

Dairy Products China News

Guaranteed Exclusive Analysis

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Welcome to the October issue of Dairy Products China News.

Whilst still achieving growth levels which elude most western countries, China's economy is in a state of transition, with total export revenues now challenged by US sanctions and imports flat in September overall, despite the much higher imports from Russia (+53.9% to USD\$10.7 billion). At least there are signs of life in the dairy imports for the month after a difficult year so far.

The country's moves towards greater self-security in food are part of its strategy to rely less on overseas supply, which can be so unreliable and sometimes so expensive – whether due to supplier non-performance, logistical hold ups, production shortfalls or the policies of governments and international institutions. The problems which can be posed by overseas governments are well exemplified by New Zealand's ending live animal exports from next April and the Australian commitment to phasing these out from 2025, and by New Zealand's plans to introduce farm-level levies to achieve emissions reductions, surely implying much higher prices for its dairy commodities – if implemented as suggested. Meanwhile it seems likely that the new regulations from the International Maritime Organization and soon from the EU will push up the costs of moving containers internationally.

Despite its huge achievements, the country's wealth inequalities have become all the more glaring unfortunately, making the slogan of Common Prosperity hard to put into practice, even if the required policy reforms had been enacted. China's Gini coefficient – a measure of income inequality where 0 equates to perfect equality and 1 to total inequality – was about 0.54-0.55 in 2019, according to the China Family Panel Studies survey, so far higher than in most developed economies. The country claims to have taken 100 mn out of poverty over the last decade, but World Bank data still shows 225 million Chinese living in poverty – and its threshold income level for poverty is much higher than the Chinese government's.

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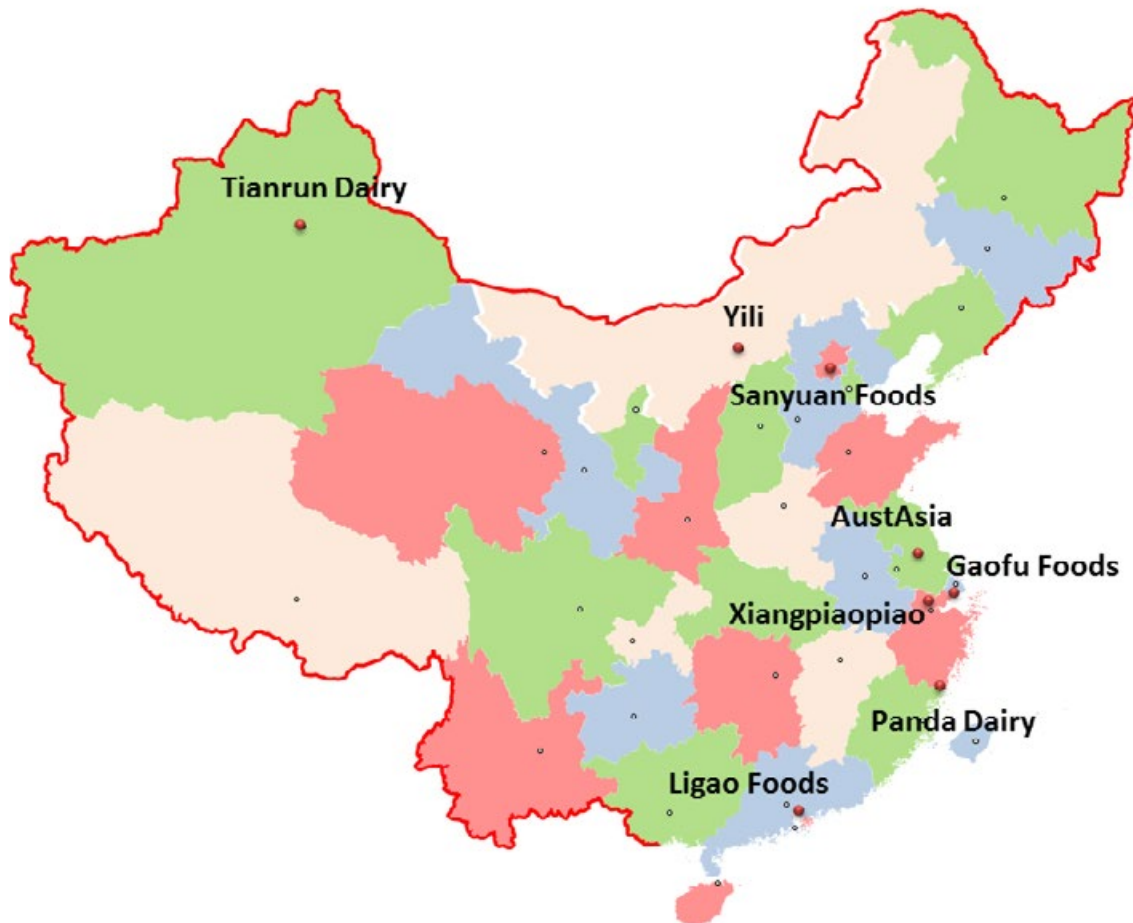
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Headlines

- ▶ In early Oct., Yili-owned Westland Milk Products completed the buyout of New Zealand dairy business Canary Foods, and Mengniu made an offer for a further 5% stake in Milkground Food.
- ▶ On 17 Oct., Xiangpiaopiao and Oatly announced a 20-year strategic cooperation to promote plant-based products in China.
- ▶ In late Sept., Inner Mongolia Autonomous Region approved a 12,000 cow farm for construction start-up; and Hubei Province started to build its largest dairy farming and processing base.
- ▶ Recently, China Consumer News published the results of its a price survey on cheese products, highlighting that cheese businesses' emphasis is shifting from competing on price to other criteria such as quality.
- ▶ In late Sept. the China Dairy Industry Association (CDIA) issued a draft Requirements for Evaluating Dairy Product Science, Technology & Innovation Hubs (Association Standard) for public review
- ▶ Bakery producer Ligao Foods has proposed a new project to expand its milk fat and whipping cream production in Oct.
- ▶ Tianrun Dairy revealed a 36.41% growth in net profit in three quarters this year and plans to accelerate nationwide industrial layout.
- ▶ As liquid milk has reached saturation point, China is seeing rising interest in the concentrated dairy market segment, in which two major firms, Panda Dairy and Sanyuan Foods, are leading players.
- ▶ On 23 Sept., Ausnutria and Yili signed 3 agreements with Yili on processing services, supply and procurement.
- ▶ China's milk price rose marginally in Oct., driven by demand growing during the Mid-Autumn Festival and National Day holidays. Entering the period of higher dairy demand, the price is expected to move up further.

Major Companies and Sites Mentioned in This Issue



Market Analysis

Latest Acquisition Plans of Yili and Mengniu

Summary: In early Oct., Yili-owned Westland Milk Products completed the buyout of New Zealand dairy business Canary Foods, and Mengniu made an offer for a further 5% stake in Milkground Food.

On 9 Oct., Shanghai Milkground Food Tech Co., Ltd. (Milkground Food, Stock Code: 600882) acknowledged an offer by China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319) to buy a 5% stake for up to USD112.41 million (RMB798 million). USD22.50 million (RMB159.7million), equal to about 20% of the maximum offer, has been placed as performance bonds. If the acquisition is settled, Mengniu's holding of Milkground Food would add up to 35% (note this is not yet completed, and remains a deal in progress).

Mengniu notes its strong interest in Milkground Food's prospects: "Milkground Food's cheese lines including the signature product children cheese stick have been the top sellers of the category in China market". It also mentioned there is no plan for additional investment or selling of Milkground Food in the 12 months to come.

Over recent years, Milkground Food has been a strong performer:

- In 2020 and 2021, revenue grew by 63.20% and 57.31% respectively, with net profit surging by 208.16% and 160.60%

- In H1 2022
 - Revenue and net profit were up by 25.48% and 18.03% YoY
- In its cheese business
 - Revenue was USD0.29 billion (RMB2.04 billion), up 34.11% YoY; this accounted for 78.88% of the company's total sales, an increase of 5.12% YoY
 - Its market share was reported to be 35.5% vs. 27.7% in 2021, 22.7% in 2020 and 12.5% in 2019

On 15 July, Milkground Food announced a reorganisation plan proposing to gain 100% control of Jilin Ground Dairy Science & Technology Co., Ltd. which is currently owned by Milkground Food (57.12%) and Mengniu (42.88%), and this change is now in progress.

Jilin Ground Dairy Science & Technology Co., Ltd. made net profits of USD5.45 million (RMB38.69 million) in 2020 and USD12.92 million (RMB91.75 million) in 2021; output by its cheese division and its subsidiary combined to reach 39,800 tonnes in 2021, representing about 70% of Milkground Food's total cheese production.

On 3 Oct., Westland Milk cooperative, wholly-owned by Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) completed the 100% acquisition of Canary Foods, looking to expand in the global milkfats market.

