

Dairy Products China News

Guaranteed Exclusive Analysis

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Welcome to the May issue of Dairy Products China News.

It was a pleasure to present on dairy in China to the Dairy Industry Newsletter conference in London recently, on occasion which formed part of the restoration of the normal cycle of international trade events to which we are accustomed in the food industry. As usual, a range of speakers and attendees discussed a wide range of topics relating to the situation in the international dairy sector. But if there was a theme which shone through all the sessions this year it was one of sheer uncertainty – there are so many factors which can be called “curve balls” out there, knowing how they will play out and interact between each other is much more of a crystal-ball gazing exercise than we have seen in recent decades.

This is unfortunate, as investors and businesses deploying their funds need clarity which is proving ever more elusive. It is easy to be wise after the event – many major market disruptors like Russian expansionism, the pandemic, Brexit, the climate crisis and the sustainability imperative and new forms of “milk”, logistical pinchpoints, lockdowns, rampant inflation and over-reliance on certain trading partners were at least in part foreseeable – and indeed often foreseen! Yet governments and institutions have typically avoided action, filing in the “too difficult” or “would rather not know about” boxes. Perhaps we shouldn’t blame them – consumers, voters and businesses do the same all the time, suffering the consequences – but shouldn’t higher expectations be applied to such governments and institutions?

Our global dairy commodity analyses back as far as the 1990s for the major dairy exporting countries developed the concept of latent demand for dairy – demand which would be realised if the spending power (and supply) were there. This latent demand is still there in potential, with the US industry the most likely beneficiary still (even if “curve ball” is a US-derived term!). However, the challenge for international dairy businesses is how to position themselves now that growing milk production and inexorable demand growth based on rising GDP are not the reality, and as milk valorization will come to mean much more than cheese/whey or butter/powder product mix decisions. The most successful such businesses will be those preparing for such challenges – the Chinese dairy market will be key in such decision-making for sure.

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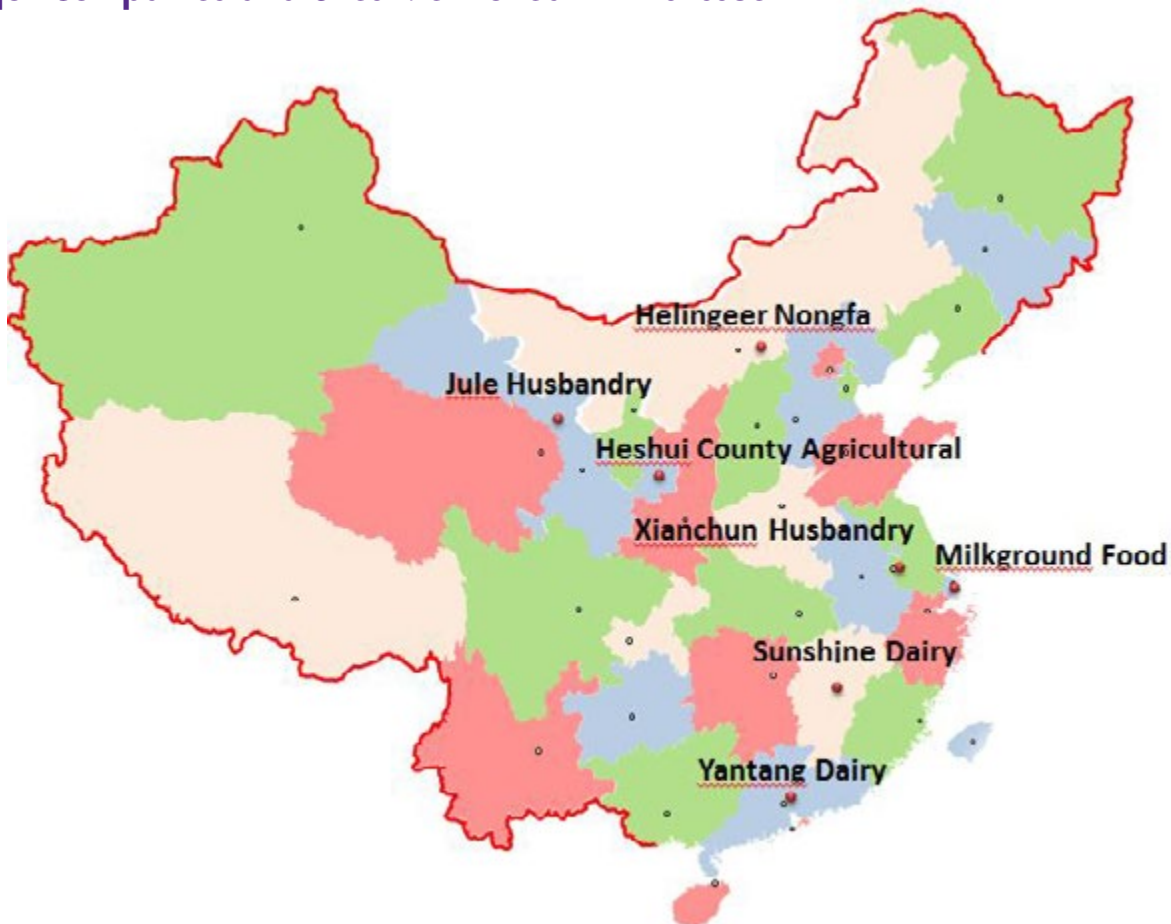
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Headlines

