

Dairy Products China News

Guaranteed Exclusive Analysis

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Welcome to the June issue of Dairy Products China News.

According to the official statistics China's milk production continued to increase through 2021, showing growth in each quarter compared with 2020. This trend has been fuelled by very strong milk prices locally and has continued during 2022, when the seasonal drop-off in Q1 was also slightly less than in 2021, -34% as against -36% in Q1 2021. Future consolidation at producer level and on larger farms are certainties, the only question being at what rate this will occur – undoubtedly the higher input costs this year will act as a catalyst in this process. This seems a fair and "directionally correct" assessment although we should bear in mind that all such numbers in all countries are questionable!

One of the leaders and beneficiaries of this growth has of course been Yili – this month yet again topping the rankings of Chinese consumers' favourite FMCG brands in Kantar's research. The underlying consumer demand is evident, with per capita consumption of dairy up 10.6% to 14.4kg last year. However, consumer caution is in the air in China as in most markets this year, and JD.com recently highlighted the lack of any rapid rebound after local Covid lockdowns have been lifted.

After the very disappointing May import figures, commodity exporters overseas will be watching China's trends in local milk production and consumer spending with some concern. High prices have likely played a part but it's not all about sector-specific factors, of course, this year especially. One reason for cautious optimism may be the gradual improvement in the logistical challenges which have curbed trade through China's major ports, with congestion evident but easing in terms of vessels being able to dock and local trucking capacity. Whilst the zero-Covid ambition and policies are being amended they remain in place, and who knows what impact negotiations with the unions will have on the operations of the ports on the US West Coast and in Hamburg this summer – wild cards which may yet have dramatic impacts on China's imports overall. A view of the future also needs to factor in reduced availability from some supplying regions, reflecting short-term factors (costs) and longer-term issues (governmental responses to environmental constraints). Forecasting future production and trade flows is only getting more and more challenging.

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Headlines

- ▶ In May, TopGene International imported 5,151 dairy cows from Australia, and Be Green and China Hengrui jointly introduced 14,000 head from New Zealand.
- ▶ The secondary formula registration system resumed operation on 10 June. As of 14 June, 11 goat milk IMF brands were registered and 23 other applications had been accepted by the authority.
- ▶ In June, Yashili's new powders plant project was accepted for its environmental impact assessment (EIA); meanwhile, Feihe Qiqihar has completed 80% of the construction work on its Smart Ecological Industrial Park, due to start operations in July 2023.
- ▶ On 9 June, China issued a Programme for Improving County-Level Dairy Industrial Productivity.
- ▶ On 3 June, the Shanghai Municipal Administration of Market Regulation implemented a trial phase for new Administrative Measures for IMF Factories' Filing of Raw Material and Product Labels.
- ▶ The first General Standard for Probiotics for Food Use (Group Standard) and Grading Specification for Probiotic Viability Rate in Probiotic Foods (Group Standard) have been published in response to the growing interest in probiotics' potential in the local market.
- ▶ Recently, Yili has progressed in several areas, including a deal on dairy cow farm project (30,000 head) with Xianxian County Government and starting construction on a farm project jointly with Ningxia Nongken (250,000 head) and a model dairy farming park project (180,000 head) in Hohhot City, Inner Mongolia Autonomous Region.
- ▶ On 7 June, Bright Animal Husbandry, a wholly-owned subsidiary of Bright Dairy, proposed a plan for a dairy farm centre in Anhui Province involving an estimated investment of USD374.07 million (RMB2,493.2 million).
- ▶ On 6 June, Yeeper Dairy's goat milk formulae plant started operation and construction kicked off on its 100,000 dairy goat farm.
- ▶ China's raw milk price in the first three weeks of June has remained stable, but the trend is still down in the face of high production; there has been significant spray drying in Q2, although this seems to be waning.

Major Companies and Sites Mentioned in This Issue



Market Analysis

New Dairy Cattle Imports by TopGene International, Be Green and China Hengrui

Summary: In May, TopGene International imported 5,151 dairy cows from Australia, and Be Green and China Hengrui jointly introduced 14,000 head from New Zealand.

On 18 May, Beijing TopGene International Import and Export Co., Ltd. (TopGene International) imported 5,151 dairy cows from Australia through Dongying Port in Shandong Province, with details as follows:

- Breeds: mostly Holsteins, others including Jersey dairy, Angus and Herefords bulls
- Total value: over USD13.5 million (RMB90 million)
- Exporter: Australian Rural Exports Pty Ltd.
- Batch destination: Inner Mongolia and Shandong
- Isolation and quarantine site: Dongying City, Shandong Province

TopGene International pointed out that China's demand for imported cattle will not fall in the short-term, although the recent tighter supply (especially from Australia) and the rising shipping costs have put the cattle trading business under a lot of pressure.

TopGene International was founded in Oct. 2020 with a registered capital of USD3 million (RMB20 million) and mainly engages in import and sales of cattle / goat breeds.

Just after this, on 21 May, 14,000 cattle were imported jointly by Be Green (Wen'an) Animal Husbandry Development Co., Ltd. (Be Green) and China Hengrui (Guizhou) Co., Ltd. (China Hengrui) from New Zealand through Qinzhou Port (Guangxi Zhuang Autonomous Region) – this is the biggest single consignment of cattle entering this port to date.

Details are as follows:

- Breeds: 8,000 Angus bulls and 6,000 Holsteins (all aged 8-16 months, weighing above 280kg on average)
- Importer: Southern Australian International Livestock Services Pty Ltd.
- Batch destination: Chongzuo City (Guangxi Zhuang Autonomous Region), Qiqihar City (Heilongjiang Province) and Hinggan League (Inner Mongolia Autonomous Region).

According to Be Green, this shipment was smaller than required, as some of the animals could not be moved to the local isolation sites in New Zealand in time due to road blockages caused by local floods. But in H2 this year, it plans another 2-3 such shipments from New Zealand and Australia, involving approx. 20,000-30,000 head.

It also mentioned that although China's livestock farming sector is currently under a lot of stress due to rising farming costs, local dairying

continues to attract large livestock companies and new private investors so cattle imports are likely to maintain their growth momentum, especially as the restrictive cattle export policy of New Zealand and limited supply from Australia have boosted cow prices to a steady, high level.

Be Green was incorporated in May 2021 and mainly engages in dairy and beef cattle trading. It has imported 300,000 cows in all for end customers including China Feihe Ltd (China Feihe, Stock Code: HK.06186), Yuanshengtai Dairy Farm Ltd (Stock Code: 1431), Asia Dairy Fab. Ltd. and a range of other large Chinese firms.

In 2021, it invested USD48.01 million (RMB320 million) in setting up an isolation facility for imported cattle in Wen'an County (Hebei Province) – this was on a site of 161.9 ha capable of holding 10,000+ cattle. The construction work on this site is now in its final phase and the plan is for the site to be operating in H2.

