovers above RMB20 million made combined sales of USD66.2 billion (RMB471.7 billion) in total, up by just 1.1% compared with the 17.7% growth in 2021
- Dairy consumption per capita was 42kg, down by 0.6kg from a year earlier
- The national price of raw milk in major producing provinces averaged USD583.6/t (RMB4,160/t) – its first decline in 4 years

In order to boost overall demand growth and drive higher-quality development, DAC's Guideline aims to promote dairy consumption in lower tier cities and to help tap market potential nationwide by setting targets and tasks as follows.

Major targets: Dairy consumption per capita to hit 45kg by 2025 and 50kg by 2030, with the market seeing more diverse choices and more balanced demand structure.

Improve demand structure:

- Promote production and marketing of domestic natural cheese products, innovation in cheese products that suit Chinese consumers' tastes and functional and flavoured "dry dairy products" (whey powder, milk powders and formula, condensed milk, cream and cheese); by 2030, national output of such "dry dairy products" to account for at least 40% of the total dairy product output
- Diversify the liquid dairy category, including fresh and fermented milk, to align with evolving market demand; develop organic, green, protein-rich milk and other high value added products
- Support R&D and domestic production capabilities for products such as milk powders, whey powder and formulae, and especially base ingredients for infant formula products such as whey powder and lactose
- Encourage demand for green / environmentally friendly and low-carbon dairy products, and promote related production technologies and processes

Expand customer base:

- Scale up the National School Milk Programme by expanding coverage, adding more types of school milk products and introducing cheese to the programme
- Accelerate targeted development of dairy products for the elderly and build elderly consumer interest in such products
- Explore potential to raise demand for dairy products in rural area and push E-commerce platforms

and online marketing and services in counties and villages

Innovate in sales & marketing channels:

- Use big data, cloud computing, AI and other digital technologies to capture a wider range of opportunities with consumers
- Encourage dairy firms to explore new channels such as "smart shops and scenic spots" (meaning shops, stores or foodservice outlets that use 5G, big data, artificial intelligence or virtual reality and other new technologies to create immersive, experiential, interactive consumer experiences) and diverse product varieties and applications
- Facilitate online and offline integration development of dairy marketing, to strengthen digital/online services while maintain offline operations

Build consumer confidence:

- Enhance domestic brand-building and efforts to increase such brands' international influence
- Continue efforts in product marketing by holding product launch events, sales campaigns, livestream selling, etc.
- Innovate in the means used to spread understanding of dairy nutritional and health benefits
- Deepen integration of traditional Chinese culture and styles with dairy products to differentiate regional products
- Prioritise development of dairy sector tourism – opportunities on farms, digital factories, dairy industry culture museums, other visitor experience and interactions

Standardisation:

- Develop association/regional standards for dairy products, and regulations governing marketing through E-commerce platforms, via enhancing market monitoring, user rights protection and product traceability
- Accelerate the construction of dairy product quality and safety traceability systems covering online and offline areas.

DAC also published 2 documents:

- *Core Indicator System for High Quality Development of China's Dairy Industry* – this concludes requirements for 80 indicators for dairy industry development by 2030, centred on 3 main areas – innovation in the dairy industry overall, rational growth of dairy product categories and effective improvement of product quality

- *Opinions on Strategic Development of China's Dairy Breeding* – this sets 11 key targets and makes 23 practical suggestions for dairy cattle development by 2030, aiming to boost the country's ability to supply the required dairy cattle breeds and industry competitiveness

Yunnan Pushing Continued Growth in Dairy

Summary: In late July, Yunnan Province's Department of Agriculture and Rural Affairs drafted 6 policy measures to sustain the local dairy sector growth, spanning dairy breeding, farm construction and product development/R&D.

In the Southwest of the country Yunnan Province – hardly a traditional dairying region – has seen steady growth in the sector since 2021, thanks to continued supportive policy measures:

- In 2022, the province had 21 dairy farm operators, with 193,700 head of dairy cattle producing 690,100 tonnes of milk in the year, ranked 2nd amongst the 12 southern dairying provinces
- By June 2023, Dali City in the northwestern of the province has seen USD356 million (RMB2.5 billion) invested by the city government and dairy enterprises including Lesson Dairy, Yunnan Ouya Dairy Products Co., Ltd., and New Hope Dairy Co., Ltd. in the "8+1" demonstration dairy farming project
 - This refers to 8 largescale cattle farms and 1 water buffalo farm, totalling 57,200 cattle in the current plan, and potentially more if market conditions prove conducive to growth
 - Xiangyun Yunhe Farm, the first phase of the project, completed two months ago and has started operating with 5,000 cows, scheduled to produce 33,600 milk annually
 - Once this 8+1 project enters full operation, Dali City is expected to represent over 65% of the province's dairy cows and milk output
- In H1 2023, Yunnan's milk production of 290,000 tonnes was up by 6.1% YoY

In order to maintain the sector's momentum, the provincial Department of Agriculture and Rural Affairs has issued Six Policy Measures for Further Promoting the Revitalization of the Dairy Industry (execution date from 1 Jan. 2023 to 31 Dec. 2025). The draft is open for public feedback from 27 July to 27 August 2023.

The Six Policy Measures:

- 1. Good dairy breeds:** Batch introductions of either 50+ imported dairy cattle which are certified as pure dairy breeds, or cows from other provinces certified as free from Brucellosis and Bovine tuberculosis, are eligible for subsidies of USD280.6 (RMB2,000) per cow – the total subsidy paid to any single enterprise should not exceed USD1.4 million (RMB10 million)
- 2. Forage purchase:**
 - Purchases of over 1,500 tonnes of quality silage (corn, alfalfa, triticale and oat) are subsidised at a rate of USD8.4 (RMB60) per tonne
 - Purchases and processing of over 1,000 tonnes of fermented feeds derived from straw silage are subsidised at a rate of USD4.9 (RMB35) per tonne
- 3. Farm construction:**
 - Counties/cities/districts with an annual milk production of 30,000 tonnes or above and ranking in the top 3 at county/city/district levels in terms of incremental production from 2023–2025, will each receive a one-off award from the provincial finance department of USD701,429 (RMB5 million)
 - New farm projects of over 1,000 cows will receive USD280.6 (RMB2,000) per cow bed; the subsidy of a single project should not exceed USD1.4 million (RMB10 million)