Canary Foods, a niche player located in Hamilton, NZ, has engaged in the international markets of butter, cheese and other dairy products since its establishment in 2001, with a focus on supplying sectors such as air catering, hotels and foodservice in local market and over 20 countries and regions including China, Singapore, Japan, the United Arab Emirates and Qatar. It has developed a specialised market positioning buying its fractionated butter from Fonterra and others, and marketing a range of technical butters for bakery / patisserie applications.

Westland Milk was acquired by Yili in August 2019 and put in place a new butter line with 42,000 t/a capacity on 19 July this year, the biggest overseas butter plant for a Chinese dairy firm. It has plants located in Hokitika and Rolleston, South Island, New Zealand, and brands Westgold, Westpro, Easiyo (the iconic home yoghurt brand) – these produce a range of consumer goods and ingredients – but no longer any nutritional formulae, according to industry sources (these are now produced at the new Timaru facility operating as Oceania Dairy).

This acquisition of Canary Foods allows Westland Milk to upgrade its product range and capabilities and helps Yili to move further into emerging and potentially more profitable sectors in China like butter and cheese.

Xiangpiaopiao and Oatly Announce Strategic Cooperation

Summary: On 17 Oct., Xiangpiaopiao and Oatly announced a 20-year strategic cooperation to promote plant-based products in China.

On 17 Oct., Zhejiang Xiangpiaopiao Food Co., Ltd. (Xiangpiaopiao, Stock Code: SH. 603711) announced it has signed a 20-year strategic cooperation agreement with OATLY Shanghai LLC (OATLY Shanghai), a China division of OATLY Group AB (OATLY). The agreement involves establishing of a project company to advance the development and innovative application of plant-based products in China. This will be

started by OATLY Shanghai fully owning the business which will have registered capital of USD3.0 million (RMB21.0 million); Xiangpiaopiao will then inject USD2.0 million/RMB14.0 million for 40% of the expanded company, turning it into a JV.

Responsibilities were agreed as follows:

- The project company will handle R&D and innovation to develop plant-based drinks under the brands "Lan Fong Yuan" and "OATLY INSIDE" (including but not limited to coffee

and milk tea products), with the participation of both the principals. Prior to setting up this company, Xiangpiaopiao and OATLY Shanghai have already collaborated on the development of 2 oat milk latte products and 2 oat milk tea products; earlier, on 8 Oct., their RTD oat milk tea drink was launched online ("0 lactose, 0 cholesterol and 0 trans fat", priced at USD11.83 (RMB84) per pack (6x 280ml/cups)

- Production of the co-developed products is arranged by Xiangpiaopiao, with the raw materials for the plant-based milk supplied by OATLY Shanghai
- The project company will also handle sales and marketing for these collaborative products into agreed distribution channels

This has the look of a complementary partnership which is much needed by both companies.

Xiangpiaopiao owns 3 major brands: Xiaopiaopiao powdered milk tea, Lan Fong Yuan RTD milk tea and MECO fruit tea beverages. It is one of the leading players in powdered milk tea in China and has led the cup-packed powdered milk tea segment for 10 consecutive years.

In 2021, the company's performance took a hit with annual revenue and profit down to USD536.4 million (RMB3.5 billion) and USD34.5 million (RMB223 million). In H1 2022, the revenue continued to fall, down 21.05% YoY to USD121.0 million (RMB859 million), and a net loss of USD18.2 million (RMB129 million).

With the initiation of its "Health Strategy", Xiangpiaopiao hopes to turn its fortunes around by building the healthy image of low sugar and plant-based products from this cooperation.

OATLY is the leading oat milk company worldwide, listed on NASDAQ since May 2021. In early 2018, it started operations in China and has, so far, tied up partnerships locally with Starbucks, COSTA, Tim Hortons, Manner Coffee and the tea chains HEYTEA and Nayuki. The company initially began manufacturing in Asia at a plant in Singapore.

PICTURE 1: Collaborative Oat Milk Tea Drink Branded Lan Fong Yuan & OATLY INSIDE



Source: Xiangpiaopiao

In 2021, its first facility in China opened in Ma'anshan City, Anhui Province – its largest Asian factory, with an annual capacity of 150 million litres of oat-based products, according to the company's report.

Since its entry, OATLY has become increasingly dependent on the China market, but has made a loss in doing so – in 2021 OATLY Shanghai's revenue and net loss were USD115.5 million (RMB746 million) and -USD240.9 thousand (RMB746 million) respectively. Joining up with Xiangpiaopiao, OATLY expects to be able to drive up the trend towards plant-based products and gain a stronger presence in the RTD market, with stronger channel penetration and supply chain management.

Two New Dairy Farm Projects in China

Summary: In late Sept., Inner Mongolia Autonomous Region approved a 12,000 cow farm for construction start-up; and Hubei Province started to build its largest dairy farming and processing base.

In late Sept., a 12,000 t/a head dairy cow "green farm" project by Inner Mongolia Xinggao Animal Husbandry Co., Ltd. was confirmed as receiving environmental approval. This company was founded in June, and is 51% owned by Inner Mongolia Xing Lian Xing Animal Husbandry Co., Ltd. (Green Farm means an Ecological Farm with waste recycling systems; currently, most farms

being constructed farms are "ecological" since China issued the Guideline on Promoting Construction of Ecological Farms at the beginning of this year, which includes targets to build 1,000 national ecological farms and 10,000 local ones nationwide by 2025).

Project Disclosure:

- Construction nature: New construction
- Site area: 800,000 m²
- Total investment: USD42.3 million (RMB300 million), 1.86% (USD0.8 million/RMB5.57 million) of which for environmental protection

- Construction content: cattle shed, milking room, and other supporting facilities, such as manure drying areas and oxidation pond
- Designed herd size: 12,000 head, comprising 6,000 milking cows, 1,800 calving/dry cows, 2,160 heifers, 2,040 calves
- Estimated annual output: 54,000 t/a organic milk
- Working system: 200 employees, two 12-hour shifts x 365 days per year

This farm will be in the Western Center of the China Dairy Industrial Park of

Dengkou County, Bayannur League, an area invested in by Mengniu, China Shengmu and other dairy businesses. Covering 1,600 ha, the Western Center is intended to include 13 dairy farms with 100,000 head of dairy cows in all. This is to require a total investment of USD669.1 million (RMB4.75 billion) and is expected to produce 1,500 t/d milk once all the farms are in operation. To date, 3 farms have been set up by China Modern Dairy Holdings Ltd., Dengkou County Yuanqian Animal Husbandry Co., Ltd. and Bayannur League Hemao Animal Husbandry Co., Ltd., with 12,000 dairy cattle introduced overall.

Founded in May 2015, Inner Mongolia Xing Lian Xing Animal Husbandry Co., Ltd., has raised capital of USD7.0 million (RMB50 million) via equity replacement to aggregate around 7,000 cattle from small producers that almost went out of business in 2014–early 2016, the period regarded in the sector as "the Winter of China's Dairy Industry". By the end of 2021, it owned 17 farms and 35,177 head of cattle

including 16,411 milking cows. In that year it producing 151,990 tonnes of milk, achieving an average yield of 10.39 tonnes per cow. The milk was recorded with 3.3% protein, 3.85% fat, aerobic plate count of 10,000 CFU/mL and somatic cell counts/SCC of below 200,000 CFU/mL.

On 25 Sept., Pastoral Song on Clouds (Xiangyang) International Agricultural Technology Co., Ltd. broke ground on a 10,000+ dairy cow smart industrial park in Nanzhang County, Xiangyang City in Hubei Province. This 80-ha park is to integrate dairy farming and dairy processing and is expected to cost USD169.0 million (RMB1.2 billion) to build – making it the largest such site in the province.

The total construction work is planned over 2 phases, closing in late 2023; once in full operation, it will bring around USD464.8 million (RMB3.3 billion) in annual sales revenue.

Construction plan:

- Phase I: investing USD98.6 million (RMB700 million) in construction

of dairy farm and forage base; estimated milk production of 90,000 t/a

- Phase II: investing USD70.4 million (RMB500 million) in construction of dairy plant

Yan Liguo, chairman of the Hubei Dairy Association, said China's milk consumption per person per year is about 30 kg, which means Hubei needs to buy 1 million tonnes of milk from outside the province annually in order to meet local demand. This project will be very significant in the development of the dairy industry in Hubei as well as China's central region, given that most of the country's dairy businesses are still based on the North.

The groundbreaking ceremony was attended by some major players like Mengniu, Yili, Bright Dairy and Royal Group who are confident in the development potential of the local dairy industry and consider this park an effective solution to the shortfall in local milk production.

China's Cheese Market Puts Quality Centre Stage

Summary: Recently, China Consumer News published the results of its a price survey on cheese products, highlighting that cheese businesses' emphasis is shifting from competing on price to other criteria such as quality.

On 11 Oct., China Consumer News, an e-paper directed by the State Administration for Market Regulation and sponsored by the China Consumers Association, published details of its investigation into the price war seen amongst cheese brands, showing that consumers are no longer focused on price above all, as was often the case in the past.