China imported 361,100 of cows in total in 2021, an increase of 35.7% from the previous year – 124,700 head (35%) of which were from New Zealand, ahead of 108,600 head (30.1%) from Australia.

During the first four months of 2022, despite the logistical disruptions experienced in China, the trade has remained strong with 48,000 head imported, again with New Zealand the main supplier.

Secondary Goat Milk IMF Registration Situation in June

Summary: The secondary formula registration system resumed operation on 10 June. As of 14 June, 11 goat milk IMF brands were registered and 23 other applications had been accepted by the authority.

On 9 June, the Centre for Food Evaluation (CFE) of the State Administration for Market Regulation announced it would reopen for on-site application for secondary formula registrations and face-to-face/telephone consultations on 10 June, after its operation were suspended between 16 May–9 June due to the pandemic.

As of 14 June, 11 goat milk IMF brands had been approved for secondary formula registration and applications had been received for 23 more, according to the Approval Document

for Registration of Infant Milk Formula Products (Decision Letter) issued by the CFE.

As the official registration process is speeding up, more businesses may use this window of secondary registration to push differentiated products.

Goat IMF brands as Shaanxi Yatai Dairy Co., Ltd.'s Talent and Joybast have updated their registered formulations to highlight pure goat milk protein and optimised their formulations' use of other ingredients. Niche products are prominent among the accepted applications – for instance, brands like Blue River Dairy, Bekari and "Yangyang 100" applying for sheep IMF registration, Herds Dairy, Yatai Dairy, Mileyn, Shengtang Dairy and "Baolezi" applying for organic registration, and AusNuotore and "Baiyue" applying for both.

TABLE 1: 11 Approved Goat Milk IMF Brands for Secondary Registration

No.	Company	Brand Name	Aproval Date
1	Yeeper Dairy Group Co., Ltd.	Bekari	26 May, 2022
2	Mead Johnson Dairy (Tianjin) Co., Ltd.	Milkgoat "Chunguan"	28 April, 2022
3	Shaanxi Qinlong Dairy Group Co., Ltd.	"Qinlong"	11 April, 2022
4	Shaanxi Herds Dairy Co., Ltd. (Herds Dairy)	"Meibeijia"	11 April, 2022
5	Heilongjiang Feihe Dairy Co., Ltd.	"Xingfengfan Zhuoshu"	11 April, 2022
6	Shaanxi Shengtang Dairy Co., Ltd.	"Wei'er Pusi Vplus"	30 March, 2022
7	Shijiazhuang Junlebao Dairy Co., Ltd.	"Zhenwei'ai"	28 Dec., 2021
8	Shaanxi Herds Dairy Co., Ltd.	Herds Baby	28 Dec., 2021
9	Shaanxi Youhuizi Nutritional Food Co., Ltd.	Lamb Rahm	28 Dec., 2021
10	South Island Dairy LP	Sheeprise and Gogo Goat	28 Dec., 2021

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

Note: Incomplete data as of 14 June, 2022

TABLE 2: 23 Accepted Applications of Goat Milk IMF Brands

No.	Company	Brand Name
1	Shaanxi Qinlong Dairy Group Co., Ltd.	"Ounengda Qingyu" and "Ounengda Kadifu"
2	Shaanxi Shengtang Dairy Co., Ltd.	"Meikeyang" and "Baolezi"
3	Shaanxi Baiyue Youlishi Dairy Co., Ltd.	Yngood, Ruyo and Beiboer
4	Shaanxi Yatai Dairy Co., Ltd.	Talent, "Xinbeibei" and Joybast
5	Mileyn Dairy Group Co., Ltd.	Mileyn
6	Xi'an Annuo Dairy Corporation Limited	"Xiaoshuaiyang"
7	Xi'an Baiyue Sheep Milk Group Co., Ltd.	"Baiyue"
8	Xi'an Yinqiao Dairy Industry (Group) Co., Ltd.	"Aibaorui"
9	Xi'an Xiyangyang Biological Technology Co., Ltd.	Pleasant Goat
10	Torador Dairy Industry (Tianjin) Co., Ltd.	Koala Milky and Canobel

No.	Company	Brand Name
11	Hunan Yangboshi Dairy Product Development Co., Ltd.	Newfull
12	Qingdao Ruishi Biotechnology Co., Ltd.	"Yangyang 100 · Pulina" and "Yangyang 100 · Yangyang Yibei"
13	Shengyuan Nutritional Food Co., Ltd.	Santé L'amour
14	Heilongjiang Feihe Dairy Co., Ltd.	"Feihe Jia'ai"
15	Jiangxi Meilu Dairy Co., Ltd.	AusNuotore

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

Note: Incomplete data as of 14 June, 2022

Progress by Yashili and Feihe Qiqihar on New Powder Plants

Summary: In June, Yashili's new powders plant project was accepted for its environmental impact assessment (EIA); meanwhile, Feihe Qiqihar has completed 80% of the construction work on its Smart Ecological Industrial Park, due to start operations in July 2023.

On 20 June, the environmental impact assessment (EIA) document of Yashili International Holdings Ltd. (Yashili, Stock Code: HK.01230)'s new powders plant was accepted with details released on the website of the Ecology and Environment Bureau of Hohhot City, Inner Mongolia Autonomous Region.

Overview of Yashili's Powders Plant:

- Construction unit: Inner Mongolia Niuyaniu Dairy Product Co., Ltd., established on 24 April, 2022 with a registered capital of USD135 million (RMB900 million), and a wholly-owned company of Yashili since 17 May, 2022
- Location: Horinger County, Hohhot City, Inner Mongolia Autonomous Region
- Total investment: USD150 million (RMB1,000 million), 0.0015% (= USD0.2 million or RMB1.53 million) of which is for environmental protection
- Total area: 123.4 ha

- Major construction content: spray drying tower (capacity: 6t/h), powders workshop (4.8 ha), 9 powder production lines, and supporting environmental protection equipment
- Processing & production capacities: 1,400 t/d of raw milk and 36,000 t/a of dairy powders
- Product and capacity:
 - IMF – 1,300 t/a
 - Goat Milk Powders – 8,200 t/a
 - Modified Milk Powder – 21,300 t/a
 - WMP – 2,600 t/a
 - SMP – 2,600 t/a
- Materials and consumption:
 - Raw milk – 504,000 t/a
 - WMP – 3,689 t/a
 - SMP – 4,706 t/a
 - Goat WMP – 3,121 t/a

On 17 June, Feihe (Qiqihar) Dairy Co., Ltd. (Feihe Qiqihar) provided an update on its Smart Ecological Industrial Park construction saying 80% of the main work was completed and the rest would be finished by the end of this November.