4. Animal epidemic disease control: Incentives ranging from USD28,057 (RMB200,000) to USD70,143 (RMB500,000) are available for dairy farms that pass different levels of epidemiological assessment

5. Green product incentive:

An incentive of USD7,014 (RMB50,000) is available for any

dairy farms that have passed GLOBAL G.A.P. certification for the first time or have been certified by the Technology Innovation Alliance of National Dairy Industry as a "Demonstration Farm for High-Quality Milk Projects"

A one-off incentive of USD 7,014 (RMB50,000) is provided for each dairy product that has obtained both green and organic certifications

6. Financial supports: Yunnan calls for counties/cities/districts to cooperate with leading local enterprises in farm construction; and supports dairy sector revitalisation projects that meet certain conditions to apply for special bonds, and establishment of funds for guaranteed loans, risk compensation etc

Company Dynamics

Dairy IPO Progress Updates: Xiyuchun Dairy, Chevalese Dairy

Summary: In Aug., regional dairy firm Xiyuchun Dairy launched a restructuring process and listing initiative, and Chevalese Dairy re-entered the listing review process run by the BSE.

Xinjiang Xiyuchun Dairy Co., Ltd. launched a restructuring process and listing on 14 Aug., aiming to increase capacity and accelerate expansion into markets outside XUAR (Xinjiang Uyghur Autonomous Region). It is the 4th XUAR-based dairy firm seeking listing after Xinjiang Tianrun Dairy Co., Ltd. (Tianrun Dairy, Stock Code: 600419), Xinjiang Western Animal Husbandry Co., Ltd. (Western Animal Husbandry, Stock Code: 300106), and Maiquer Group Co., Ltd. (Maiquer, Stock Code: 002719).

Established in 1985 and wholly owned by the state-owned Xinjiang Hutubi Cattle Farm Co., Ltd. (Hutubi Cattle Farm), Xiyuchun Dairy focuses on fermented milk, fresh/UHT milk, modified milk, milk powders and milk beverages, all sourced from its parent's farms — by the end of 2022, Hutubi Cattle Farm was running 11 farms with a combined dairy herd of 25,000 head. In 2022, Xiyuchun Dairy sold over 120,000 tonnes of dairy products,

valued USD150.8 million (RMB1.1 billion). The production and sales volume of its dairy products were both up by 30%, and the sales value accounted for more than 40% of dairy product sales in XUAR market last year.

In Feb. 2023, Xiyuchun Dairy introduced the idea of a "Second Undertaking", proposing to invest USD97.0 million (RMB700 million) in building 1,500 t/a dairy product production capacity in 3 years, raising its current annual capacity of 110,000 tonnes to 500,000 tonnes, with 70% selling to markets outside XUAR. It plans to expand its dairy herd to 100,000, also in a 3-year period. Earlier in 2021, the local government of XUAR's Hutubi County signed a cooperation framework agreement with Xiyuchun Dairy to help the company expand production, in line with the local development plan to build a RMB10 billion animal husbandry industry cluster integrating meat and dairy products. In addition, Xiyuchun Dairy had struck deals with 16 new regional distributors by Feb. 2023, for offline marketing in East China, Central China and Beijing-Tianjin-Hebei region, and said it would increase efforts in online distribution

via E-commerce platforms, Tmall.com and Meituan.com especially.

The consumer market has been showing increasing interest in the speciality dairy products made in XUAR in recent years, aiding local brands to expand. In 2020–2022, Tianrun Dairy, Western Animal Husbandry and Maiquer all saw substantial sales growth from markets outside XUAR, which were up by 43.04%, 57.62% and 72.27% respectively.

All said, though, Xiyuchun Dairy still lacks a signature product to truly compete outside its home region, especially given the region's relatively high milk prices and the costs involved in operating further afield — the level of growth it is envisaging is a great challenge for Xiyuchun Dairy in reality.

Inner Mongolia Chevalese Dairy Group Co., Ltd. (Chevalese Dairy) re-entered listing review by the Listing Committee of the Beijing Stock Exchange (BSE) on 23 Aug. According to the company's prospectus, it aims to raise USD36.2 million (RMB261 million) to build a 3,500 dairy cattle farm in Ordos City, southwest of Inner Mongolia Autonomous Region. This project is

designed to produce 40,000 tonnes of milk and deliver sales of USD29.5 million (RMB213 million) annually.

Founded in 1992, Chevalese Dairy concentrates on organic raw milk, milk products, yoghurt, milk formulae for children and adults, granulated sugar and other by-products. By 2022, it had 4 standard dairy farms with 17,900+ dairy cows, 9,000 of which were mature cows, producing 260 tonnes of milk daily over the year. It has 15 liquid dairy production lines and 7 powder production lines, processing 620 tonnes of raw milk daily. China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319) remains its main organic raw milk customer, accounting for over 90% of the sales by Chevalese Dairy's husbandry operation.

Key operating data of Chevalese Dairy:

2020–2022:

- Revenues: USD99.6 million (RMB719 million), USD121.4 million (RMB876 million), and USD131.4 million (RMB948 million)
- Net profit attributable to parent company: USD3.2 million (RMB23.34 million), USD7.7 million (RMB55.7 million), and USD9.9 million (RMB71.6 million)
- Its husbandry operation made up 28.07%, 30.83%, and 39.69% of the total revenue over the three years
- Dairy products (chilled yoghurt, contracted milk powders, milk formula, fresh and UHT milk, etc.) accounted for shares of 28.54%, 24.99%, 28.59%
- Inner Mongolia Autonomous Region accounted for 65.04%, 69.44%, 74.47% of the company's total revenue over the three years

H1 2023 (estimated):

- Revenue: USD68.0 million–USD68.6 million (RMB491 million–RMB495 million), up 32.80%–33.80% YoY
- Net profit attributable to equity shareholders of the parent: USD5.6 million–USD6.2 million (RMB40.1 million–RMB45.0 million), down 13.26%–22.78%

In July 2015, Chevalese Dairy listed on the New Third Board (or National Equities Exchange and Quotations, NEEQ). In late June 2022, it made the IPO application with the BSE and has undergone 4 rounds of review and response on the application documents since July 2022. In the process, the BSE's review was suspended twice due to expired financial documents, before resuming on 27 June, 2023 after Chevalese Dairy resubmitted the renewed documents.

Steady Growth of Foreign Formula Brands in China in H1

Summary: Nestlé, FrieslandCampina and Danone have reported total sales growth of 1.6%, 4.6% and 8.4% in H1 2023, respectively, seeing positive momentum in their China operations.