- ▶ There has been recent progress on the construction projects of a 150,000 dairy goat farm in Helingeer County in Hohhot City and a 10,000+ dairy goat farm in Heshui County in Gansu Province.
- ▶ In April-May, the pre-construction EIA reports of Xianchun Husbandry and Jule Husbandry's dairy farming projects were published online.
- ▶ Recently, the China National Center for Food Safety Risk Assessment (CFSA) has released draft approval for "2'-Fucosyllactose" (2'-FL) as a new food additive, soliciting industry feedback on this proposal; meanwhile, Hunan Province has issued an action plan to promote locally-produced IMF products.
- ▶ On 6 May, Sunshine Dairy issued its IPO prospectus proposing to sell a minimum 25% stake in the company.
- ▶ In 2021, Sanyuan Foods's operating revenue grew by 5.13% and its net profit jumped 1011.72%, overturning the deficits in the previous year.
- ▶ In 2021, Beingmate's revenue slipped 4.71% but its net profit soared 122.61%. In Q1 2022, its revenue grew by 43.68% YoY and net profit by 38.45%.
- ▶ In 2021, Yili achieved growth of 14.15% in total revenue and 23.00% in net profit.
- ▶ In 2021, Milkground Food's revenue grew 57.31% and its net profit by 160.60%; in Q1 2022, its revenue kept growing, up 35.24% YoY, and net profit surged again, up 129.55% YoY.
- ▶ Yantang Dairy has published 2021 financial results with revenue up 21.24% and net profit rising 50.38%.
- ▶ China's raw milk price continued to slip back in May; however there are expectations that demand will return to normal level with easing lockdowns, supports for consumer spending and increasing economic activity.

Major Companies and Sites Mentioned in This Issue



Market Dynamics

Progress on New Dairy Goat Farms in Helingeer and Heshui Counties

Summary: There has been recent progress on the construction projects of a 150,000 dairy goat farm in Helingeer County in Hohhot City and a 10,000+ dairy goat breeding centre in Heshui County in Gansu Province.

On 28 April, a 150,000 dairy goat farm construction project being set up by Helingeer County Nongfa Collective Land Operation Co., Ltd. (Helingeer Nongfa) received environmental approval for start-up.

Project Overview:

- Construction type: new facility
- Location: Helingeer County, Hohhot City, Inner Mongolia Autonomous Region
- Area: 206.6 ha

- Investment:

- 1st Phase construction: USD149.7 million (RMB982.94 million), 0.87% (=USD1.3 million or RMB8.6 million) of which is for environmental protection
- 2nd Phase construction: USD9,136.3 (RMB60,000), USD15,227.2 (RMB100,000) of which is for environmental protection

- Product mix for the full project (both phases)

- Producing 45,990 t/a of goat milk, stages have reached stable production

- Farming 90,000 milking goats (60%), 30,000 replacement mother goats (20%) and 30,000 replacement kids (20%)

- Generating 29,949 t/a of organic fertiliser

- Annual sales of goats: 50,000 head in 1st phase and 100,000 head in 2nd phase

- Construction period:

- 1st Phase: 2022-2024
- 2nd Phase: 2025-2026

Established in Nov. 2017 with a registered capital of USD15.2 million (RMB100 million), Helingeer Nongfa is wholly-owned by the Bureau of Finance of Helingeer County.