Project Overview:

- Proposed total investment: USD78 million (RMB520 million) – USD49.7 million (RMB331million) has been used so far including USD54 million

(RMB360 million) spent in the 1st phase construction

- Area: 14 ha
- Location: Qiqihar City, Heilongjiang Province
- Construction content: workshop with a powders production line processing 500 tonnes of raw milk per day, visitor passageway, tourist center and other infrastructure (as the park is meant to integrate intelligence, ecology (through recycling and clean production to reduce waste and improve resource utilisation), R&D and tourism
- Construction period: June. 2021–Dec. 2023, but official operation to start in July 2023
- Processing & production capacities: 100,000 t/a of raw milk and 20,000 t/a of premium milk formula
- Economic benefits: sales of USD450.1 million (RMB3,000 million) and net profits of USD45.0 million (RMB300 million).

Feihe (Qiqihar) Dairy Co., Ltd. was set up in 30 June, 2021 with a registered capital of USD75 million (RMB500 million) and is wholly-owned by Heilongjiang Feihe Dairy Co., Ltd. It mainly manufactures powders (WMP, SMP, modified milk powder), liquid milk (UHT and modified milk), fermented dairy, etc.

Governmental Direction

China Issues Programme for Improving County-level Dairy Industrial Productivity

Summary: On 9 June, China issued a Programme for Improving County-Level Dairy Industrial Productivity.

On 9 June, China's Ministry of Agriculture and Rural Affairs and Ministry of Finance jointly issued a Programme for Improving County-Level Dairy Industrial Productivity, encouraging development of farms with integrated dairying and feed growing, aiming to raise the average national milk yield per cow up to 9 t/a and strengthen local milk supply overall.

Main Content of the Notice:

Coverage:

- 80 major milk producing counties (each producing up to 50,000 t/a) in Inner Mongolia, the northeast, North China, Central China and the northwest
- 20 major milk producing counties (each producing up to 30,000 t/a) in the South and the neighbouring regions

Measures include:

- Support for contractual forage growing (silage corn, alfalfa, oat, etc.) and dairy farming in the same or adjacent areas
- Developing the use of pastures in the mountainous areas of southern China
- Support for smart dairy farms for:
 - Transformation and upgrade of animal sheds and milking room, disease prevention and control measures, feed preparation, milking and milk transportation
 - Use of digital automatic devices (automatic shower, environment monitor, targeted feeding and monitoring system, fully automatic total mixed rations mixers, milking machine, mechanical pushers, automatic milk meters, etc.), data-collection equipment (smart collars, step-counting positioning, automatic measurement, individual identification, etc.), and intelligent farm management platform (dairy estrus monitoring system, IoT, intelligent summary and analysis of big data, etc.).

- Aiming to change demand for dairy in dairying regions through:
 - Pilot integration operations combining dairy farming and processing at the same site or nearby
 - Encouraging consumption of fresh milk from local farms
 - Helping the development of regional dairy brands appealing to local residents
 - Supporting producers to install processing capacity for pasteurised (fresh) milk and fermented milk, cheese, and local-style dairy products. Here, aid will be provided for setups of milk quality and safety monitoring systems, dairy processing equipment purchase, upgrade of production processes, inspection and testing devices, and cold-chain transport systems, etc.
- The government will only subsidise one pilot project in each supporting county.
 - Two batches of subsidy will be allocated over 2022-2023 and 2024-2025, each to 50 eligible counties
 - The YR 1 subsidy is set at USD3 million (RMB20 million)
 - The YR 2 amount will be adjusted according to results achieved from the previous year
 - These subsidies are mainly for producers with between 100-3,000 head.
 - Integrated feed and dairying operations are eligible for subsidies of up to USD296.62 (RMB1,977) per hectare of growing area and up to USD0.6 million (RMB4 million) per farm
 - Smart dairy cow farms are eligible for subsidies of up to USD0.45 million (RMB3 million) per farm
 - Integrating operations are eligible for subsidies of up to USD0.6 million (RMB4 million) per farm

Subsidy distribution is to be monitored to ensure the quality and efficiency of the expenditure and avoid funds being over-directed to larger producers.

Shanghai Implements New Control Measures for IMF Manufacturers

Summary: On 3 June, the Shanghai Municipal Administration of Market Regulation implemented a trial phase for new Administrative Measures for IMF Factories' Filing of Raw Material and Product Labels.

On 3 June, the Shanghai Municipal Administration of Market Regulation issued the Administrative Measures for IMF Factories' Filing of Raw Material and Product Label, implementing a trial phase which became effective on 6 June and runs until 5 June, 2027. The Measures focus on product safety and include rules on IMF manufacturers' management of records for raw materials, additives, product formulations, label info and food contact materials.

Main Content of the Measures

- Application scope: Management of records of raw materials, additives, product formulations, label info and food contact materials (such as packaging (box/bag/sachet) and spoon)
- General:
 - Before launch, IMF manufacturers must file their products' information with the local departments of market regulation
- Raw materials, food additives, product formulations, label info and food contact materials should meet the individual relevant standards
- All the filing documents should be stamped with manufacturer's confirmation of the info validity, completeness and traceability
- Each of these IMF products must be approved by the State Administration for Market Regulation (SAMR) with a formula registration certificate
- Document submission:
 - IMF Filing Information Form
 - IMF Product Registration Certificate
 - Raw material description and content including the compositions of the compound raw materials, manufacturer and supplier
 - Food additive description and content including the ingredients of the compound additives, manufacturer and supplier
 - Label sample of the products in all specifications and details of when the label will start to be used on-pack
- Food contact materials' name, quality/condition, manufacturer and supplier
- Copy of the product test result
- Change of filing info: If there are any changes in the documents submitted, the revised version should be handed in to the department along with a statement of the change before the product's launch
- Use of label: After filing the changed label information and getting this approved, manufacturers should replace the old label with the new one immediately
- The Shanghai Municipal Administration of Market Regulation will revoke the registrations of IMF products if any of the following occur:
 - IMF manufacturer applies for a cancellation of product filing
 - IMF Product Registration Certificate or manufacturer's Food Production Licence expire
 - Label of the product does not conform with the related requirements
 - Any false or hidden claims or false materials are found in the documents submitted.

1st General Standard for Probiotics for Food Use and Grading Specification for Probiotic Viability Rate in Probiotic Foods/Beverages

Summary: The first General Standard for Probiotics for Food Use (Group Standard) and Grading Specification for Probiotic Viability Rate in Probiotic Foods (Group Standard) have been published in response to the growing interest in probiotics' potential in the local market.

On 16 June, the Chinese Institute of Food Science and Technology published the General Standard for Probiotics for Food Use, co-drafted by Yili, Bright Dairy, Nestlé China, and other experts and representatives in the dairy industry.