In late July, several key formula companies issued their latest half-year results, with Nestlé, FrieslandCampina and Danone all reporting resilient growth in formula sales in China.

Nestlé

H1 2023 Key Financials:

- Total sales: USD52.9 billion (CHF46.3 billion), up 1.6% YoY
- Underlying trading operating profit (UTOP): USD9.0 billion (CHF7.9 billion), up 2.9% YoY
- UTOP margin: 17.1%, up by 20 basis points (bps) on a reported basis and up by 30 bps in constant currency

- Infant Nutrition posted double-digit growth, with broad-based contributions across brands and geographies
- Dairy reported high single-digit growth, with strong demand for coffee creamers and affordable fortified milks

Zone Greater China (created as a business division in Jan 2022):

- Sales: USD2.9 billion (CHF2.5 billion)
- Organic growth & real internal growth: 4.7% and 1.3% respectively, supported by E-commerce momentum, recovery of out-of-home channels and price rises
- UTOP: USD456.9 million (CHF400 million)
- UTOP margin: 16.6%, up by 160 basis points, due to favourable product mix and strict cost control offsetting cost inflation
- Infant Nutrition saw mid single-digit growth, led by NAN specialty variants and illumia
- Nutritional milk products for adults recorded double-digit growth, supported by new product launches

- The pet food and confectionery operations gained higher market shares in the Zone.

Nestlé raised its total organic sales growth guidance to a range of 7% to 8%.

FrieslandCampina

H1 2023 Key Financials:

- Total sales: USD7.6 billion (EUR6.9 billion), up 4.6% YoY, or up 6.9% after adjustment for currency translation effects
- Operating profit: USD51.6 million (EUR47 million). down 85.7% YoY
- Net profit: USD8.8 million (EUR8 million), down 94.2% YoY

In China: Specialised Nutrition reported excellent revenue and operating profit figures, partially driven by growth in infant nutrition sales under the Friso Prestige brand in the ultra-premium segment in China.

- Sales: USD639.6 million (EUR582 million), up 17.1% YoY
- Operating profit: USD139.6 million (EUR127 million), up 30.9% YoY

FrieslandCampina highlighted its future innovation focus will be on dairy products for the elderly and sports participants, indicating that it plans to accelerate product R&D and launches in these areas.

Danone

H1 2023 Key Financials:

- Net sales: USD15.6 billion (EUR14.2 billion), up 8.4% like-for-like; Q2 sales up 6.4% to USD7.9 billion (EUR7.2 billion)

- Recurring operating profit: USD1.9 billion (EUR1.7 billion), up 7.6% like-for-like
- Recurring operating margin: 12.2%, up 14 bps
- EDP (Essential Dairy & Plant-based) sales: USD8.2 billion (EUR7.5 billion), up 7.7% like-for-like; Q2 sales up 6.2% to USD4.1 billion (EUR3.7 billion)
- Specialized Nutrition sales: USD4.7 billion (EUR4.3 billion), up 8.3% YoY; Q2 sales up 4.9% to USD2.3 billion (EUR2.1 billion)
- China, North Asia & Oceania sales: USD2.0 billion (EUR1.8 billion), up 12.4% like-for-like; Q2 sales up 9.6% to USD1.0 billion (EUR954 million)

In China:

- Aptamil continued to deliver solid growth in Infant Nutrition, coupled with further market share gains
- Nutrison and Neocate posted strong growth in Adult Nutrition and Pediatric Specialties respectively

Danone expects like-for-like sales growth for 2023 overall to be between +4 and +6%, with moderate recurring operating margin improvement.

Chinese industry sources have commented that these positive trends have been driven by:

- Expansion to whole-family nutrition business while maintaining their IMF operations
- Control of product distribution and pricing to protect brand image
- Sustained growth in cross-border purchasing

Lesson Intelligent Completes New Dairy Plant Construction

Summary: Lesson Intelligent's new 200,000 t/a dairy plant has passed final environmental checks and is set to become fully operational by Sept. 2025; meanwhile Royal Group, its former owner, claims it can bounce back after being forced into selling the company back in May.

On 2 Aug., the final environmental checks on the completed construction of Yunnan Royal Lesson Intelligent Dairy Co., Ltd. (Lesson Intelligent)'s "200,000 t/a Yunnan Plateau-Featured Dairy Products Smart Plant Project" were completed.

Project details:

- Construction nature: New construction
- Total investment: USD58.9 million (RMB420 million), 5.56% (=USD3.3 million/RMB23.4 million) of which for environmental protection
- Location: Fengyi Area, Economic and Technological Development Zone of Dali City, Yunnan Province
- Site & building areas: 113,553 m² & 64,577 m²

- Main construction items: Production workshops, warehouses, power station, wastewater treatment facility, technique centre, yoghurt science & technology museum, and other supporting facilities
- Raw material demand:
 - Raw milk – 145,900 t/a
 - Reconstituted milk – 40,300 t/a, for ambient and chilled products
 - SMP – 800 t/a, for plant-based protein drinks

- Staffing: 520 people in total – 180 technical workers, 190 administrative staff and 250 production workers
- Working hour: 2 x 8-hour shifts for 300 days per year
- Start of construction: 28 March 2020
- Commissioning time: 7 Aug. 2022
- On-site monitoring: 9 May–15 May, 2023; 9 June–14 June, 2023
- This plant started running in Aug. 2022; it is expected to reach 75% of designed capacity (=150,000 t/a) by Sept. 2023 and become fully operational by Sept. 2025.