Rise and Fall of China's Cheese Price War

In China, cheese brands have proliferated over the past few years, especially in the high-profit cheese stick category, to which the barriers to entry are relatively lower. A price war began in 2021. with well-known brands such as Milkana, Milkground Food, Milkfly, Kids Bright (Bright Dairy) and Yili offering lasting discounts of 10%-50%. It is only recently that this situation has eased, with few cheese products on supermarket shelves currently discounted.

Why is this the case?

- One factor is that, since the start of 2022, costs in logistics and raw materials have spiked, reducing profit margins across the cheese sector

- However, the fundamental cause of price war's halt was the huge spends on marketing over the period, which have undermined companies' profitability
- Another factor is believed to be improved awareness of cheese's nutritional value and brands amongst consumers after over 15 years of marketing work to achieve this in 1st-tier cities and with recent efforts in full-scale marketing – as a result, consumers are likely less inclined toward impulse purchases of discounted products.

Key Players

The concentration ratio of the top 5 (CR5) in China's retail cheese market was 47.1% in 2019 – Milkana (22.7%), Launching Cow (7.7%), Anchor (6.4%), Kraft (5.5%), and Milkground Food (4.8%) – according to estimates from publisher Euromonitor. But 2021 saw Milkground Food grow its market share to 27.7%, and the CR5 increased to 64.2%. It is expected to rise even higher as the leading brands focus on the current market trends towards quality.

Cai Xiu, the founder of Milkground Food, said at the performance briefing for H1 2022 that the intensive price war has impacted the whole value chain and damages the sector, emphasising that the company will not follow a discounting strategy. He also noted the company's plans to launch high margin products to address the rising raw material costs.

Currently, how to differentiate brands build awareness amongst consumers' recognition are the keys for the business, so cheese processors need to be more innovative in terms of both quality and diversity of product range. With the new National Food Safety Standard – Processed Cheese and Cheese Products (GB25192-2022) – taking effect on 30 Dec., 2022, the market structure may continue to change.

Growth Potential and Targets

Gao Hongbin, honorary president of the Dairy Association of China, said cheese accounts for less than 2% of China's dairy consumption overall, compared with some 40% in western countries, so the country's cheese market growth potential is enormous.

The Euromonitor data suggests that China's retail cheese market size has grown at a 25.52% CAGR over the past 5 years, the fastest in the dairy sector. National cheese production increased from 170,000 tonnes in 2018 to 260,000 tonnes in 2021; retail sales were up from USD732.5 million (RMB5.2 billion) in 2017 to USD1.8 billion (RMB13.1 billion) in 2021.

On 5 Sept., the Dairy Association of China launched the *Three-year Action Plan for Cheese Innovation and Development to Help the Dairy Industry Improve Competitiveness* – targeting cheese production of 500,000 t/a and retail sales exceeding USD4.2 billion (RMB30 billion) by 2025.

Governmental Direction

Requirements for Evaluating Dairy Product Science, Technology & Innovation Hubs

Summary: In late Sept. the China Dairy Industry Association (CDIA) issued a draft *Requirements for Evaluating Dairy Product Science, Technology & Innovation Hubs (Association Standard)* for public review.

Innovation is a core challenge in China, especially in the dairy industry, where the push is for high-quality development with a strong focus on technological innovation.

In late Sept. the China Dairy Industry Association (CDIA) issued a draft *Requirements for Evaluating Dairy Product Science Technology & Innovation Hubs (Association Standard)* for public review.

This standard is responding to the national call and aims to create a sound environment with unified standards for dairy enterprises, universities and research institutes who share the same goal; key players like Yili, Mengniu are expected to join and launch new products to drive sales. It will be used by the CDIA to assess any Chinese enterprises and public institutions ("Applicants") seeking to establish such hubs – the main contents are given below.

Background

With the increasing proportion of dairy in Chinese people's daily food intakes, consumers' expectations of dairy products are constantly becoming more demanding. In June, the Ministry of Industry and Information Technology (MIIT) and the relevant government agencies jointly issued a *Guideline on Advancing High-quality Development in Light Industry*, outlining 5 growth targets related to improvements in supply chain modernization, green and low-carbon transformation, high-quality supply systems, coordinated industrial systems and stricter requirements for dairy product science, technology and innovation in order to achieve high-quality development in the dairy sector.

Definition

Dairy Product Science, Technology and Innovation Hubs should be built to support and promote the high-quality development of the dairy industry, with pilot-scale production to support product innovation as their core, and should be able to innovate, research and develop, test and analyse multiple types of dairy products, and be able to provide enterprises and research units with support for the whole R&D process from concept to commercial production.

Evaluation criteria

Hubs should be evaluated based on 3 fronts: strict conditions, scientific and technological innovation capacity, scientific research capacity.

- **Strict conditions**
 - The Applicants shall meet the basic qualification conditions in operation status, integrity records, compliance and security guarantees
- **Scientific and technological innovation capacity**
 - Innovative ideas and technological background:
 - In terms of innovative ideas, the Applicants' track records in developing innovative ideas, tools and practices will be examined
 - In terms of technological background, the Applicants' time of establishment and R&D coverage of different dairy product categories will be taken into account
- **Whole-process R&D, production and testing equipment for multiple categories:**
 - "General Equipment" adaptable for pilot-scale dairy production, testing facilities, membrane filtration system, etc., graded according to their functional performance

- "Pilot-scale Production Equipment for Liquid Dairy Products" should include sterilisation / filling and fermentation systems
- "Pilot-scale Production Equipment for Solid Dairy Products" should include concentration and drying systems etc
- "Key Experimental Test Conditions" including basic laboratories (product R&D, physical and chemical, microbiology) for product concept development and analysis, as well as analysis laboratory, environment simulation test station, packaging test and transportation simulation test station, data recording and analysis system, etc. for tests on the full-life cycle of products
- Highly quality international R&D team:
 - "Professional Ability of Core Team Members" requires expert teams including R&D personnel with over 10 years' working experience and professionals with a master or higher degree in education
 - "Number of Global Parallel R&D Institutions" focuses on whether the Applicants have other similar R&D and testing facilities in regions outside China, in order to ensure a global perspective and the ability to track innovation
- Cutting-edge technological performance: evaluation as to whether Applicants are able to introduce international advanced innovations and technologies to China and integrate international resources to support domestic innovation
- Market insight: evaluation as to whether Applicants can demonstrate that they are up to speed on the latest market trends
- **Scientific research capacity**
 - Test and verification conditions: Applicants are encouraged to provide testing services for prototype R&D, formulation verification, process testing and other production processes; additional points will be awarded if they can perform complete pilot production simulation tests from raw materials to final products
 - Training conditions: Applicants are encouraged to build special training venues; additional points will be awarded if they can introduce special supporting facilities or hire instructors.

Company Dynamics

Ligao Foods to Expand Cream Production

Summary: Bakery producer Ligao Foods has proposed a new project to expand its milk fat and whipping cream production in Oct.

In Oct., Henan Ligao Foods Co., Ltd., wholly-owned subsidiary of Ligao Foods Co., Ltd. (Ligao Foods, Stock Code: 300973), submitted to the Weihui Municipal Bureau of Ecology and Environment the environmental impact assessment (EIA) on a project to add capacities of 26,000 t/a milk fat and 26,000 t/a of whipping cream. This will take place at its Henan site – where it is already constructing a 7,150 t/a egg tart liquid line and a 7,150 t/a cream line.

Project details:

- Construction nature: Expansion
- Investment: USD18.7 million (RMB132.5 million)
- Location: Tangzhuang Town, Weihui City, Henan Province

- Site area: 10,438.25 m²
- Designated construction period: Dec. 2022–Aug. 2024
- Working system: additional 35 people in three 8-hour shifts for 260 days a year

Incorporated in 2000, Ligao Foods Co., Ltd. is a leading bakery manufacturer and owns the brands Ligao Foods, Aokun Food and Mayon Food with operations focusing on bakery ingredients and toppings and frozen bakery items: egg tart shells, croissants, Danish bread, doughnuts, Chinese pastry, cakes, cheesecakes and mousse cakes – the latter significant applications for cream cheese.

Frozen bakery accounts of 61.05% of its turnover, followed by cream (including its own non-dairy creamer and milk fat mixes, and imported whipping cream) at 16.72%, fruit products (including jams, marmalades, puree, pastes, puree, pastes) at 7.76%, and other

fillings and sauces (including cheese dips) at 6.53%.

It has 5 production facilities in the major bakery consumption markets nationwide – in Sanshui near Foshan, Zengcheng and Nanshan near Guangzhou (all in South China), in Changxing near Zhejiang (East China), and in Weihui in Henan (North China). These provide capacities of 109,200 t/a frozen bakery items, 51,400 t/a cream, 6,600 t/a fruit products, 14,250 t/a other fillings / sauces.