In recent years, China's sales of foods with probiotics have been growing strong, but this has also highlighted risks and problems like weak understanding of the rationale for probiotics, undefined effects and benefits, loose labelling standards etc. This standard is intended to facilitate the proper application of probiotics for food use.

As an end-user of probiotics, Yili said it pays extra attention to the control of viable probiotic counts during products' shelf life, so this standard helps it to develop internal identification standards for its patented strains of Bifidobacterium Lactis BL-99, Lactobacillus Paracasei K56 & K56.

Requirements of the General Standard

- Identification of bacterial strains: Identification and classification of probiotics at the strain level should be based on phenotypic and genotypic analytical methods
- Requirements for production process:
 - Record complete strain info including source, history, screening, identification, preservation, amount, etc.
 - Preserve the original strain by freezing and drying after the strain identification completed; adopt a viable preservation time for the strains and a strain maintenance schedule involving regular re-screening, re-generation and re-storage

- Formulate process requirements for formulation, input, replenishment, sterilisation, cultivation, sampling, etc. to control microbial contamination
- Confirm the characteristics and purity of the original strains before the mass production of bacterial cultures
- Establish management measures appropriate for the strain characteristics and production process to prevent microbial contamination
- Requirement for viable counts: $\geq 1.0 \times 10^8$ [CFU/g(mL)]
- Identification of label
 - The name of probiotics for food use can be labelled with "probiotics for food use", "bacterial cultures (probiotics) for food processing", or similar
 - The name of foods containing probiotics can be labelled with "probiotic xx", "probiotics-containing xx", etc.
 - The Chinese name and registered number of the strain of probiotics for food use and foods containing probiotics must be printed on the label as "probiotics ("Chinese strain name" and "strain number")", while the Latin name is optional
 - If there is any change made to the name of strain under the microbial taxonomy regulated by the state, the revised name should replace the old one, while displaying the name of revised taxonomy is optional
- The viable counts of probiotics in food should be displayed on the label
- The label must indicate the desired water temperature range when preparing powdered or granular foods containing probiotics.

Prior to this, back on 28 May, the China Nutrition and Health Food Association implemented a Grading Specification for Probiotic Viable Rate in Probiotic Foods, effective on the same date, which classifies foods containing probiotics and provides guideline for consumers buying such foods.

Requirements of the Grading Specification:

- Application range: grading of probiotic viability rates (essentially, functionality) for powdered or granular foods or beverages containing probiotics:
- Indicator of probiotic viable rate:
 - Level 1: $\geq 50.0\%$
 - Level 2: $\geq 10.0\%$
 - Level 3: $\geq 1.0\%$
 - Level 4: $\geq 0.1\%$
- Label: the probiotic viability rate should be termed as "viable probiotic level x (1/2/3/4)" or "probiotic viability rate xx%"; both wordings can be included on the same label.

Company Dynamics

Update on Yili Dairy Farm Construction Projects

Summary: Recently, Yili has progressed in several areas, including a deal on dairy cow farm project (30,000 head) with Xianxian County Government and starting construction on a farm project jointly with Ningxia Nongken (250,000 head) and a model dairy farming park project (180,000 head) in Hohhot City, Inner Mongolia Autonomous Region.

On 20 May, Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) signed an investment agreement on a dairying project with the Xianxian County Government of Cangzhou City, Hebei Province. This involves an investment of USD198 million (RMB1,320 million) in building 2 dairy farms (991.5 ha & 489.7 ha), including the introduction of a total of 30,000 dairy cows.

This follows a USD2.3 billion (RMB15.2 billion) strategic framework agreement settled between Yili and the city government on 13 May, which covers the development of the following:

- A dairy processing plant to be built over 2 phases in Xianxian County, with a processing capacity of 2,000 t/d of raw milk in each phase, providing a total new output capacity of 1.5 million t/a of dairy products.
- Dairy farms for an additional 240,000 cows, along with 283,296 ha of silage corn fields and 121,413 ha of silage fields in Cangzhou City; in 2022, it will start construction of 6 farms in 5 counties (Xianxian, Huanghua, Wujiao, Mengchun and

Nandagang) across a combined area of around 4,063.3 ha and with 76,000 dairy cattle.

On 2 June, Yili also started construction of the 3rd farm (Ningxia Nongken Hongyazi No.3 Farm) of the integrated 250,000 head dairy farm in Pingluo County, Shizuishan City, Ningxia Hui Autonomous Region in which its investing alongside Ningxia Nongken Enterprise Group Co., Ltd. (Ningxia Nongken) – this follows the earlier start-up of the project's 1st and 2nd farms.

Details of Ningxia Nongken Hongyazi No.3 Farm:

- Investment: USD148.5 million (RMB990 million)
- Area: approx. 997.6 ha
- Designed stock: 15,700 dairy cows

- Corn silage and alfalfa growing area: 14,164.8 ha nearby
- Once the total 25,000 cattle is in place, this farm will be able to achieve annual sales of 157,000 t/a of raw milk and 10,810 calves, translating into revenues of USD109.5 million (RMB730 million) and annual net profit of USD18 million (RMB120 million).

Since 2020, Yili has been working closely with Ningxia Nongken in numerous areas including premium milk trading and the establishment of dairy production and processing facilities. Ningxia Nongken has 17 standard

dairy farms with some 110,000 head in all, producing 1,300+ t/day or 500,000 t/a to a quality claimed to exceed EU standards (fat, protein, cell count, SCC, etc.) It is Yili's main supplier of premium milk, providing over 1,000 t/day to Yili's operations, and their jointly-built dairy farm park (16,000 head) in Pingxian County is producing 120 t/d milk.

On 9 June, the construction of Yili's dairy farm park project (180,000 head) started in Hohhot City, Inner Mongolia Autonomous Region. Spanning 32,376.8 ha and planned with an investment of USD1.2 billion

(RMB8 billion), this park is expected to produce over 1 million t/a of milk and utilise 202,354.4 ha for forage growing in the neighbouring area. The direct economic benefits are expected to exceed USD0.45 billion (RMB3 billion).

The first day of construction included the Youran Dairy Gucheng No.1 Farm, meant to hold 12,000 dairy cows and produce 230 t/d milk once completed. It is based on an investment of USD79.52 million (RMB530 million) and includes 12,141.3 ha of land for silage corn growing.

Bright Dairy to Invest in New Dairy Farm Centre

Summary: On 7 June, Bright Animal Husbandry, a wholly-owned subsidiary of Bright Dairy, proposed a plan for a dairy farm centre in Anhui Province involving an estimated investment of USD374.07 million (RMB2,493.2 million).

Bright Animal Husbandry Co., Ltd. (Bright Animal Husbandry) is planning to build a dairy farm centre in Dingyuan County, Chuzhou City, Anhui Province, according to the statement posted on 7 June by Bright Dairy & Food Co., Ltd. (Bright Dairy, Stock Code: 600597).