TABLE 2: Product Plan for Lesson Intelligent’s Dairy Plant

Type	Item	No. of Production Lines	Packaging Specification	Designed Capacity, t/a
Ambient products	Tetra Pak UHT milk	6	200g/bag	10,000
			250g/bag	11,600
			500g/bag	4,000
	PrePack Milk (polyethylene bag)	1	200g/bag	2,400
	Bottled milk	1	340g/bottle	7,000
	Glass bottled yoghurt	1	280g/bottle	7,000
	Sub-total	9	/	42,000
Chilled products	Glass bottled fresh milk	2	200g/bottle	8,000
	Gable top carton fresh milk	1	500g/bag	6,000
	Soft package fresh milk	4	220g/bag	16,000
	"Changcun" Lactobacillus drinks	1	340g/bottle	12,000
	Original flavoured set yoghurt	1	180g/cup	12,000
	Original flavoured Lesson Yoghurt	2	136g/cup	24,000
	Lesson natural yogurt series ("Chuncui" and "My Orchard")	2	150g/cup	8,000
	Pouched stirred yoghurt	9	200g/pouch	27,000
	PET Bottled "Plain Yoghurt"	1	236g/bottle	7,000
	Gable top carton yoghurt	1	500g/carton	12,000
	Lesson Mofei Buffalo Yoghurt	1	116g/cup	3,000
	Probiotics drinks	1	250g/bottle	5,000
	Sub-total	26	/	140,000
Plant-based protein drinks	Canned walnut and peanut milk	1	240g/can	18,000
Total		36	/	200,000

Source: Environmental Protection Acceptance and Monitoring Report Of Lesson Intelligent's New Plant

Lesson Intelligent was founded in May 2018 with a registered capital of USD7.5 million (RMB53.8 million) by Royal Group Co., Ltd. (Royal Group, Stock Code: 002329). According to the group's 2022 annual report, this new 200,000 t/a dairy plant of Lesson Intelligent was expected to make up about 27% of the group's total designed capacity. Since it began operations in Sept. 2022, the plant has generated revenue of USD61.5 million (RMB438.6 million), close to 18.7% of the group's revenues – if one adds the sales from Yunnan Royal Lesson Dairy Co., Ltd. (Lesson Dairy), the combined share was up to 70%.

Lesson Intelligent and Yunnan Royal Lesson Dairy Co., Ltd. (Lesson Dairy) should have been the core driving forces

in realising Royal Group's strategic target to be a "dairy firm of RMB10 billion+" by 2028. However, in May the group sold its remaining shares in both businesses to Junlebao Dairy Group Co., Ltd. (Junlebao), primarily to address its insolvency – from now on, neither firm will be incorporated in group statements.

On 7 Aug., the group responded to investors' concerns expressed online regarding the impact of these sell-offs by saying that:

- The changes have no significant impact on its current dairy operation (Note: although Lesson Dairy and Lesson Intelligent generated net profit of USD168,146 (RMB1.2 million) from Jan. to May, close to

11.4% of the group's net profit in H1 2023)

- That it is setting up new production sites in Bama County and Laibin City in Guangxi Zhuang Autonomous Region and a central factory in Fuyang City in Anhui Province to fill the gap in production, whilst various measures are planned to explore distribution channels and improve market share (Note: these new production sites make up about 31.9% of the group's total designed capacity after the sell-offs of Lesson Dairy and Lesson Intelligent, and the group has collaborated with freshly-made tea drink and coffee brands to launch a range of buffalo milk-based products)

Yantang Dairy Reports 70% Net Profit Surge in H1 2023

Summary: On 15 Aug., Yantang Dairy's report for H1 showed revenue up by 7.14% and net profit attributable to equity shareholders surging by 70.29%

On 15 Aug., Guangdong Yantang Dairy Co., Ltd. (Yantang Dairy, Stock Code: 002732) issued its report for H1 showing strong growth:

- Revenue: USD135.1 million (RMB962.8 million), up by 7.14% YoY
- Net profit attributable to equity shareholders: USD13.8 million (RMB98.3 million), up 70.29% YoY
- Net profit attributable to equity shareholders excl. extraordinary gains/losses: USD13.9 million (RMB99.1 million), up 69.06% YoY

Increased efforts in sales channel exploration and market expansion are credited with driving the growth during the reporting period. Other factors mentioned are product range optimisation and the company's gaining the National High-Tech Enterprise Certificate, qualifying it to a reduced corporate tax rate of 15% for the 2022-2024 period.

Corporate activity in H1:

Marketing and distribution:

- Yantang Dairy has been focusing on the Guangdong-Hong Kong-Macao Greater Bay Area: in the cities of Shenzhen, Dongguan and Zhuhai cities by strengthening operations, into Macao by increasing its presence through

celebrity endorsement, diversified product mix and wider distribution partnerships, and in Hong Kong by in-market field research and visits to prepare for expansion

- For markets outside Guangdong, it has focused on launching online campaigns to increase sales levels and brand awareness
- Exploration of E-commerce, Wechat, short-video, community group buying platforms and other novel channels have remained key, along with distribution to schools

Product sales:

- Both sales volume and value of fresh milk grew by over 12%, boosted by the promotional campaigns highlighting "differentiation + fair price"
- Marketing the new series "Fresh Milk Pudding" as snacks expanded target customer group / consumption occasions
- Product launches in collaboration with renowned colleges and universities, and high profile retailers helped boost overall sales and corporate competitiveness
- H1 saw 6 new products launched: New Guangzhou Concentrated Yoghurt (collaboration with Canton Tower), Chocolate Flavoured Fresh Milk Pudding (set modified milk), Xiaoqi Carbonated Yoghurt Drink (milk beverage), Chaoji Lebi Pure Milk (UHT milk for children), yellow peach flavoured (chilled) yoghurt, O-Sucrose & High-Fibre Yoghurt with Crispy Cereals and Fruits

Dairying:

- In H1, Yantang Dairy was operating a spring corn planting area of 10,800 mu (7.2 million m²), with Guangdong producing 2.03 tonnes per mu (667 m²) with dry matter and starch contents averaging above 30%. This has enabled supply to the company's farms and ensured their milk quality

- New farm projects in Yangjiang City in Guangdong Province and Zhangye City in Gansu Province were completed and put into operation last year, increasing Yantang Dairy's milk production scale

TABLE 3: Yantang Dairy's Revenue by Category and Region, H1 2023 vs H1 2022, USD million

Item	H1 2022		H1 2023		YoY change
	Amount	Share	Amount	Share	
Total revenue	126.1	100%	135.1	100%	7.14%
By Category					
Liquid dairy	49.1	38.98%	52.3	38.72%	6.43%
Milk beverages	26.4	20.93%	27.8	20.60%	5.49%
Lactobacillus drinks	47.7	37.87%	53.8	39.85%	12.74%
Others	2.8	2.22%	1.1	0.83%	-60.21%
By Region					
Guangdong's Pearl River Delta region	91.4	72.47%	101.3	74.97%	10.84%
The rest of Guangdong Province	32.7	25.96%	31.5	23.30%	-3.84%
Outside Guangdong Province	2	1.57%	2.3	1.73%	17.94%

Source: Yantang Dairy's report for H1 2023

Note: Liquid dairy: Fresh/UHT/modified/fermented milk products Milk beverages: Products made with milk / dairy ingredients as base materials and including juice, nutritional fortifiers, nuts, grains, etc. Others: Fresh milk pudding, etc.