TABLE I: Annual Feed Consumption of Helingeer Nongfa's Dairy Goat Base

Item	Green Hay, t/a	Silage, t/a	Concentrates, t/a
1st Phase Construction			
Dairy goats	5,475	3,650	730
Suckling kids	600	0	120
Fattening kids	9,675	3,600	2,160
2nd Phase Construction			
Dairy goats	10,950	7,300	1,460
Suckling kids	1,200	0	240
Fattening kids	7,200	7,200	4,320

Source: Helingeer Nongfa

Separately, by 7 May, 52% of the construction work in Heshui County had been completed on a 10,000+ dairy goat farm. This project began construction in Dec. 2021 and is on track to start operating by the end of Sept. 2022.

Project Overview:

- Investment: USD12.5 million (RMB81.8 million)
- Area: 33.7 ha
- Construction unit: Heshui County Agricultural Industry Development and Investment Co., Ltd.

- Location: Heshui County, Qingyang City, Gansu Province
- Construction content: sheds for milking goats, replacement goats and stud goats, milking room, silage silo, shed for manure storage, other buildings, etc.

- Breeding programme: After buildup of the centre, the company plans to introduce 100 pure Saanen stud goats, 1,900 dairy goats, 200 East Friesian dairy sheep from Australia; overall the centre is targeted to contain 100,000+ dairy goats

- Estimated production: selling 2,000+ reproductive female goats in 2023

The Heshui County Government indicated that in 2021, 36

cooperatives (family farms) were established in the region, with one under construction; the total stock of dairy goats at the 36 farms has reached around 31,000 head. However, almost all were purchased and transferred from Longxian County and Fuping County in Shaanxi Province (the main dairy goat province in China), or Qingyang and other neighbouring cities of Gansu Province, which face serious reductions in their goat herds and lower milk production as a result,

which has constrained those counties' dairy goat breeding.

Heshui County Agricultural Industry Development and Investment Co., Ltd. was founded in April 2016 with a registered capital of USD0.5 million (RMB3 million), and is 100% owned by the State-owned Assets Administration Bureau of Heshui County. Its business operation designated by the local government covers crop and livestock farming countywide.

New Dairy Farms Planned by Xianchun Husbandry and Jule Husbandry

Summary: In April-May, the pre-construction EIA reports of Xianchun Husbandry and Jule Husbandry's dairy farming projects were published online.

On 19 April, a pre-construction environmental impact assessment was published for a dairy farm expansion project of Huai'an Xianchun Animal Husbandry Co., Ltd. (Xianchun Husbandry).

Project Overview

- Investment: USD80.7 million (RMB530 million), USD4.2 million (RMB27.7 million) of which is for environmental protection; and this sum accounts for 5.22% of the total investment in this farm
- Location: Sanhe Town, Hongze District, Huai'an City, Jiangsu Province

- Site area: approx. 36 ha (including the formal area and the expanded area)
- Main construction content: Production areas for milking cows, replacement cattle, heifers, finished cattle and calves, manure treatment zone, living quarters, etc.
- Dairy stock size:
 - Before expansion: 450 head / year
 - After expansion: 7,000 head producing 35,000 t/a

Xianchun Husbandry was set up in Aug. 2020 with a registered capital of USD16.7 million (RMB110 million), and engages in livestock farming and breeding, along with supplying foods for catering businesses.

TABLE 2: Feed Demand at Xianchun Husbandry's New Dairy Farm

No.	Item	Annual Consumption, t/a
1	Silage	38,325
2	Hay	3,679
3	Alfalfa	14,538
4	Complete feed	5,749

Source: Xianchun Husbandry

On 5 May, a similar pre-construction environmental impact assessment was published for a new 15,000 head dairy farm project planned by Gnsu Jule Animal Husbandry Co., Ltd. (Jule Husbandry).