The location in northern Anhui is in the Yangtze River Delta area – which takes in Jiangsu, Zhejiang, Anhui and Shanghai and constitutes the most economically developed region and the biggest dairy market in China. As such the centre will further reinforce Bright Dairy's competitiveness in the East China region, its strategic priority. It will be able to supply its dairy plants in Shanghai, Wuhai, Nanjing and Jiangsu, meeting local consumers' growing requirement for fresh milk (stimulated by the concerns about immunity and health which grew during the pandemic) and for cheese.

Meanwhile, it can ease milk resource issues for Bright Dairy in Shanghai, which has had some farms shut down because of the increased resident population nearby (distance ≤500 m), which meant these sites failed local environmental requirements.

Overview details:

- Total investment: around USD374.07 million (RMB2,493.2 million)
- Site area: around 1589.7 ha
- Main construction items: 4 dairy farms
- No.1 – investment of USD47.17 million (RMB314.4 million) and covering 221.4 ha area
- No.2 – investment of USD76.35 million (RMB508.9 million) and covering 337.9 ha area
- No.3 – investment of USD111.97 million (RMB746.3 million) and covering 447.6 ha area
- No.4 – investment of USD138.57 million (RMB923.6 million) and covering 582.4 ha area
- Construction schedule:
 - No.1 and No.2 farms enter 310-day construction schedules simultaneously and are to take in cows from Aug. 2023
 - No.3 and No.2 farms enter 310-day construction schedules simultaneously and are to take in cows from Aug. 2024
- Estimated full capacity: 2028
- Target milking performance Indicator:
 - Each adult cow to produce 10 t/a of milk with fat ≥3.0%, protein ≥2.8%, aerobic plate count ≤20,000 CFU/ml and somatic cell counts/SCC ≤400,000 CFU/ml
 - Culling rate for adult cows ≤30%, death rate for adult cows ≤5%
- Once the Centre enters operation, it is expected to bring USD173.59 million (RMB1,157 million) in annual revenue and USD19.05 million (RMB127 million) in annual profit for the next 11 years (possibly this relates to its 10-year business plan).

TABLE 3: Farming Stock and Production of the Centre

	Whole herd, head / year	Adult milking cows, head / year	Replacement heifers, head / year	Raw milk, t/a	Bull calf, head / year
The Centre	47,500	26,125	21,375	246,838	8,927
No.1 Dairy Farm	5,500	3,025	2,475	30,102	1,077
No.2 Dairy Farm	9,500	5,225	4,275	52,145	1,903
No.3 Dairy Farm	14,500	7,975	6,525	79,765	2,818
No.4 Dairy Farm	18,000	9,900	8,100	98,786	3,662

Source: Bright Dairy

Yeeper Dairy Commissions Goat Milk Formulae Plant

Summary: On 6 June, Yeeper Dairy's goat milk formulae plant started operation and construction kicked off on its 100,000 dairy goat farm.

On 6 June, Yeeper Dairy's subsidiary Yeeper (Qingdao) Sheep Dairy Co., Ltd. announced its new goat milk formulae plant had begun production, the biggest such plant in China to date, capable of processing 100 tonnes of raw goat milk per day and producing 20,000 tonnes of powdered formulae annually. On the same day, Yeeper Dairy also held a groundbreaking ceremony for its 100,000 dairy goat integrated farm, aiming to firm up its milk supply.

Plant details:

- Investment: USD156.0 million (RMB1,040 million), 0.38% (=USD0.6 million or RMB4 million)

of which is for environmental protection

- Location: Laixi City, Qingdao City, Shandong Province
- Site & floor area 11.82 ha & 8.72 ha
- Construction period: May 2021–Dec. 2021
- Main construction: 2 production workshops, 8 milk stores (4 in use and 4 spare ones), 2 IMF lines, and other supporting equipment such as warehouse, R&D building and wastewater treatment station
- The plant uses a dry-wet mixing process in the production of milk formulae for infants, children and adults, as well as whey powder and butter
- The line running currently produces formulae for adults, with sales

expected to reach USD15 million (RMB100 million) by the end of the year.

In recent years, Yeeper Dairy outperformed the industry average despite the pandemic shocks. In 2021, its revenue was up 19.2% to USD278.8 million (RMB1,858 million) and its net profit surged 75.8% to USD40.4 million (RMB269 million).

Yeeper (Qingdao) Sheep Dairy Co., Ltd. was founded in Sept. 2020 with a registered capital of USD37.5 million (RMB250 million) and is the owner of Bekari (Yeeper Dairy's goat IMF brand) which received approved registrations for 3 goat IMF products for infants (stage 1, 0-6 months), for older infants (stage 2, 6-12 months) and for young children (stage 3, 12-36 months) on 26 May,

TABLE 4: Main Products of Yeeper Dairy's Goat Milk Formulae Plant

No.	Item	Annual production, t/a	Specification
1	Whey powder	4,000	25KG/1,000KG
2	Whey base powders	6,120	25KG/1,000KG
3	Milk formula for infants (stage 1, 0-6 months)	3,000	400g/800g
4	Milk formula for older infants (stage 2, 6-12 months)	3,000	400g/800g
5	Milk formula for young children (stage 3, 12-36 months)	3,000	400g/800g
6	Milk powders for adults	1,000	400g/800g

Source: Yeeper Dairy

TABLE 5: Main Raw Materials for Yeeper Dairy's Goat Milk Formulae Plant

No.	Item	Annual Consumption, t/a
1	Raw goat milk	30,770
2	Demineralised whey powder	6,000
3	Sweet whey powder	2,000
4	WMP	1,200
5	SMP	1,000
6	Milk protein concentrate (MPC)	600
7	AMF and cream	100