TABLE 4: Yantang Dairy's Production and Sales, H1 2023 vs H1 2022, tonnes

Category	Item	H1 2022	H1 2023	Change
Milk beverages	Sales volume	20,590.17	21,774.38	5.75%
	Output	20,369.60	22,146.18	8.72%
	Ending inventory	1,418.42	1,939.65	36.75%
Lactobacillus drinks	Sales volume	42,258.83	47,606.14	12.65%
	Output	43,250.82	48,353.20	11.80%
	Ending inventory	2,915.83	2,288.12	-21.53%
Liquid dairy	Sales volume	34,709.53	36,531.69	5.25%
	Output	35,060.24	37,020.50	5.59%
	Ending inventory	2,110.70	1,879.27	-10.96%

Source: Yantang Dairy's report for H1 2023

Note: Liquid dairy: Fresh/UHT/modified/fermented milk products Milk beverages: Products made with milk or dairy ingredients as base materials and including juice, nutritional fortifiers, nuts, grains, etc.

Raw Milk Price

China's Milk Price Sees Small Recovery

Summary: In Aug, China's raw milk price saw a small recovery, after the 8-month decline which has weakened dairy producers' profitability.

In the week ended 9 Aug., China's raw milk price averaged USD527.5 (RMB3,760) per tonne, up 0.3% from the first week of the month but down 8.7% YoY.

This very slight improvement is believed to reflect several factors:

- Exits from dairying by SME producers and culling by larger farms due to the recent continuous decline in raw milk prices, meaning reduced supply as a result
- Dairy processors preparing for holiday-related demand as the Mid-Autumn Festival approaches
- Production of school milk resuming for the new term

Feeds market:

- The national price of corn averaged USD422.3/t (RMB3,010/t), up 0.3% from the first week and up 0.7% YoY; the average price in major production regions (Heilongjiang, Jilin and Liaoning) remained unchanged at USD385.8/t (RMB2,750/t) compared with the first week; and the price in the main demand area (Guangdong) edged down by 0.3% to USD439.1/t (RMB3,130/t) from the first week.
- The national price of soybean meal averaged USD646.7/t (RMB4,610/t), up 1.8% from the first week of the month and up 4.5% YoY

Farming Taking A Hit

China's raw milk price had been on the slide in H1 this year, hitting a low of USD526.1/t (RMB3,750/t). Faced with rising feed prices and cheap milk, leading farm operators to forecast sharply reduced profits in H1:

- China Modern Dairy Holdings Ltd. (Stock Code: HK.01117): Net profit attributable to shareholders forecast down by 57%–61% YoY to USD28.1 million–USD30.9 million (RMB200 million–RMB220 million); on raw milk sales, gross profit to contract by

USD16.8 million–USD25.3 million (RMB120 million–RMB180 million), with the gross margin down by 4 percentage points

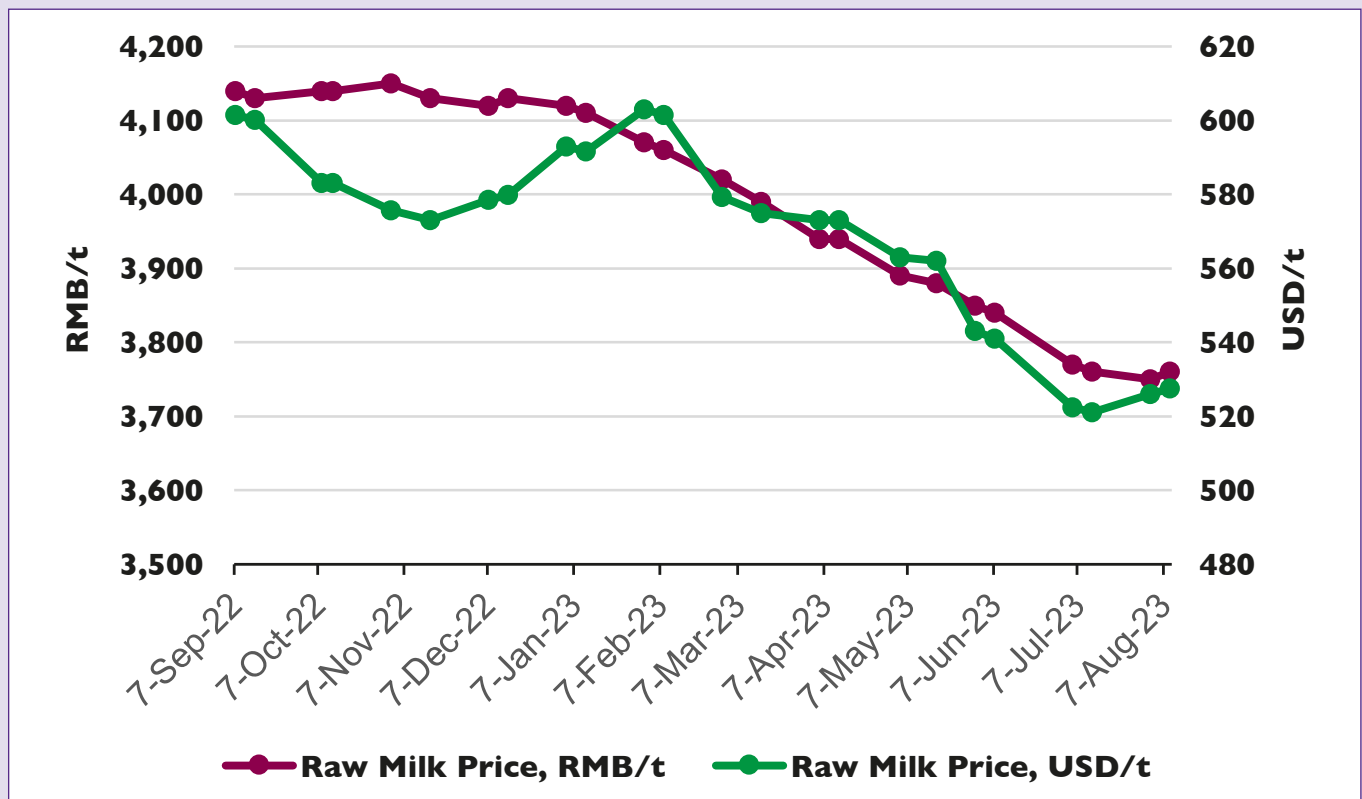
- China Youran Dairy Group Ltd (Stock Code: 09858.HK): Net loss attributable to shareholders forecast at USD133.3 million–USD144.5 million (RMB950 million–RMB1 billion), compared with the net profit of USD30.7 million (RMB219 million) of the same period last year; average raw milk price has fallen by 5%, while feed cost per kg raw milk has risen 2.5% YoY
- AustAsia Group Ltd. (Stock Code: 2425.HK): Net loss forecast to reach USD40 million–USD50 million, compared with the net profit of USD30 million of the same period last year; average raw milk price has fallen by 8%, while feed cost per kg raw milk has risen by 7% YoY
- China Shengmu Organic Milk Ltd (Stock Code: 1432.HK): Net profit attributable to shareholders forecast to be down by 89%–91% YoY to USD2.8 million–USD3.7 million (RMB20 million–RMB24 million); in raw milk sales, its gross profit is expected to be down by USD12.6 million–USD13.3 million (RMB90 million–RMB95 million)