According to Ligao Foods' H1 2022 report, its production was running at almost full capacity but it was still finding it hard to keep up with the growing demand – which would normally be expected to grow in Q4. It stated that it would continue to expand capacities for doughnuts, frozen cakes, cream and fruit products, and to scale up production of new UHT whipping cream and egg tart liquid products.

- At present its Foshan site in Guangdong is building a 60,000 t/a cream (incl. egg tart liquid) project expected to start operation by June 2027
- On 10 Oct., it drew up a USD133.8 million (RMB950 million) fundraising proposal for initiation of the 1st phase construction of a 106,600 t/a frozen bakery project at its headquarters site in Zengchang, Guangzhou.

TABLE 1: Cream Sales and Output of Ligao Foods in 2019–H1 2022

Item	2019	2020	2021	H1 2022
Capacity (incl. egg tart liquid), t/a	31,200.00	33,000.00	37,500.00	25,700.00
Total output, tonnes	27,605.13	30,898.38	42,240.20	21,249.94
-Cream output, tonnes	27,594.75	27,603.28	36,167.42	17,884.88
-Egg tart liquid output, tonnes	10.38	3,295.10	6,072.78	3,365.06
Capacity utilisation (incl. egg tart liquid)	88.48%	93.63%	112.64%	82.68%
Total sales, tonnes	30,346.39	29,546.56	36,979.28	18,392.03
-Sales of imported cream, tonnes	1,743.28	1,597.87	1,610.18	712.86
Sales-output ratio	103.65%	101.25%	97.79%	98.85%

Source: Ligao Foods

Note: Cream and egg tart liquid share the same production line, so here the capacity, output and capacity utilisation refer to cream and egg tart liquid results, but sales refer only to cream products sales.

Ligao Foods's H1 operations came under pressures from regional outbreaks of Covid and higher priced raw materials. However, with positive forecasts for pandemic control for the rest of the year, Ligao Foods believes that the frozen bakery sector will recover, hence its drive to grow its market share by capacity expansion.

TABLE 2: Key Financials of Ligao Foods in 2019–H1 2022

Item	2019	2020		2021		H1 2022	
	Amount, USD million	Amount, USD million	YoY change	Amount, USD million	YoY change	Amount, USD million	YoY change
Revenue	230.11	261.2	14.27%	435.96	55.66%	186.46	5.76%
Net profit attributable to equity shareholders of the parent	26.36	33.5	27.95%	43.81	21.98%	9.92	-48.53%
Net profit attributable to equity shareholders of the parent excl. extraordinary gains/losses	25.12	32.6	30.63%	41.66	19.20%	9.38	-48.88%

Source: Ligao Foods

Tianrun Dairy Discloses Sustained Growth in Q1-Q3

Summary: Tianrun Dairy revealed a 36.41% growth in net profit in Q1-Q3 this year and plans to accelerate nationwide industrial layout.

On 21 Oct., Xinjiang Tianrun Dairy Co., Ltd. (Tianrun Dairy, Stock Code: 600419) issued its financial report for Q3 2022 with key data as follows:

- Q3:
 - Revenue: USD87.1 million (RMB618.0 million), up 19.67% YoY
- Net profit: USD6.48 million (RMB46.0 million), up 45.33% YoY
- Q1–Q3:
 - Revenue: USD260.7 million (RMB1.85 billion), up 17.78% YoY
 - Net profit: USD21.7 million (RMB154.0 million), up 36.41% YoY

TABLE 3: Tianrun Dairy's Revenues by Segment, Q1-Q3, 2022 vs 2021

Item	Q1-Q3, 2021		Q1-Q3, 2022		YoY Trend
	Revenue, USD million	Share	Revenue, USD million	Share	
Total revenue	221.1	100%	260.57	100%	17.85%
By category					
Ambient dairy products (pure milk, milk beverages)	113.13	51.17%	136.81	52.50%	20.93%
Chilled dairy products (yoghurt, fresh milk)	101.07	45.71%	111.59	42.83%	10.40%
Animal husbandry products (beef, raw milk, etc.)	6.07	2.75%	9.89	3.80%	63.06%
Other	0.82	0.37%	2.27	0.87%	176.56%
By region					
Inside XUAR	138.22	62.51%	148.54	57.01%	7.47%
Outside XUAR	82.88	37.49%	112.02	42.99%	35.17%

Source: Tianrun Dairy's Financial Report for Q3 2022

Tianrun Dairy saw strong growth in earnings with efforts in market expansion, dairying operations and product differentiation in the Xinjiang Uygur Autonomous Region (XUAR) and beyond during H1 2022.

- Market expansion:
 - Tianrun Dairy continued to strengthen its position in the XUAR. Its plant in Tangwangcheng of Tumxuk City, currently 30,000 t/a capacity, is planning a 24-month construction programme to provide an additional 30,000 t/a capacity, to increase the company's market share in the southern XUAR
 - Improved distribution and sales networks in regions outside XUAR, which are divided into three categories: key markets, cultivation markets and potential markets; in H1, revenues from outside XUAR accounted for 41.66% of the total revenue, up by 30% YoY
- Dairying operations:
 - Accelerated application of innovative technologies to raise the utilisation and quality of forage and milk yield per cow; in H1, Tianrun Dairy recorded that each cow produced 10.5 tonnes per year of quality raw milk on average, and the total quality milk production was 82,800 tonnes
 - Invested continuously in new projects; in H1, a new standard dairy farm started up in Bachu County, in the southwest of the XUAR. Targeting 5,000 head, this farm currently has 1,750 dairy cows; Tianrun Dairy is also building a 10,000 head dairy farm in Fukang (county-level) City, in northern XUAR
- Product innovation and sales:
 - Focused on its strategy of growth through differentiation; in H1, it launched a number of new products including ice cream flavoured yoghurt, O-sucrose yoghurt,

condensed fresh milk, all with creative packaging and healthy product formulations to make them stand out from rival products

- Refined its channel operations and increased its push behind its influencer-recommended product "Milk Beer"
- In H1, Tianrun Dairy's dairy sales volume reached 137,200 tonnes, +13.23% YoY

Scenario Analysis and Outlook for H2

- Tianrun Dairy expects less seasonal influence on its production and operations in H2, by virtue of its large-scale operations and high market penetration
- Although sales of chilled products may be lower in the XUAR which enters winter faster than most other regions, sales of such products in other regions of China should

be stable in H2. Meanwhile, the ambient category looks increasingly promising, especially in regards to its pure milk and "Milk Beer"

- The new dairy plant in Dezhou City, Shandong Province is setting up a 150,000 t/a liquid milk project and plans to start trial production by Q4 2023. This plant could supply the Beijing-Tianjin-Hebei region and the neighbouring area, enabling lower logistics into these important consumer markets.

Tianrun Dairy now owns 3 dairy plants inside the XUAR, in Shawan (county-level) City of Tacheng prefecture, Toutunhe District of Urumqi City and Tangwangcheng of Tumxuk City. It also has 18 dairy farms including 1 organic-certified and 8 certified by the Dairy Association of China (DAC) as school milk sources; its overall herd size is up to 46,000 head, providing 65% of the milk required for its manufacturing activities.

TABLE 4: Tianrun Dairy's Operating Data for H1 2022, USD million

Item	H1 2021	H1 2022	Trend
Revenue	148.68	173.75	16.86%
Net profit attributable to equity shareholders of the listed company	11.44	15.2	32.93%
Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses	10.89	13.63	25.09%

Source: Tianrun Dairy's Report for H1 2022

China's Concentrated Dairy Market by Company Analysis: Panda Dairy vs. Sanyuan Foods

Summary: As liquid milk has reached saturation point, China is seeing rising interest in the concentrated dairy market segment, in which two major firms, Panda Dairy and Sanyuan Foods, are leading players.

China's new National Food Safety Standard – Concentrated Dairy Products (GB13102-2022) – defines "concentrated dairy products" as including condensed milk, modified condensed milk, cream, cheese, etc.

Such products have become increasingly interesting for manufacturers as the dominant liquid milk category has reached saturation point and become increasingly competitive. Two major listed dairy firms have focused on this broad product group and will see growth prospects here going forward: Panda Dairy Corporation (Panda Dairy, Stock Code: 300898) and Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429).