Source: Yeeper Dairy

Raw Milk Price

June Milk Price Remains Stable

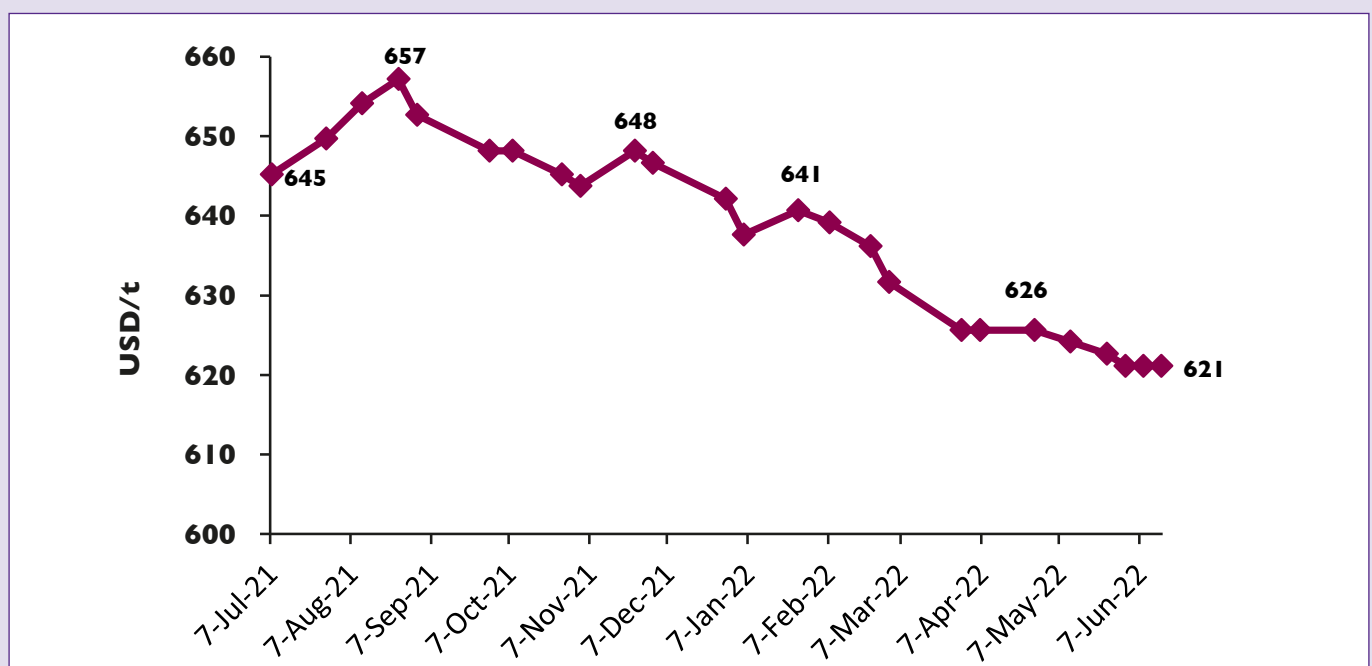
Summary: China's raw milk price in the first three weeks of June has remained stable, but the trend is still down in the face of high production; there has been significant spray drying in Q2, although this seems to be waning.

In the week ended 15 June, China's raw milk price averaged USD621.1 million (RMB4,140 million) per tonne. It was flat through the month but down by 3.0% YoY to its lowest level since July 2021, reflecting strong production and heavy spray drying during the difficult recent period.

Producers have been suffering as a result, especially small- and mid-size farms which are facing losses. The increasing focus of government support and leading processors' investments on large standard farms has forced more and more small farm businesses to exit, whilst there are rising numbers of M&A and strategic cooperation deals in dairying involving Yili, Mengniu, New Hope Dairy etc.

Li Shengli, the well-known local dairy farming expert, has said that only when the milk price stays above USD645.2 million (RMB4,300 million) per tonne can Chinese dairying remain profitable this year, taking the rising input and operating costs into account.

FIGURE 1: Trends in China's Raw Milk Price, July 2021–June. 2022

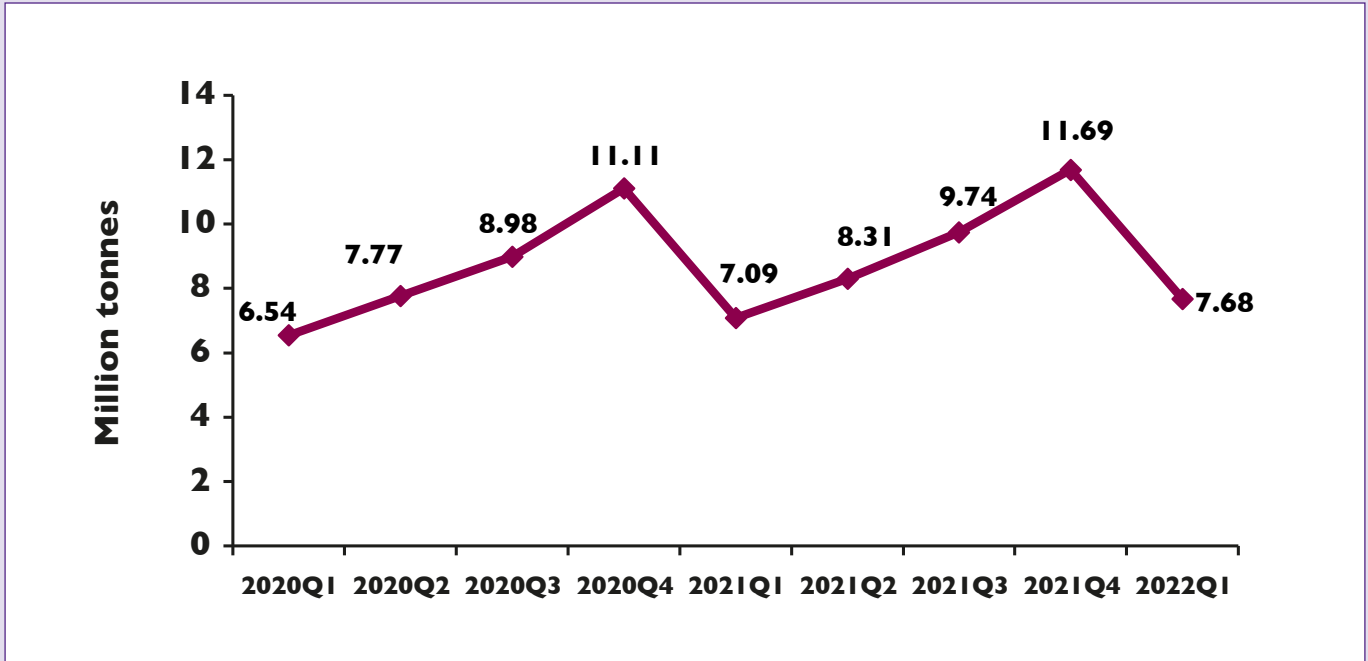


Ministry of Agriculture and Rural Affairs of China (MARA)

Data from the National Bureau of Statistics shows China's milk production reached 7.68 million tonnes in Q1 2022, up 8.3% (=0.59 million tonnes) YoY. This growth

has continued in Q2 according to the monitoring data on nationwide milk collection stations by the Ministry of Agriculture and Rural Affairs (MARA).

FIGURE 2: China's Milk Production, Q1 2020-Q1 2022



Source: National Bureau of Statistics of China (NBS)

On 18 June, the Industry and Information Technology Department of Inner Mongolia Autonomous Region proposed a subsidy programme to support spray drying in the region, to protect farmers' and processors. This would cover the period back to the start of 2022, enabling a subsidy of 10% of raw milk purchases to national- and regional- level processors carrying out spray drying in March–May, a period usually sees slack sales of dairy products causing oversupply of raw milk. The regional department and the city-level departments have each covered 50% of this expenditure.