Project overview:

- Location: Xijing Town, Gulang County, Wuwei City, Gansu Province

- Total investment: USD91.4 million (RMB600 million)—USD 51.6 million (RMB339 million) for phase I and USD39.7 million (RMB261 million) for phase II
- Total area: 607 ha—364.2 ha of phase I construction and 242.8 ha of phase II construction
- Farm scale: 15,000 dairy cows in total (9,000 milking cows, 4,500 replacement heifers and 1,500 dry cows)

- The herd's introduction of herd will over 2-phases:
 - Phase I: 4,800 cows which will be bred to a target 8,000 head
 - Phase II: 4,200 cows which will be bred to a target 7,000 head
- Production:
 - Produce 76,500 t/a of milk
 - Sell 2,928 bull calves
 - Replace 1,830 dairy cows
 - Generate 86,264 t/a of cow manure

Gnasu Jule Animal Husbandry Co., Ltd. (Jule Husbandry) was incorporated in 10 Jan., 2022 with a registered capital of USD3.05 million (RMB20 million). Its business ranges from animal farming and breeding to trading of raw milk. It is wholly-owned by Sichuan Jule Food Co., Ltd. (Jule Food), which markets a range of 50+ dairy products such as "Jule UHT Pure Milk" and "Suanle Milk" (fermented milk), producing at 4 dairy plants in Sichuan Province with 30 production lines, and 2 "dairy cow ecological farming parks".

TABLE 3: Product Mix of Jule Husbandry's Dairy Cows Farming Project

Project	No.	Product	Amount
Phase I	1	Raw milk, t/a	40,800
	2	Bull calves, head / year	1,562
	3	Replacing dairy cows, head / year	976
Phase I	1	Raw milk, t/a	357,00
	2	Bull calves, head / year	1,366
		Replacing dairy cows, head / year	854

Source: Jule Husbandry

TABLE 4: Demand for feeds of Jule Husbandry's Farming Project

Project	No.	Item	Annual Consumption, t/a
Phase I	1	Feeds	7,395
	2	Silage	50,026
	3	Mixed concentrates	17,286
	4	Hay	12,264
Phase I	1	Feeds	6,943
	2	Silage	43,772
	3	Mixed concentrates	15,126
	4	Hay	10,731

Source: Jule Husbandry

Governmental Direction

Updates on Infant Food-related Policies

Summary: Recently, the China National Center for Food Safety Risk Assessment (CFSA) has released draft approval for "2'-Fucosyllactose" (2'-FL) as a new food additive, soliciting industry feedback on this proposal; meanwhile, Hunan Province has

issued an action plan to promote locally-produced IMF products.

On 15 April, the China National Center for Food Safety Risk Assessment (CFSA) issued a draft approval for "2'-Fucosyllactose" (2'-FL) as a new food additive to solicit

industry feedback. 2'-FL is recognised as a food nutrition enhancer and is used in modified milk powders for children (= growing up milk powders/GUMPs), infant nutritional formulae and foods for special medical purposes (FSMP) at an inclusion rate of between 0.7-2.4 g/L.

TABLE 5: Application Scopes and Usage Limits of 2'-FL by Region

Country / Region	Application Scope	Usage Amount
EU	Infant formula foods	1.2g/L
	Formula foods for older Infants	
Australia / New Zealand	Infant formula foods	96mg/100kj
	Formula foods for older Infants	
USA	Infant formula foods	2g/L–2.4g/L; most enterprises have been approved for use with FDA Generally recognized as safe (GRAS)
	Formula foods for older Infants	
Singapore	Infant formula foods	1.2g/L
	Formula foods for older Infants	

Source: China National Center for Food Safety Risk Assessment (CFSA)

Meanwhile, on 9 May, the National Development and Reform Commission of Hunan Province issued an Action Plan for Promoting Locally-Produced Infant Milk Formula during the 14th Five-year Plan Period (2021-2025), stressing higher product quality and food safety.

At present, there are some 75 factories producing powdered milk products including IMF in Hunan including Ausnutria, Hunan Eurbest Nutritional Food Co., Ltd. and Blue River Dairy.

Key points of the Action Plan:

- Encourage IMF producers to stipulate and implement in-house standards based on criteria which are stricter than the national standards
- Fully integrate companies' own product traceability systems with the national key product traceability platform to ensure

transparency and digitalisation of product information

- Tighten management of IMF imports and cross-border E-commerce:
 - Local authorities should strengthen administration of registration of overseas producers exporting IMF to China, and of importers who are required to submit product import and sales records
 - Cross-border E-commerce retailers should be well aware of their accountability and establish risk control and prevention mechanisms, including systems to trace each link in their logistics supply chain to ensure product safety
 - More inspections and spot checks should be conducted on a regular basis on IMF retailers such as mother & baby shops and

supermarkets, particularly on those selling imported goods with formulation registration documents and certificates of entry inspection and the certificate of Quarantine