Panda Dairy

- Company background:
 - Panda Dairy has focused on concentrated milks in various forms (including modified sweetened condensed milk, full cream sweetened condensed milk, modified evaporated milk, full

cream evaporated milk) since its establishment in 1996

- It has also become involved in cream, cheese and plant protein beverages in recent years
- Key financials:
 - In 2021, the company's total revenues were USD132.6 million (RMB857 million), up 25.21% YoY
 - Concentrated dairy products contributed over 60% of that
 - Net profit was USD12.0 million (RMB77.3 million), down slightly by 5.11%, due to lower gross margins.
- Concentrated dairy sales:
 - In H1 2022, these hit USD34.9 million (RMB248 million), up 13.19% YoY
 - This continues growth seen from 2019 to date
- Profitability:
 - Its margins have fallen over recent years (a problem for Sanyuan Foods as well)

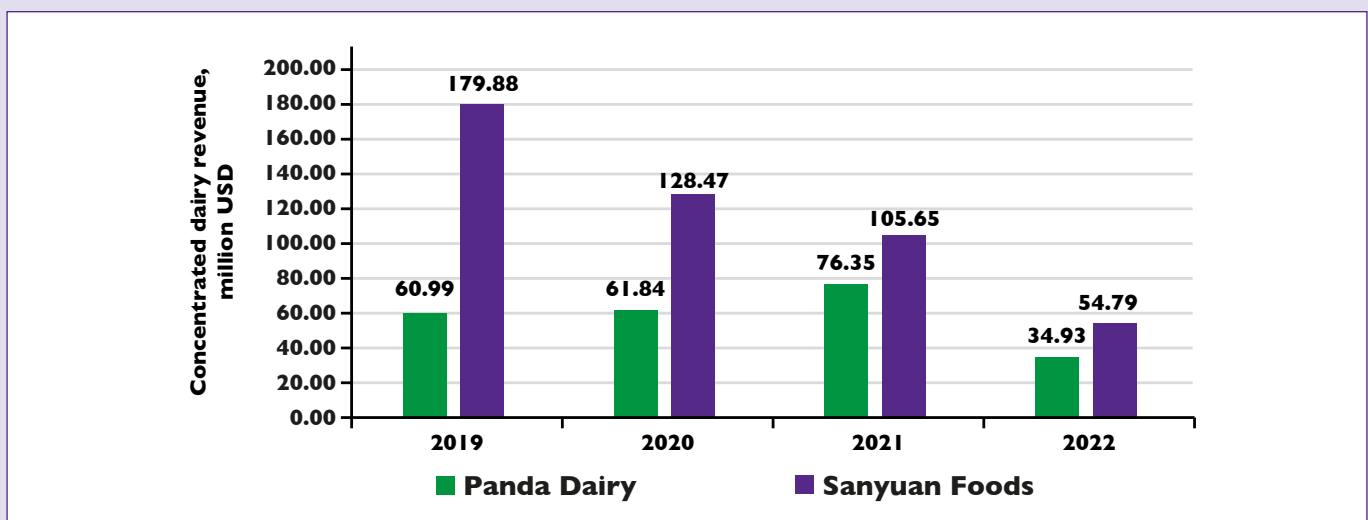
- In H1 2022, the margins it was achieving on its concentrated dairy products declined by 9.7%, to 26.34%, largely due to the increased costs of raw materials (Fonterra milk powder)
- Sales-output:
 - It has kept this ratio at 100% or above as it produces by order, selling to foodservice and bakery businesses, the general public and large processors such as Xiangpiaopiao
 - In 2019-H1 2022, production and sales have both increased. In H1 2022, production and sales reached 16,100 tonnes and 15,500 tonnes respectively, up 22.41% and 24.63% YoY
- Operation summary and outlook:
 - The company's product mix has allowed stable growth and good profitability, but does leave it open to cost escalation and volatility
 - It has indicated that its future development will be based on further competitive differentiation in its in condensed milk range alongside exploration of new markets like plant-based products.

Sanyuan Foods

- Company background:
 - Sanyuan Foods has long had a much broader range of business activities, ranging from dairying through to processing, with a dairy-related product portfolio including UHT/fresh milk, UHT/chilled yoghurt, milk formulae, powdered milk, ice cream and its refocused categories of cheese
- Key financials:
 - In 2021, the company's total revenue was USD1.2 billion (RMB7.7 billion), up 5.13% YoY; net profit attributable to equity shareholders of the listed company was USD37.9 million (RMB245 million),

- up 1011.72% thanks to its effective cost control as well as the better-than-expected sales of pure milk range "Jizhi" and ice cream products during the year
- However, its results for H1 2022 showed total revenue was up 6.50% YoY and net profit attributable to equity shareholders of the listed company down 36.30% YoY
- Concentrated dairy sales:
 - Though liquid milk remains the company's priority, sales of concentrated dairy products (powdered milk and cheese) play a part in its overall performance, making up 15.7%, 12.4% and 9.7% of its total revenue in 2019, 2020 and 2021, respectively.
 - Although these sales numbers were slipping in the past three years, the company reported the segment sales hit USD54.8 million (RMB389 million) in H1 2022, up 4.29% YoY, leading it to look at scaling up its capacity
- Profitability: Sanyuan Foods saw unstable gross margins in concentrated dairy products over recent years
- Sales-output: Sanyuan Foods also produces to order. In 2019-2021, the company suffered falling production and sales of concentrated dairy products
- Operation summary and outlook:
 - Sanyuan Foods has an integrated business model with more diverse activities and product range. But in general, this has not proven successful
 - Looking to the future, it has talked about improving its supply chain and increasing investment in product innovations as growth drivers, giving cheese with higher protein content or added flavours as examples which it could replicate across its product range – this has been a very traditional business for a long while, however, so how successful it will be going forward is open to conjecture

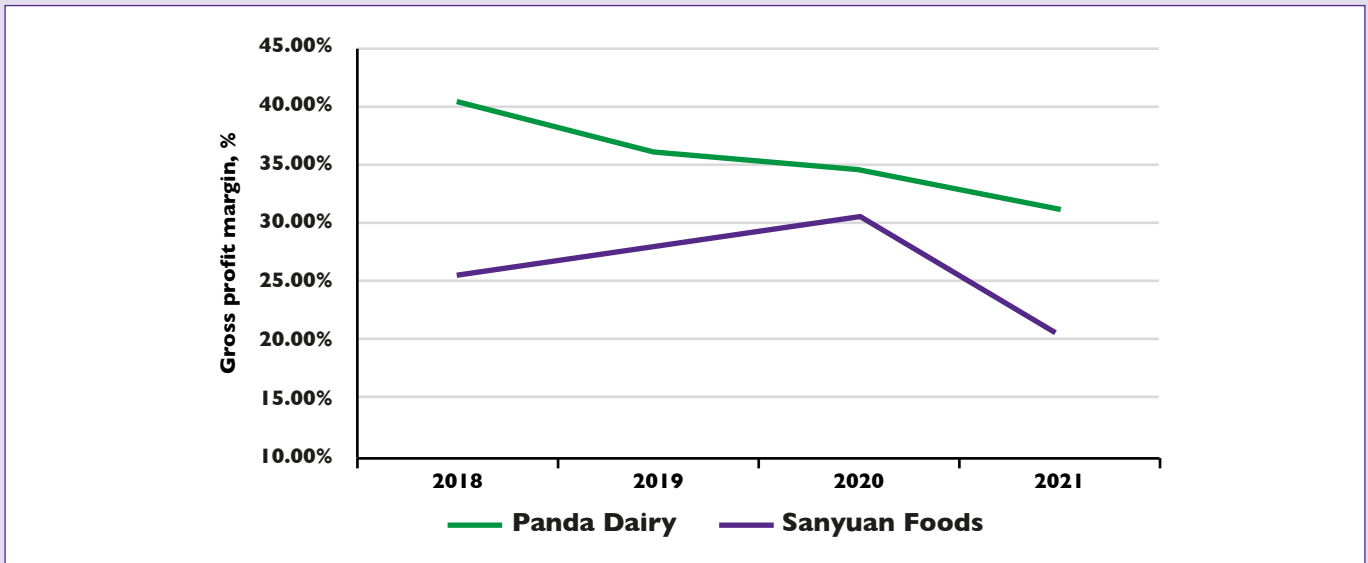
Figure 1: Sales Revenue of Panda Dairy and Sanyuan Foods, 2019–H1 2022



Source: Company reports

Note: Panda Dairy's concentrated dairy products comprise of condensed milk, cream, cheese. Sanyuan Foods' concentrated dairy products comprise powdered milk and cheese.