How dairy farming companies counter the situation will depend on how efficient they are in implementing measures to reduce costs, increase efficiency and stimulate demand.

Latest reference trading prices for raw milk for Q3/H2 2023:

- Inner Mongolia Autonomous Region: USD540.1/t (RMB3,850/t) with minimum price of USD519.1/t (RMB3,700/t), effective Q3 2023
- Jilin Province: USD519.1/t–USD561.1/t (RMB3,700/t–RMB4,000/t), effective Q3 2023
- Sichuan Province: USD695.8/t (RMB4,960/t) with minimum price at USD667.8/t (RMB4,760/t), effective H2 2023

FIGURE 1: Trends in China's Raw Milk Price, Sept. 2022–August 2023



Source: Ministry of Agriculture and Rural Affairs

News in Brief

Dairy Imports in July 2023

July's imports show YoY growth for milk powders, AMF and cheese, but declines in volumes for whey permeates/powders, butter – and infant nutritionals. WMP was up, but these remain challenging times, as Fonterra has noted in its market commentary this month.

TABLE 5: 2023 July Imports, tonnes

HS code	Product	202207	202306	202307	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	7,289.8	6,906.9	6,757.3	-2.2%	-7.3%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	49,323.0	46,127.0	38,855.2	-15.8%	-21.2%
04014000	Milk & cream, 6%	3.2	3.5	0.6	-83.8%	-82.0%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	16,444.8	26,811.1	16,878.1	-37.0%	2.6%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	27,394.9	28,838.7	33,008.9	14.5%	20.5%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	36,865.0	48,804.7	45,168.7	-7.5%	22.5%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	94.1	13.0	32.2	146.9%	-65.8%

HS code	Product	202207	202306	202307	MOM	YOY
04041000	Whey and modified whey	54,222.7	52,284.8	51,856.7	-0.8%	-4.4%
04049000	Products consisting of natural milk constituents, nes	446.5	445.1	413.2	-7.2%	-7.5%
04051000	Butter	9,252.5	8,780.5	6,067.5	-30.9%	-34.4%
04059000	Other fats & oils derived from milk	5,761.6	3,363.0	7,210.6	114.4%	25.1%
04061000	Fresh cheese, incl. whey cheese, curd	5,631.9	7,357.2	7,489.4	1.8%	33.0%
04062000	Grated or powdered cheese	1,031.1	4,703.4	5,365.8	14.1%	420.4%
04063000	Processed cheese, not grated or powdered	1,730.2	2,045.2	1,945.7	-4.9%	12.5%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	7.8	5.2	12.9	150.2%	65.0%
04069000	Cheese, nes	3,151.6	2,566.1	2,682.4	4.5%	-14.9%
17021100	Anhydrous lactose, lactose wt. ≥99%	15,286.1	20,027.8	15,358.0	-23.3%	0.5%
17021900	Lactose syrup & other lactose	201.9	6.9	23.0	232.3%	-88.6%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	22,002.1	13,556.4	10,148.4	-25.1%	-53.9%
35011000	Casein	1,769.3	1,933.3	1,486.8	-23.1%	-16.0%
35019000	Caseinates	2,312.5	2,519.9	1,583.3	-37.2%	-31.5%
35022000	WPC80/WPI	2,640.2	4,354.8	2,550.0	-41.4%	-3.4%

Source: China Customs

Inner Mongolia Reports 11% Growth in Milk Production in H1 2023

In late July, the Government of Inner Mongolia Autonomous Region held a press conference in which it provided key statistics on the local dairy industry for H1 2023:

- The cattle herd size grew by 13.4% YoY to 1.695 million head, 1.23 million of which were Holsteins; the number of largescale farms with over 100 Holsteins reached 567
- Milk production rose to 2.753 million tonnes, up by 11% YoY – 3.5 percentage points higher than the national growth
- Dairy product output increased 14.7% to 2.276 million tonnes; and there were 83 local dairy processors with annual sales of USD701,430 (RMB5 million) or above, together providing 12.3 million t/a processing capacity
- The forage growing area stood at 12.2 billion m², including 9.4 billion m² for silage corn and 1.1 billion m² for oat hay, basically meeting the overall demand from dairy farms in the region

As the biggest dairy producer, Inner Mongolia Autonomous Region is gearing up to promote value-added dairy products with local features, focusing on good dairy breeding and technological innovation in dairy farms and plants. It is targeting annual milk output (from all sources) to be 10 million tonnes and the production value of the whole dairy sector in the region to be USD42.1 billion (RMB300 billion) by 2025.