- Support local IMF producers to build quality dairy farms in the province or to purchase farms at home or abroad to safeguard milk supply and reduce costs, and back local farms in developing forage production; at the same time, reinforce monitoring on the quality and safety of dairy farms, and pilot projects to reduce usage of antibacterial drugs in cattle
- Support leading IMF producers based in Hunan to set up plants elsewhere in China and overseas; invite domestic and foreign brands to invest in local businesses and introduce their advanced production technologies and managerial

expertise; promote peer technical exchanges and fair competition, and local branding campaigns

- Encourage M&A or investment deals amongst leading IMF businesses to increase the level of concentration in the category
- Send outstanding local IMF businesses to national or foreign trade shows to

increase brand awareness; call for industry associations to promote cooperation between domestic and overseas brands and between upstream and downstream operations

- Prioritise set-up of supporting facilities, such as key generic technologies R&D platforms and food quality and safety traceability systems; urge financial

institutes to offer a wider range of financial products and services for enterprises; offer foreign tax credits for enterprises building dairy farms or plants overseas

- Departments of all levels must track IMF production data in the province as well as the local production and consumption situation.

Company Development

Sunshine Dairy Issues IPO Prospectus

Summary: On 6 May, Sunshine Dairy issued its IPO prospectus proposing to sell a minimum 25% stake in the company.

On 6 May, Jiangxi Sunshine Dairy Co., Ltd. (Sunshine Dairy, Stock Code: 001318) issued its IPO prospectus with plans to allocate the resulting net proceeds as follows:

- USD43.1 million (RMB283 million) for expanding capacity and upgrading product testing and R&D capabilities at its Jiangxi Province dairy plant – this work expected to take up to 36 months and bring its total capacity to 70,000 t/a
- USD21.8 million (RMB143 million) for the 2nd phase construction at its dairy plant in Anhui Province – also

expected to take up to 36 months and bring its total capacity to 40,000 t/a

- USD26.6 million (RMB175 million) for marketing and branding campaigns.

Sunshine Dairy expects these projects, mainly focused on chilled dairy products, with combine with extension of its sales and distribution network to boost its competitiveness and market share.

The company has 2 farms operating under its subsidiary in Jiangxi Province, and has cooperated with local farmer cooperatives for supply also.

TABLE 6: Key Financial Data of Sunshine Dairy, 2019–2021, USD million

Item	2019	2020	2021
Revenue	82.68	79.57	96.03
Operating profit	17.80	17.39	22.34
Total profit	17.70	16.91	22.08
Net profit	15.78	15.72	20.41

Source: Sunshine Dairy IPO Prospectus

Production and Sales Performance

In Q1 2020 when most of China faced varying levels of lockdowns due to the pandemic, home delivery was Sunshine Dairy's major distribution channel, limiting its overall sales and reducing its capacity utilisation.

Entering Q2 2020, the firm saw sales returning to their former level, and the situation remained stable throughout H2 2020 and 2021, as production and capacity utilisation improved, enabled by the country's recovery from COVID-19.

TABLE 7: Production and Sales of Sunshine Dairy, 2019–2021

Product	Indicator	2019	2020	2021
Liquid dairy and milk beverages	Capacity, tonnes	70,800	74,100	71,700
	Production, tonnes	54,600	49,200	55,300
	Capacity utilisation	77.10%	66.42%	77.21%
	Sales, tonnes	54,200	49,000	54,900
	Sales-output ratio	99.30%	99.60%	99.30%

Source: Sunshine Dairy IPO Prospectus

Its product mix has been undergoing some significant changes. Counter to the recovery in 2021, the company's sales of milk beverage suffered at a time when consumers increasingly turned to healthier dairy products.

On top of that, the company made a loss on its powdered milk products in 2019, causing it to cease activities in this segment in late 2020.

TABLE 8: Revenue Split of Sunshine Dairy by Product Category, 2019–2021

Product	2019		2020		2021	
	Revenue, USD million	Share	Revenue, USD million	Share	Revenue, USD million	Share
Chilled dairy products	65.44	79.15%	64.71	81.33%	79.97	83.48%
UHT dairy products	5.99	7.24%	6.47	8.13%	6.84	7.14%
Chilled milk beverages	5.09	6.15%	3.59	4.51%	3.54	3.69%
UHT milk beverages	6.04	7.31%	4.71	5.92%	5.46	5.70%
Powdered milk products	0.12	0.15%	0.08	0.10%	–	–

Source: Sunshine Dairy IPO Prospectus

Regional Earnings

Cold chain logistics remain a constraint. In 2021, over 90% of Sunshine Dairy's revenue was from Jiangxi Province, and around 55% of this from Nanchang City.