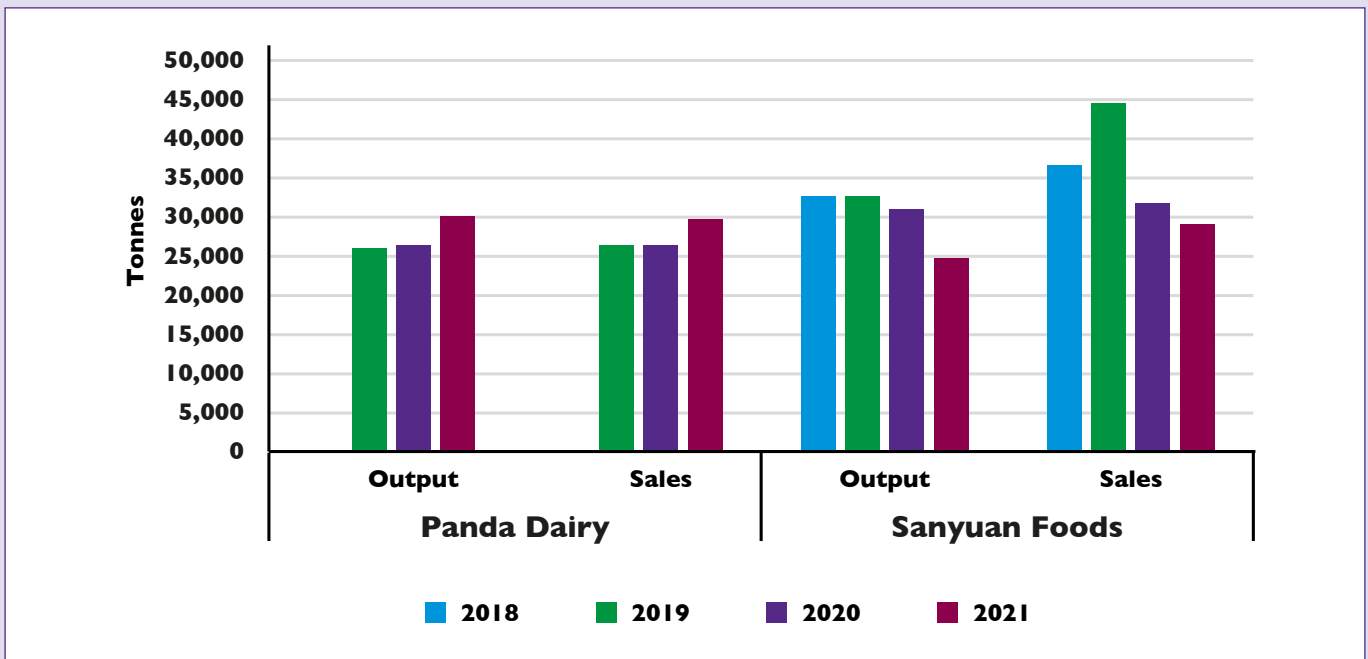
Figure 2: Gross Margins Achieved on Concentrated Dairy Products of Panda Dairy and Sanyuan Foods, 2018-2021



Source: Company reports

Note: Panda Dairy's concentrated dairy products comprise of condensed milk, cream, cheese. Sanyuan Foods' concentrated dairy products comprise powdered milk and cheese.

Figure 3: Production and Sales of Panda Dairy and Sanyuan Foods, 2018-2021



Source: Company reports

Note: Panda Dairy's concentrated dairy products comprise of condensed milk, cream, cheese. Sanyuan Foods' concentrated dairy products comprise powdered milk and cheese.

Ausnutria and Yili Sign Framework Agreements

Summary: On 23 Sept., Ausnutria and Yili signed 3 agreements with Yili on processing services, supply and procurement.

On 23 Sept. Ausnutria entered into 3 framework agreements with Yili on processing services, supply and procurement, aiming to deepen cooperation between the companies. Ausnutria, very successful with the the brand Kabrita, has largescale capacity in powdered goat milk products and is a key supplier of goat whey protein which could be key to growth for Yili's Golden Collar Crown IMF range; reciprocally, Yili supplies cow milk/whey base powders to Ausnutria for cow milk formula development.

Since March, when Yili took a 59.17% stake in Ausnutria, Ausnutria's reported financials have been weak, bringing down Yili's performance in H1 to some extent.

Ausnutria's H1 data:

- Total revenue: USD0.51 billion (RMB3.63 billion), down 15.1% YoY
- Profit attributable to shareholders: USD30.99 million (RMB220 million), slashed by 62.9% YoY
- EBITDA: USD50.29 million (RMB357 million), down 56.8% YoY
- Revenue from both Hyproca 1897 (cow milk formula) and Kabrita (goat milk formula) fell: for instance, sales of the former declined 37.6% YoY to USD0.18 billion (RMB1.28 million)

According to Yili's report for H1 2022, there were notable increases in ending stocks and assets impairment loss after consolidating Ausnutria's figures – Yili's ending stocks were valued at USD1.61 billion (RMB11.42 billion) at the end of June vs. USD1.26 billion (RMB8.92 billion) at the start of the year.

Moreover, Yili's share price has been

eroding consistently. In mid-July, it fell beneath the moving average of USD5.07 (RMB36) per share and dropped again after the release of its H1 report in Aug. As of 26 Oct., Yili closed at USD4.08 (RMB29) per share, giving a market value of USD26.55 billion (RMB188.5 billion).

Main contents of the agreements between Ausnutria and Yili

Processing Service Framework Agreement:

- Ausnutria to provide processing services for the production of milk powder (other than infant formulas) and related products for Yili from the signing date to 31 Dec., 2024
- Pricing terms: The fee for this will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms, and on a cost plus basis with reference to general industry standards, raw material and processing costs. The fee may be adjusted based on amicable negotiations between both companies
- Annual cap: The transactions for each financial year (ending 31 December 2022/2023/2024) will be capped at USD14 million (RMB100 million), USD21 million (RMB150 million) and USD28 million (RMB200 million), respectively.

Supply Framework Agreement:

- Yili will purchase goat milk powder and related products from Ausnutria from the signing date to 31 Dec., 2024; the exact supply volume of Ausnutria will be determined by individual purchase orders
- Pricing terms: The unit price of the goat milk powder and related products will be negotiated on an arm's length basis and determined in the ordinary course of business

on normal commercial terms or better and will be specified in individual purchase order with reference to the price of products of same or substantially similar quality which Ausnutria supplies to its other customers in the same region, related costs (raw materials, production) and the market price of such products from time to time

- Annual cap: The transactions are capped annually, as noted above

Procurement Framework Agreement:

- Ausnutria will purchase milk base powders and related ingredients from Yili from the signing date to 31 Dec., 2024; the exact supply volume of Yili will be determined by individual purchase orders
- Pricing terms: The terms of the individual purchase orders will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or better. The specific pricing and other terms (including specifications) for each individual transaction will comply with the individual procurement agreements. Yili's charges will be priced with reference to the costs of milk base powders and related ingredients at the time when the relevant purchase orders were made. It is intended that, where appropriate, such prices and charges will be fixed and applicable to subsequent purchase orders for a period of six months from the date of the first such purchase order
- Annual cap: The annual caps on these purchases by Ausnutria from Yili for each of the financial years ending 31 December 2022/2023/2024 are USD28 million (RMB200 million), USD35 million (RMB250 million) and USD42 million (RMB300 million), respectively.

Raw Milk Price

October Milk Price Rises Marginally

Summary: China's milk price rose marginally in Oct., driven by demand growing during the Mid-Autumn Festival and National Day holidays. Entering the period of higher dairy demand, the price is expected to move up further.

In the week ended 14 Oct., China's raw milk price averaged USD583.16/t (RMB4,140/t), up by 0.2% MoM but down 3.9% YoY; this latest price was down by USD36.56/t (RMB125/t) from the January average of USD600.77/t (RMB4,265/t) – which is the highest price point YTD. (Note: the USD/CNY exchange rate soared to 7.0992 on 10 Oct., 2022, as sourced from the People's Bank of China).

Over the year so far, the price fell during Jan.– July and then made a partial recovery in early Aug. During the Mid-Autumn Festival and National Day holidays, the milk price continued to go up slightly.

Currently, China's milk production is still rising, reaching 27.09 million tonnes YTD end September. In Jan.–Aug., the national output of dairy products was 20.349 million

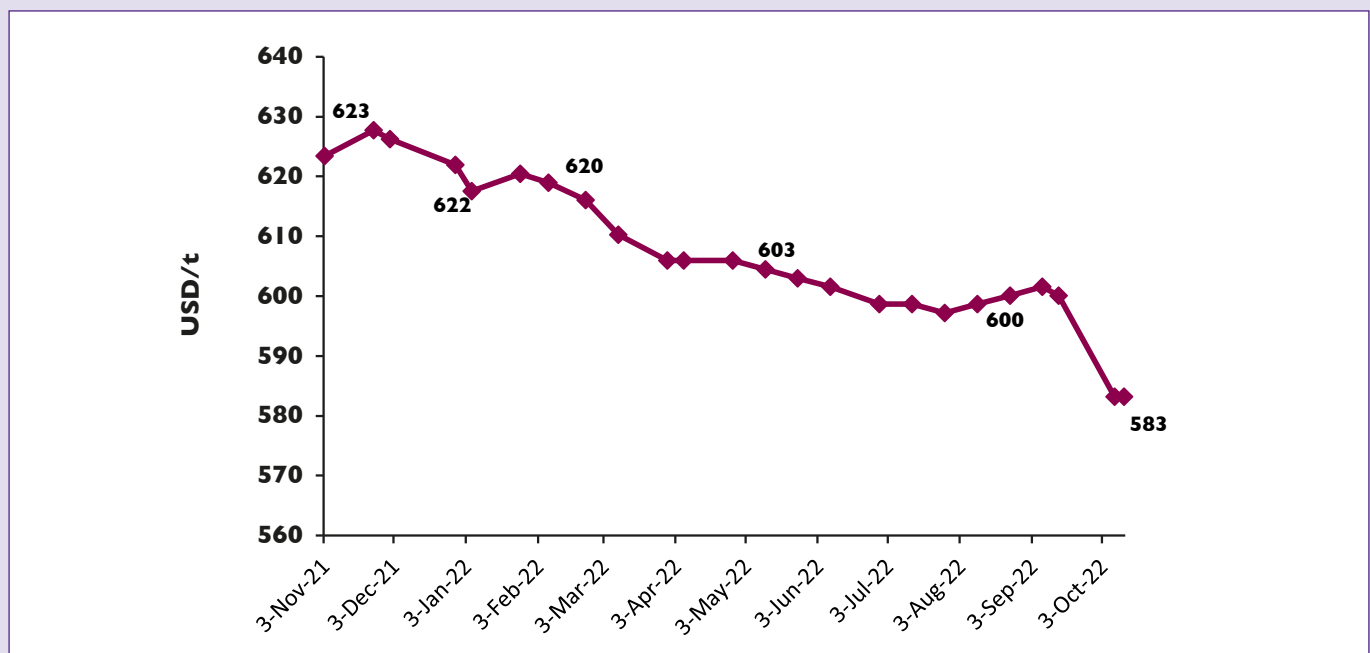
tonnes, up 2.1% YoY, data from the National Bureau of Statistics shows. Moving into the dairy consumption season, the milk purchasing price should firm, partly supported by the high cost of feeds in production.