China Feihe Projects Net Profit Decline in H1 2023

On 10 Aug., China Feihe Ltd (China Feihe, Stock Code: HK.06186) released its earnings forecasts for H1 2023, with bearish figures:

- Revenue: USD1.3 billion–USD1.4 billion (RMB9.6 billion–RMB9.9 billion), flat on a yearly basis
- Net profit: USD203.4 million–USD245.5 million (RMB1.5 billion–RMB1.8 billion), down by 23.2%–36.4% YoY

Two aspects were cited regarding the forecast reduction in net profit:

- The fall in China's newborn number, down 40% within 5 years to 9.56 million in 2022, and expected to reduce further to around 7 million–800 million in 2023, impairing its IMF operation
- Its dairying subsidiary, Yuanshengtai Dairy Farm Ltd (Yuanshengtai Dairy, Stock Code: 1431.HK), projects a net loss of USD36.5 million–USD39.3 million (RMB260 million–RMB280 million) in H1 2023, compared to a USD7.4 million (RMB52.7 million) profit a year earlier, due to the continued drops in raw milk prices and the rises in feed costs

Liziyuan Reports 30% Net Profit Rise in H1 2023

On 7 Aug., milk beverage producer Zhejiang Liziyuan Food Co., Ltd. (Liziyuan, Stock Code: 605337.SH) released its H1 earnings results:

- Revenue: USD98.3 million (RMB701 million), up 0.06% YoY
- Net profit attributable to equity shareholders of the listed company USD18.9 million (RMB134.5 million), up 30.56% YoY
- Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses USD18.2 million (RMB130 million), up 55.97% YoY
- During the reporting period, lower raw material prices and higher end product prices improved gross margins; meanwhile, sales costs went down compared with the same period of last year also facilitating profit growth, according to the company

Established in Oct. 1994 with a registered capital of USD55.3 million (RMB394.4 million), Liziyuan focuses on sweetened milk beverages, and also produces UHT milk, plant-based protein drinks, etc. Its dairy plants in Zhejiang, Jiangxi, Yunnan, Hebei and other provinces, have a total capacity of 400,000 t/a for milk beverages and other drinks. "Liziyuan Sweet Milk", its signature range, accounts for nearly 70% of the sweetened milk beverage category in Zhejiang Province. In 2021, Liziyuan listed on the Shanghai Stock Exchange, becoming known as "the First Chinese Sweet Milk Stock".

Panda Dairy's H1 Net Profits More Than Double

On 17 Aug., Panda Dairy Corporation (Panda Dairy, Stock Code: SZ. 300898) issued its report for H1 2023 with encouraging figures:

- Revenue: USD62.8 million (RMB447.7 million), up 18.3% YoY
- Net profit attributable to parent company: USD6.6 million (RMB47.2 million), up 107.7% YoY
- Net profit attributable to parent company excl. extraordinary gains/losses: USD5.7 million (RMB40.6 million), up 125.3% YoY
- The rising profitability was credited to progress in customer and channel development, gradual recovery of foodservice demand and a higher gross margin, up by 4.12 percentage points to 30.46%

Operation performance:

- By category, condensed dairy products (condensed milk, whipping cream and cheese, coconut milk) and traded dairy commodities achieved sales of USD46.1 million (RMB328.4 million) and USD15.7 million (RMB112.1 million), up by 20.9% and 10.4% YoY respectively
- By the end of H1, Panda Dairy had extended its network to a total of 353 distributors, with 41 added over the period: the share of its sales made up by foodservice customers increased, reflecting product diversification and its expanded distribution network
- New launches in H1 included the MEISHI LAOLAO cheese snack range and BABY PANDA BANBAN, a cheese lollipop range

Panda Dairy has built its portfolio focusing on condensed milk and using cream, cheese and plant-based dairy as a 2nd growth driver. It has launched shelf-stable and fresh whipping creams, natural and processed Mozzarella, cream cheese, cheese sticks and drinkable cheese products for kids, etc.

China's Cattle Imports Reduce by 43% in H1 2023

According to China Customs, China imported 97,871 live cattle in Jan.–June 2023 (a summary of HS codes: 01022100 and 01022900). This represents a 43% drop vs. 171,794 in the same period last year. From this year's figure, 51,600 head (52.7%) were from Australia, down by 3.6%, and 118,100 (43.5%) from New Zealand, down by 36.5%.

In this total, the proportion of dairy cattle fell to 60% vs. beef cattle 40%. This change reflected the challenging dairy market in China, with many SME farms closing down, and the reduction in new farm construction projects launched during the period – some such projects had already completed in phases in previous months and started up, requiring only smaller shipments to meet their capacity.

As New Zealand has banned live cattle exports by sea since 30 April, from that point on China has imported mainly from Australia, which is expected to remain the main origin in the coming years. This means a resumption of the leading position it had before 2020. In 2017–2020, China imported 737,600 live cattle from Australia, equivalent to 67% of the total. In 2021, China's live cattle imports from New Zealand rose, due to the concerns about the impact of New Zealand's ban, making New Zealand the top supplier in 2021 and 2022, with annual shares of approximately 34% and 40%, overtaking Australia for those two years, before the recent change.

MARA: Feed Additive Chromium-Methionine Chelate Use Cleared for Milking Cows

On 21 July, the Ministry of Agriculture and Rural Affairs (MARA) posted Notice No.693 on the updated Catalogue of Feed and Feed Additive Products, expanding the usage scope of chromium-methionine chelate to lactating dairy cattle, effective immediately. Updated content includes the followings:

- Source of product: Use chromic chloride and methionine as raw materials to generate chromium-methionine chelate liquid through reactions and then combine with premix carriers and diluent to obtain the final chelate product
- Recommended addition amount in total mixed ration (TMR) of lactating dairy cows (based on 88% of dry matter content in TMR): 4–8 mg/head/day or 0.16–0.32 mg/kg (measured by Cr)
- Maximum amount (of chromium in organic form) in TMR of lactating dairy cows (based on 88% of dry matter content in TMR): 8 mg/head/day or 0.32 mg/kg (measured by Cr; separate use or in combination with other feed additives which contain chromium)

TABLE 6: Quality Criteria of Chromium Methionine Chelate

Index		Range
Chromium, (Cr3+), mg/kg		1,000–1,200
Methionine, %		≥0.9
Chelation rate, %		≥95
Water, %		≤5
Particle size	Passing rate through 0.85mm-mesh test sieve, %	≥97
	Passing rate through 0.15mm-mesh test sieve, %	≤75
Total arsenic content (As), mg/kg		≤2
Lead (Pb), mg/kg		≤15
Mercury (Hg), mg/kg		≤0.1
Cadmium (Cd), mg/kg		≤0.75
Fluorine (F), mg/kg		≤400
Hexavalent chromium (Cr6+), mg/kg		≤5

Source: MARA's Catalogue of Feed and Feed Additive Products

Bright Dairy's 10,000 Dairy Farm Completed and Approved

On 14 Aug., the completion of Zhongwei Bright Ecological Smart Pasture Co., Ltd.'s 10,000 head farm was announced online, along with its environmental report approval.