14 dairy enterprises have been confirmed as eligible for subsidy including Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887), Inner Mongolia Mengniu Dairy (Group) Co., Ltd. (Inner Mongolia Mengniu) and Baotou Chevalese Dairy Co., Ltd.

A China Dairy Industry Association' study revealed 12,000 tonnes of milk were being dried daily in China in April, although in May this volume started to fall gradually.

In June, there are no fully lockdowns any more due to concerns about their economic impact, but the routinised testing has made it difficult to resume previous operating levels, disrupting some dairy processors' supply chains. Consumer demand for dairy remains solid, so milk prices are expected to recover at some point, but when this will happen is still open to conjecture.

News in Brief

Dairy Imports in May 2022

The May import data reflects the ongoing high stock levels in the market in the case of WMP (imports -35% YoY) and SMP (-40%) and whey (-39%) in particular, but the downward trend is remarkably consistent, spanning most HS codes with very few exceptions (MPC, some cheese varieties, WPC80/WPI).

YTD May, lactose is the only significant ingredient for which the import volume is up more than 1% vs. YTD May 2021! All cheeses are down on this basis and WMP grew by only 1%.

TABLE 26: 2022 May Imports, tonnes

HS code	Product	202205	202204	202105	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	9,190.5	7,741.7	14,998.6	18.7%	-38.7%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	57,507.3	45,284.8	92,031.7	27.0%	-37.5%
04014000	Milk & cream, 6%	4.7	1.5	7.8	213.6%	-39.5%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	26,148.9	21,495.8	26,813.9	21.6%	-2.5%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	25,728.5	24,353.9	42,731.9	5.6%	-39.8%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	48,161.5	60,176.9	74,372.4	-20.0%	-35.2%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	182.6	225.8	469.8	-19.1%	-61.1%
04041000	Whey and modified whey	44,579.7	46,400.4	73,395.7	-3.9%	-39.3%
04049000	Products consisting of natural milk constituents, nes	724.9	452.1	507.5	60.3%	42.8%
04051000	Butter	7,637.0	9,823.0	10,394.9	-22.3%	-26.5%
04059000	Other fats & oils derived from milk	3,138.0	2,582.0	3,994.1	21.5%	-21.4%
04061000	Fresh cheese, incl. whey cheese, curd	7,938.2	4,079.1	8,391.3	94.6%	-5.4%
04062000	Grated or powdered cheese	4,628.0	2,565.0	2,582.1	80.4%	79.2%
04063000	Processed cheese, not grated or powdered	1,060.7	1,406.1	1,862.5	-24.6%	-43.1%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	4.5	14.1	4.3	-68.0%	4.7%
04069000	Cheese, nes	3,154.4	2,901.7	3,516.3	8.7%	-10.3%
17021100	Anhydrous lactose, lactose wt. ≥99%	9,991.1	12,222.9	10,760.7	-18.3%	-7.2%
17021900	Lactose syrup & other lactose	23.6	375.5	409.1	-93.7%	-94.2%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	24,118.5	19,820.9	24,678.0	21.7%	-2.3%
35011000	Casein	1,543.1	785.5	1,763.0	96.4%	-12.5%
35019000	Caseinates	1,307.3	1,577.8	1,569.9	-17.1%	-16.7%
35022000	WPC80/WPI	3,276.3	3,665.4	3,174.4	-10.6%	3.2%

Source: China Customs

Kedi Dairy Delisted from SZSE

On 24 May, Shenzhen Stock Exchange (SZSE) notified the delisting of Henan Kedi Dairy Co., Ltd. (Kedi Dairy, Stock Code: 002770), a transitional period beginning on 1 June with full delisting occurring on the next trading day. The company was valued at USD389.3 million (RMB2,595 million) on the stock market on 5 May.

Past developments:

- On 6 May, 2021, Kedi Dairy was given a delisting risk warning (*ST) after the disclaimer of opinion in the auditors' report in its financial report for 2020. To evade delisting, it needed to achieve positive net assets and an unmodified / unqualified 2021 report
- In Sept. 2021, the Henan Regulatory Authority of China Securities Regulatory Commission decided to limit Kedi Dairy's access to the market for 10 years for false financial statements in its 2016-2018 annual reports, and fined the company USD90,021.2 (RMB600,000) and its chairman Zhang Haiqing USD135,031.7 (RMB900,000)
- This year, the company's 2021 report showed operating revenue up 24.22% to USD88.7 million (RMB591 million) and net profit up 105.69% to USD10.4 million (RMB69.05 million) — overturning the loss in the previous year; however, the report again triggered a disclaimer from the auditors
- On 18 May, 2022, Kedi Dairy said it had submitted a defence statement which was rejected by the SZSE, leading to its receiving the delisting notice.

Kedi Dairy produces 20 varieties of dairy products in 100+ SKU's, key items in the range being fermented milk, UHT milk/milk beverages, fresh milk and modified milk.

Mengniu & Moutai Collaborate

On 29 May, Mengniu and the giant Chinese spirits company Kweichow Moutai Co., Ltd. (Moutai) launched Moutai Ice Cream, a joint product made at Mengniu's plant in Ma'anshan City, Anhui Province. Selling initially on the iMoutai App and in Moutai's flagship store in Guiyang City of Guizhou Province, deliveries are restricted to Guiyang for now – it was reported that within an hour of the launch, 40,000+ cups were bought online. The company indicates plans to roll out its distribution to 7 domestic cities such as Nanjing (Jiangsu Province), Hangzhou (Zhejiang Province), Changsha (Hunan Province) and Guangzhou and Shenzhen (Guangdong Province).

This is the first time Moutai (sometimes called Maotai, and called "China's national spirit") has been used to infuse other foods. This type of spirit is called baijiu and the red-and-white bottles of its flagship product, "Feitian," or "Flying Fairy," are a staple at Chinese state banquets and business events. The new product's label advises that the product is not suitable for minors, pregnant women, drivers or people with alcohol allergies.

Product info:

- Main ingredients: Milk (≥45%), whipping cream, milk powder, cream, Moutai's classic Feitian 53% alcohol product (2%)
- Key content:
 - Protein: 4.6g/100g
 - Fat: 14.6g/100g
 - Sodium (Na): 72mg/100g
- Unit price: USD8.9 (RMB59)/cup for plum wine flavour; USD9.9 (RMB66)/cup for classic and vanilla flavours
- Specification: 75g/cup

PICTURE 1: Mengniu & Moutai Co-Branded Ice Creams



Source: iMoutai APP

China Feihe Receives China's 1st Lactoferrin Production Permit

On 23 May, China Feihe announced it had received a permit for China's 1st lactoferrin production line at its plant in Heilongjiang – a major step for this ingredient for which international production commenced in 1985. For Chinese buyers, mainly in the IMF sector, this ingredient has been an important product differentiator and one which has to date been imported, mainly from Oceania, the US and Europe. The new line is already operating, based on extraction directly from milk.