Feeds market

Data sourced on 12 Oct. by the Ministry of Agriculture and Rural Affairs (MARA) show:

- The national price of corn averaged USD425.40/t (RMB3,020/t), up 0.3% from the first week and up 1.4% YoY; the average in major production regions (Heilongjiang, Jilin and Liaoning) was down 0.4% to USD391.59/t (RMB2,780/t) compared with the first week; and the price in the main demand area (Guangdong) also dipped by 0.3% to USD445.12/t (RMB3,160/t) from the first week
- The national price of soybean meal averaged USD735.29/t (RMB5,220/t), up 1.8% from the first week of the month and jumping 33.8% YoY

FIGURE 4: Trends in China's Raw Milk Price, Nov. 2021–Oct. 2022



Source: Ministry of Agriculture and Rural Affairs (MARA)

Reference trading prices for raw milk among major provinces for Q4 2022:

- Shandong Province: USD580/t (RMB4,120/t), with a leeway of 5%
- Heilongjiang Province: USD578/t (RMB4,100/t), with a minimum price of USD556/t (RMB3,950/t), for milk produced by automatic milking systems
- Hebei Province: USD582/t (RMB4,130/t), with a minimum price of USD549/t (RMB3,900/t); the province encourages higher prices for better quality products
- Sichuan Province: USD734/t (RMB5,210/t) with a minimum price of USD699/t (RMB4,960/t); this price remains at the same level as Q3.
- Shanghai Municipality: USD579/t (RMB4,110/t); this price remains at the same level as Q3.

News in Brief

Dairy Imports in September 2022

September's imports are a mixed bag, yes volumes remain well down YTD, but they do offer more grounds for exporter optimism than seen for some time. Milk powders are still down significantly, representing an obviously vulnerable segment given the strong increases in domestic milk production. However, there are good increases for many products which China is less able to produce for itself – whey, lactose, butter, cream, AMF, some cheese types and the proteins – even for infant nutritionals.

TABLE 5: 2022 September Imports, tonnes

HS code	Product	202109	202208	202209	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	7,500.6	6,854.7	6,942.6	1.3%	-7.4%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	69,936.8	49,344.2	51,015.8	3.4%	-27.1%
04014000	Milk & cream, 6%	0.0	0.0	0.0	/	/
04015000	Milk & cream, fat >10%, not concentrated or sweetened	19,031.6	13,583.3	20,947.3	54.2%	10.1%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	30,555.6	32,982.3	25,090.9	-23.9%	-17.9%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	35,920.6	29,959.0	30,092.1	0.4%	-16.2%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	198.2	104.0	169.4	62.9%	-14.5%
04041000	Whey and modified whey	56,284.8	62,818.9	62,617.3	-0.3%	11.3%
04049000	Products consisting of natural milk constituents, nes	367.5	827.9	869.5	5.0%	136.6%
04051000	Butter	4,250.4	7,203.4	6,245.5	-13.3%	46.9%
04059000	Other fats & oils derived from milk	1,558.6	4,445.5	3,101.0	-30.2%	99.0%
04061000	Fresh cheese, incl. whey cheese, curd	4,377.8	5,645.4	4,981.4	-11.8%	13.8%
04062000	Grated or powdered cheese	1,774.8	1,179.3	1,924.3	63.2%	8.4%
04063000	Processed cheese, not grated or powdered	2,050.4	1,636.1	2,030.1	24.1%	-1.0%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	5.6	7.1	11.8	66.7%	109.2%
04069000	Cheese, nes	1,492.5	5,622.5	1,387.8	-75.3%	-7.0%
17021100	Anhydrous lactose, lactose wt.≥99%	9,428.0	12,684.8	10,188.5	-19.7%	8.1%
17021900	Lactose syrup & other lactose	235.8	25.0	100.6	302.8%	-57.3%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	21,001.1	26,318.0	22,614.7	-14.1%	7.7%
35011000	Casein	875.5	1,633.2	1,103.4	-32.4%	26.0%
35019000	Caseinates	1,587.0	1,457.0	1,723.2	18.3%	8.6%
35022000	WPC80/WPI	2,432.1	2,466.1	3,113.6	26.3%	28.0%

Source: China Customs

Youran Dairy Expects No Direct Impacts from New Zealand's Ban on Livestock Export

On 28 Sept., the New Zealand Government passed the anticipated bill banning livestock exports by sea from 30 April 2023, for the protection of New Zealand's reputation for world-leading animal welfare standards. This confirmed the decision initially issued by the New Zealand government in April 2021.

In recent years, China has accounted for about 30% of NZ's annual cattle exports:

- 2020: 100,619 head of live cattle were imported to China from New Zealand
- 2021: 124,660 (=92.5% of NZ's total exports in the year)
- 2022: 70,622 during Jan.-Aug.

Undoubtedly, China will be hit by this ban to some extent given NZ's role in its cattle importation. However, Xu Yanfei, VP of China Youran Dairy Group Ltd (Youran Dairy, Stock Code: HK.09858) has said that he sees no impact from this on the company's operation. Youran Dairy has 450,000 cattle with a calving rate after sex-sorting above 95%, which allows it to maintain and even expand its dairy herd, making imported stock supplementary only. She also said that the company's recent annual tests on replacement heifers show that cows it has bred have potential milk yields of up to 13.5 t/a, 1.5 tonnes higher than its Australian cows' yields in China and 2.5 tonnes higher than its New Zealand cows' yield in China.

Yashili Ends Cooperation with Arla Foods

On 30 Sept., Yashili International Holdings Ltd. (Yashili, Stock Code: HK.01230) announced the termination of its cooperation with Arla Foods, with Yashili, Newou Hong Kong International Co., Ltd. (wholly-owned by Yashili), and Yashili Dairy (Ma'anshan) Sales Co., Ltd. sold business operations valued USD14.65 million (RMB103.99 million) and their current inventory of Arla's brands Baby & Me Organic, Baby & Me Blue Dawn and Milex at CIF value to Arla Foods and Arla Foods Dairy Products Technical Service (Beijing) Co., Ltd. From now on, therefore, Yashili will not be distributing Arla Foods' products, and Arla takes over the related sales and marketing team of 80 staff.

Evolution of the strategic cooperation between Yashili and Arla Foods:

- In 2006, Mengniu and Arla Foods co-invested in Mengniu Arla Dairy Products Co., Ltd., responsible for production and sale of formula products for infants and adults
- At the end of 2010, this JV was renamed as Inner Mongolia Oushi Mengniu Dairy Products Co., Ltd. (Oushi Mengniu), owning the IMF brand "Ruibuen"
- In June 2012, Arla Foods acquired a 5.9% stake in Mengniu for USD280 million (RMB1.99 billion), becoming the 2nd largest strategic shareholder of Mengniu at that time, whilst Mengniu acquired 100% of Oushi Mengniu
- In Sept. 2015, Yashili took whole control of Oushi Mengniu with USD148 million (RMB1.05 billion), facilitating integration of Mengniu's formula brands – taking on "Ruibuen" together with other ranges such as Oushi Mengniu Gold/Platinum Youzhi Infant Formula
- This facilitated market entry for Arla IMF brands like Arla Baby & Me and Milex, imported and marketed by Yashili, in line with a strategic agreement signed between Arla Foods and Mengniu.

In 2021, Arla Foods' dairy products sales globally were USD11.9 billion, up 5.22% YoY. In H1 2022, these sales were USD6.39 billion, up 17% YoY.