Zhongwei Bright was founded in Dec. 2020 with a registered capital of USD51.8 million (RMB369.2 million) by Bright Dairy & Food Co., Ltd. (Bright Dairy, Stock Code: 600597). This new farm is planned to supply the group's dairy processing plants in Shaanxi, Henan and Chengdu provinces.

Project details:

- Construction nature: New construction
- Total investment: USD64.6 million (RMB460.5 million), 10.02% (USD6.5 million/RMB46.1 million) of which for environmental protection
- Location: Shapotou District, Zhongwei City, Ningxia Hui Autonomous Region
- Site area: 670,000 m²
- Main construction plan: 15 standard cattle sheds, supporting milking equipment, environmental engineering and public utilities
- Herd size: 10,000 Holsteins in total – 5,500 milking cows, 2,500 heifers, 800 dry cows, 1,200 calves
- Product plan: Raw milk (60,000 t/a), plus others (calves, culling cows, fertilisers, etc.)
- Working system: 235 people working in one 8-hour shifts for 365 days per year
- Start of construction: 11 April, 2021
- End of construction: 15 June, 2023
- Commissioning time: 14 June, 2022–18 June, 2023
- On-site monitoring: June 2023

Yili Launches China's First Shelf-Stable Probiotic Yoghurt

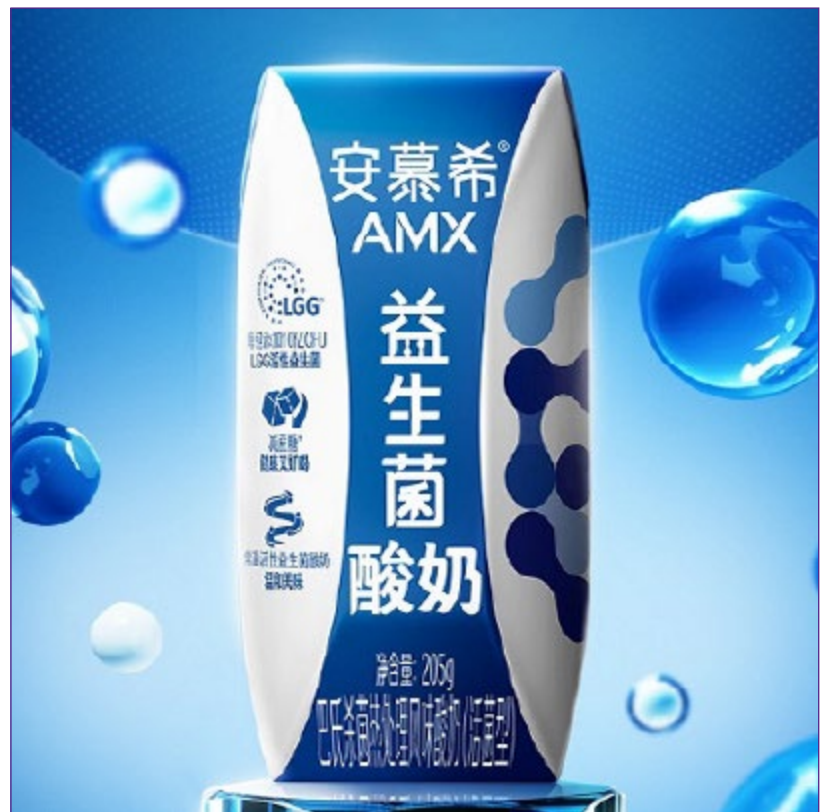
On 7 Aug., Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) launched a first-of-its-kind shelf-stable probiotic yoghurt under the Ambrosial (AMX) brand.

As the benefits of probiotics such as improving gut health and boosting immunity have become better known amongst consumers, especially in the wake of the pandemic, the China Healthcare Association has projected that China's probiotics market will exceed USD15.4 billion (RMB110 billion) in production value, with dairy products accounting for over 80% of that figure.

However, most probiotics drinks on the market require refrigeration because probiotic activity declines fast in ambient temperatures, limiting opportunities for probiotics drinks. The AMX shelf-stable probiotic yoghurt project was kicked off during the COVID period, cooperating with a 50-people R&D team led by Chr. Hansen, the global bioscience company.

Each 205g carton contains 1 billion CFU of active probiotic LGG (Lactocaseibacillus rhamnosus GG), a sucrose level of just 0.7%, but 6.3g of protein – 35% higher than the national standard for flavoured yoghurt. The product is currently available only on Taobao.com, selling at USD10.94/RMB78 per carton (205gx12).

PICTURE 1: AMX Shelf-Stable Probiotic Yoghurt



Source: Yili's Ambrosial (AMX)

ChaPanda Files IPO Prospectus with HKEX

On 15 Aug., ChaPanda, one of China's leading new style tea drink chains, submitted a prospectus for an IPO on Hong Kong Stock Exchange (HKEX)'s main board.

It indicates that the ChaPanda store network comprises 7,117 stores, spanning 31 provinces and municipalities, covering all provinces and different tiers of cities in mainland China. In 2022, the stores' total retail sales reached approximately RMB13.3 billion, representing a CAGR of 139.7% from 2020 to 2022.

The brand ranked 3rd in the tea chain segment in terms of retail sales value in 2022 with a market share of 6.6%, after:

- No. 1 – Mixue Ice Cream and Tea (also known as MXBC), operating 20,000+ outlets
- No. 2 – GOODME, with 7,600+ stores

At present, Nayuki is the only tea drink chain that has gone public in China; MXBC did file for an IPO in Sept. 2022 but this remains under review.

ChaPanda has shown strong growth in recent years:

- Revenue: USD151.5 million (RMB1.1 billion) in 2020 up to USD593.6 million (RMB4.2 billion) in 2022, with a CAGR of 97.9%; H1 2023 sales up 53% YoY to USD174.8 million (RMB1.2 billion)
- Net profit: USD33.4 million (RMB238 million) in 2020 up to USD135.4 million (RMB965 million), with a CAGR of 101.3%; H1 2023 sales up 50.7% YoY to USD40 million (RMB285 million)

In China, the competition in the new style tea drink market is only getting more intense, requiring businesses to engage in frequent marketing campaigns and an increased level of product innovation. This raises the obvious question – can ChaPanda maintain its momentum through the IPO process and after going public?

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