Wondersun Dairy Pushes A2 IMF

On 29 May, Heilongjiang Wondersun Dairy Co., Ltd. (Wondersun Dairy, Stock Code: 600598) hosted a launching ceremony for its new premium IMF series "Zhicai". This is produced from with produced in its Heilongjiang farm and containing 3.5g-4g/100g of protein, at least 4.1g/100g of fat, SCC <180,000 cells/ml and microorganisms <50,000 CFU/ml – all reaching EU standards, it notes.

Product info:

- Main ingredients: A2 β -casein + α -Lactalbumin, algal oil-based DHA, ARA, lutein, phospholipids, taurine, choline, zinc gluconate, ferrous gluconate, copper gluconate
- Key content:
 - Patented OPO: 5.3g/100g
 - Denmark BB-12 strain: 1.5×10^9 CFU/100g
 - Fructo-oligosaccharide (FOS) content: 3.8g/100g
 - No AMF
- Products available for infants aged from birth to 36 months

This year has seen 2 other brands launching A2 IMF products, showing that the industry still sees this type of milk as a valuable point of difference in the market:

- Ausnutria's Hyproca 1897 series "Xizhi" launched in April (its first A2 IMF)
- Beingmate's "Aijia organic A2" series launched in May.

PICTURE 2: Wondersun Dairy's Premium IMF "Zhicai"



Source: Wondersun Dairy

Bioshine Launches 1st Domestic Goat IMF Line

On 30 May, Bioshine launched VPlus, its first home-produced goat IMF Line. Prior to this launch, its products selling in China were all imported from New Zealand. Bioshine (Hunan) Dairy Co., Ltd. (Bioshine) is the China operation of the New Zealand business NIG Nutritionals Ltd., which markets under the brands Babysteps, Bioshine and Symbiotics. This China branch was previously only responsible for the sales & marketing of Bioshine series products in China.

The VPlus range is 100% goat milk-based and includes natural OPO, A2 protein and the FOS+GOS combination. It also contains a similar proportion of Sn-2 DHA to breast milk, a variety 30% more easily absorbed by infants than the standard types.

The products are based on milk from the farm of Shaanxi Shengtang Dairy Co., Ltd. in Fuping County (Shaanxi Province), which covers an area of 809.4 ha and has around 3,000 stud goats and 50,000 dairy goats, whose milk was certified as organic in Feb. 2022.

Product info

- Main ingredients: goat milk based WMP and demineralised whey powder, galacto-oligosaccharides (GOS), fructo-oligosaccharide (FOS), vitamin, minerals
- Key content:
 - Protein: 16.2g/100g
 - Fat: 21g/100g
 - Nicotinic acid: 2801 μ g/100g
 - Calcium 433mg/100g
- Products available for infants aged from birth to 36 months

PICTURE 3: Goat IMF VPlus



Source: www.bioshine.cn

"Xilingol Cheese" Certified with Geographical Indication Trademark

On 7 June, "Xilingol Cheese", made from locally produced milk in Xilingol League of Inner Mongolia Autonomous Region, received "geographical indication" recognition as a regional public brand and is now being marketed in Hohhot City as "Xilingol Cheese—made by Chinese people". This is a locally produced cheese-like fermented milk curd, made in different types such as "Suan Luo dan" (round-shaped), "Bisilag" (sliced) and "Churaa" (block-shaped)

In 2021, Xilingol League has 701 qualified private smallscale dairy workshops, 15 large manufacturers with dairy production license with SC (= "Sheng Chan (production)" in Chinese) license marks, 75 dairy farms and cooperatives with 50+ cows, 25 standard dairy farms with 100+ cows and 3 large-scale farms with 1,000+ cows. The dairy industry in the region is worth around USD259.6 million (RMB1,730 million), based on the estimated annual value of its raw milk production and industry output.

HEYTEA Calls for Real Milk

On 9 June, the tea chain HEYTEA jointly with China Consumer News (a digital newspaper) launched an Initiative under the slogan "Using Quality Milk Ingredients in Freshly Made Milk Tea". This calls upon the whole industry to use real local milk instead of creamer and improve product quality to support consumers' health.

The chain also released its own Quality Standards for Real Milk elaborating on its milk ingredients from sourcing of raw milk to how milk is used in-store, including traceability back to individual dairy farms, milk processing, storage and transportation.

Although China's new tea beverage industry has been growing for years, use of local milk is still far from universal, and most chains use cheaper creamers completely or in-part in their fresh milk tea drinks on grounds of cost. However, this initiative comes at a time when the potential for creamers' trans-fatty acid content to increase risks of cardiovascular and cerebrovascular diseases is increasingly being discussed.

Dexinyuan Dairy's WMP Found to be Non-Conformant

On 9 June, the Gansu Provincial Administration for Market Regulation in north China issued a notice indicating that the following non-conformant WMP sample had been identified in checks on 127 dairy sample batches, so this will be recalled or destroyed as requested by the authority:

- Manufacturer: Gansu Dexinyuan Dairy Co., Ltd. (Dexinyuan Dairy)
- Production date: 2021/11/4
- Failed item: protein content detected as 9.2% lower than the standard level
- Registered trademark: "Zaxilang"
- Specification: 400g/bag

Founded in 2007 with a registered capital of USD2.52 million (RMB16.8million), Dexinyuan Dairy produces yak / camel / goat / sheep / buffalo / donkey milk and mare milk, and provides OEM services for other brandowners. It has 4 milk powder production lines capable of processing 50 t/d of raw milk and producing over 4,500 t/a of milk powders collectively.

Gaosu Dairy Completes 100 t/d Line

On 3 June, details of the completed 100 t/d project of Qinghai Gaosu Dairy Co., Ltd. (Gaosu Dairy) were posted online with accepted environmental checks.

Project Overview

- Construction type: transformation and expansion
- Investment: USD3.2 million (RMB21 million), 1.19% (=USD37,509 or RMB250,000) of which is for environmental protection
- Location: Dongchuan Industrial Park in Xining City, Qinghai Province (northwest China)
- Processing capacity: 100 tonne / day of finished products
- Production capacity:
 - 4,440 t/a condensed milk
 - 210 t/a yak condensed milk
 - 8,000 t/a soft serve ice cream mix
 - 10 t/a yak butter
 - 725 t/a whipping cream
- Raw material consumption:
 - 24,400 t/a local cow milk
 - 600 t/a local yak milk
 - 6,800 t/a ingredients for soft serve ice cream mix
- Commencement of construction: July 2021
- Site acceptance test: Jan. 2022

Gaosu Dairy was founded in Sept. 2007 with a registered capital of USD10.5 million (RMB70 million).

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