PICTURE 2: Bubs China Label Goat Milk Formula for Infants



Source: Bubs Australia

Bubs Australia Partners with HUG

On 28 Sept., Bubs Australia (Bubs) signed an agreement with Heilongjiang Ubeite/Youbeite Dairy Group Co., Ltd. (HUG) to secure the registration of a ultra-premium China label goat milk infant formula product complying with China's latest GB standards (applicable from February 2023) and to get access to the wider Chinese market, in which roughly 80% of total infant formula sales result from general trade vs. 20% via cross-border e-Commerce). HUG has applied for registration to the State Administration for Market Regulation (SAMR) and expects to launch on the market in H2 of FY23.

Meanwhile, a JV Zhitong (Hangzhou) Health Technology Co. (Zhi Tong) is to be established (owned Bubs 75%, HUG 25%) to handle local distribution of Bubs' China label infant formulae.

Kirsty Carr, CEO of Bubs holds a high opinion of HUG's manufacturing and distribution of high-quality goat milk and A2 protein cow milk products, and this cooperation indicates growing demand for ultra-premium products. Bubs reports 179% growth in Chinese sales to A\$49 million.

Junlebao Junyuan Dairy's New Milk Tablet Production Line

On 29 Sept., a new 900 t/a milk tablet line at Hebei Junlebao Junyuan Dairy Industry Co., Ltd. (Junlebao Junyuan Dairy) passed the required environmental checks.

Construction details:

- Total investment: USD1.49 million (RMB10.60 million), 0.66% (=USD9,860/RMB70,000) of which is for environmental protection
- Location: Plant of Shijiazhuang Yongsheng Dairy Co., Ltd., a wholly-owned company of Junlebao Dairy Group Co., Ltd. (previously known as Shijiazhuang Junlebao Dairy Co., Ltd.) on Bishui Street, Luquan District, Shijiazhuang City, Hebei Province
- Building area: 2,700 m²
- Construction content: 26 sets of material delivery, and pretreatment and mixing systems, tablet press machine, automatic doypack pouch packing lines, irregular-shaped can packing lines
- Raw materials: WMP – 720 t/a
- Output: Milk tablets – 900 t/a
- Working system: 88 employees, 3 shifts x 300 days per year
- Construction period: Jan.–Sept. 2021
- Commissioning time: Oct. 2021
- Site acceptance test: 3rd–4th Aug. 2022

Junlebao Junyuan Dairy was founded on 5 Sept., 2014 with a registered capital of USD23.66 million (RMB168.00 million) and is owned by Junlebao Dairy Group Co., Ltd.

Xinjiang to Build 200,000 Head Dairy Sheep Farm

On 8 Oct., Xinjiang Cocodala Agricultural Financing and Venture Capital Investment and Development Co., Ltd. published the positive environmental assessment for its 200,000 Head Dairy Sheep Farm Construction Project for peer review – enabling external views to be taken into account on the project's environmental aspects which will be incorporated in the local authority's evaluation of the project. The company was set up on 27 Sept., 2022 with a registered capital of USD140.86 million (RMB1.00 billion), and is owned by the State-owned Assets Supervision and Administration Commission of the 4th Division of Xinjiang Construction Corps.

There are few dairy sheep farms in Xinjiang at present, although the local government is accelerating the sector's development. There is one local sheep milk processor near this farm which should benefit – Xinjiang Junnong Dairy Co., Ltd.

Project Disclosure:

- Construction nature: New construction
- Total investment: USD132.41 million (RMB940 million)
- Location: 4th Division of Xinjiang Construction Corps, Cocodala (county-level) City, northern of Xinjiang Uygur Autonomous Region
- Total building area: 716,010 m²
- Construction content: 5 farm buildings including sheep sheds (472,360 m²), milking rooms (56,250 m²), milking parlor viewing area (1,250 m²), bedding area (316,680 m²), feed centres (4,500 m²), feed warehouse (4,000 m²), organic fertiliser processing area (72,000 m²), silage silo (48,000 m²), hay barn (30,000 m²), and sets of equipment for TMR (total mixed rations), milking and nursing.
- Sheep herd size: 200,000 head

AustAsia Resubmits IPO Application to HKEx

On 14 Oct., AustAsia Investment Holdings Ltd (AustAsia) resubmitted its prospectus for an IPO on the main board of Hong Kong Stock Exchange (HKEx), intending to raise capital for new and expansion projects in dairying. This is AustAsia's second application to HKEx after its March prospectus became invalid.

The latest prospectus shows the company's performance data have been improving in recent years:

- Total revenue in 2019-2021: USD352 million, USD405 million and USD522 million
- Total revenue in H1 2022: USD278 million, up 15.4% YoY from USD241 million; 87.1% was accounted for by raw milk sales, 9.0% by beef trading
- Raw milk production in 2019-2021: 565,400 tonnes, 582,800 tonnes and 638,800 tonnes
- Raw milk production in H1 2022: 359,200, up from 298,300 tonnes in H1 2021

As of 30 June, 2022, AustAsia has 10 standard dairy farms in China with a total of 111,424 dairy cows (57,383 adult milking cows). It is one of the China's top 5 dairy farm operators, along with Youran Dairy, Modern Dairy, Liaoning Yuexiu Huishan Holding and Hebei Leyuan Animal Husbandry. In 2021, its raw milk sales volume, sales value and output ranked 3rd, 4th and 5th among all dairy farm operators in China, accounting for market shares of 1.6%, 1.8% and 1.7% respectively, as estimated by Frost & Sullivan.

Currently, it is owned by the Panasian group Japfa Ltd. (62.5%), Meiji China (25%), Genki Forest (5%) through Plutus Taurus, New Hope Dairy (5%) through GGG Holdings Limited, and Guangzhou Honest Dairy (Group) Co., Ltd. (2.5%).

Danone Nutricia Launches its First Formula Range for the Middle-aged and Elderly in China

On 20 Sept., Danone Nutricia rolled out its first formula range for the middle-aged and elderly in China – "Xinruli (芯锐力™) Goat Milk Formula" and "Mianyu (冕御力™) Cow Milk Formula" under the nutritional brand "Dare to Stride (敢迈™)", both promoted as low glycemic index.

The two products are selling online in flagship stores on Tmall.com and JD.com and offline in large supermarkets. The online prices – RMB298/800g for the goat milk formula and RMB168/800g for the cow milk formula – are higher than the average price of mainstream brands. These products align with the group's Healthy China Strategy, which it kicked off by launching the "Dare to Stride" range of nutritionals in China in June, comprising probiotic fibre supplement powder, milk protein powder to aid sleep and a mixed protein powder for post workout recovery, all targeting consumers aged over 40.

The 2 new formulae and the rest of the "Dare to Stride" range are made locally by Hunan Eurbest Nutritious Food Co., Ltd. with imported dairy ingredients.

Such products could have a real role to play given the severe health problems affecting China's population, for whom the average life expectancy is 78 (75 for males and 81 for females). In East Asia only North Korea and Mongolia have lower life expectancies, although it is salutary to note that China's level is higher than in the US (76).

PICTURE 3: Dare to Stride Formulae Launched in China



Source: Danone Nutricia

Gaofu Foods Fined for False Low-sodium Marketing of Cheese

Recently, Shanghai Gaofu Foods Co., Ltd. (Gaofu Food) has been fined USD178 (RMB1,050) for claiming that the Emmental Cheese it sells under its Suki OEM as low-sodium in promotion campaigns since 1 March. Companies committing such infringements in their advertisements generally get fined 3–5 times the press advertising costs – which in this case were only RMB350. The product's labelled sodium content of 400mg/100g contravenes the Standard for Nutrition Labelling of Pre-packaged Foods (GB28050-2011) which stipulates that products labelled as low sodium shall have a sodium content of 120mg/100g or below. The company removed the false claims on 10 May.

Gaofu Food is a very well-known dairy importer and OEM with a range which spans butter, cream and cheese, milk and yoghurt products; it has operations in Shanghai, Beijing, Guangzhou, Shenzhen and Nanjing.

In recent years, China's cheese imports have grown and the rapid growth of the cheese market has generated increasing amount of new entrants and increased competition, leading some to use unjustifiable promotional tactics. Gaofu Food is far from alone – early this year, cheese brands Milkfly and Lepur were fined for using misleading marketing language.

Yili's First Camel Milk Powder on the Market

On 29 Sept., Yili formally launched a 100% Organic Full Cream Camel Milk Powder for adults, its first camel milk product.

Camel milk is viewed as superior in nutritional value, rich in amino acids and protein, with low allergenicity and easily absorbed by humans. This SGS certified product is marketed as 100% camel milk sourced from Alxa League in Inner Mongolia. This is regarded as a major selling point after Yili's consumer survey showing consumers prefer pure camel dairy products to blended camel milk powders when buying premium dairy products – it is currently priced at USD72.3 or RMB499/180g on Yili flagship store on Tmall.com.

It is another sign that nowadays, Chinese consumers' demand for dairy has grown more diverse and segmented. In various formulae market segments, products from other milk sources than cows (goat, camels, yaks, horses etc.) are certainly making a mark, even though they remain at an embryonic stage in terms of achieving a mass market following.

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