The company sees serious potential in the Jiangxi market as so far there are only 3 other dairy producers operating locally – Jiangxi Dafu Dairy Group Co., Ltd., Jiangxi Niuniu Dairy Co., Ltd. and Yudu Gaoshan Qingcao Dairy Co., Ltd. So far Yili

and Mengniu have not set up in the province, as they have prioritised their efforts in other areas with higher consumption levels (these are lower in Jiangxi than at a national level).

However in recent years it has also been active in exploring other markets and has managed to launch its products in the neighbouring provinces of Hunan and Anhui.

TABLE 9: Revenue Split of Sunshine Dairy by Region/Channel, 2019–2021

Product	2019		2020		2021	
	Revenue, USD million	Share	Revenue, USD million	Share	Revenue, USD million	Share
Jiangxi Province	81.37	98.42%	77.82	97.79%	92.78	96.84%
Nanchang City of Jiangxi Province	46.37	56.09%	44.78	56.28%	52.78	55.09%
Outside Jianxi	1.24	1.50%	1.75	2.20%	3.02	3.16%
Online sales	0.07	0.08%	0.01	0.01%	–	0.00%

Source: Sunshine Dairy IPO Prospectus

TABLE 10: Purchase of Main Raw Materials of Sunshine Dairy, 2019–2021, tonnes

Item	2019	2020	2021
Raw milk	10,539.28	11,896.18	14,526.91
Milk powders	5,176.82	5,264.15	5,836.79

Source: Sunshine Dairy IPO Prospectus

Note: Milk powders included cow WMP, SMP and colostrum powder, plus goat WMP.

Sanyuan Foods: 2021 Net Profit Booms 1011.72%

Summary: In 2021, Sanyuan Foods's operating revenue grew by 5.13% and its net profit jumped 1011.72%, overturning the deficits in the previous year.

On 22 April, Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429) issued its annual report for 2021 showing stable growth after the pandemic-induced downtrend in 2020, with operating revenue gaining USD1.18 billion (RMB7.73 billion), up 5.13%, and net profit hitting USD37.31 million (RMB245 million), up 1011.72%.

Three key areas of focus enabled this turnaround last year:

- Prioritising marketing of fresh milk products, adjusting product mix and strengthening cost controls to counter the rising prices of raw materials during the resurgence of COVID-19 cases in Shunyi District in Beijing and Shijiazhuang City in

Hebei Province. This substantially improved its profitability and strengthened its position as the largest seller of liquid milk in the Beijing market

- Its acquisition of 51% of Beijing Sunlon Livestock Development Co., Ltd. to strengthen its supply chain
- Launching new targeted consumer products such as "low GI & GI (glycemic index & glycaemic load) Yitangping" flavoured yoghurt and "Sanyuan Xianhuo" fresh milk, plus milk beverages in new flavours like camellia and mango pomelo sago.

Sanyuan Foods pointed out that the pandemic worldwide and the domestic resurgence of cases took a toll on its business performance last year. However, these challenges have caused a growing number of Chinese consumers to focus on balanced

nutrition intake and immunity enhancement, buying more "fresh and high-quality" dairy products. This market trend will accelerate the company's adjustments in its product portfolio towards chilled and premium lines this year.

In 2021, Sanyuan Foods' main business revenue edged up 4.73% to USD1.16 billion (RMB7.63 billion), with contrasting sales trends across the 4 key product groups:

- Liquid dairy = up 6% to 62.55% of total revenue vs 59% in 2020
- Powdered dairy products – down 17.77% due to a sharp cut in its production of bulk milk powder
- Spreads (produced its French-based subsidiary St Hubert) = down 9.44% reflecting the ongoing pandemic overseas
- Ice cream = up 4.9% to 17.1% of total revenue vs. 16.3% in 2020.

TABLE 11: 2021 Sales Split of Sanyuan Foods by Product Category and Region, USD million

Sales by Products				
Item	Revenue	YoY Change	Margins	YoY Change
Liquid milk	727.1	10.84%	20.13%	0.99%
Powdered dairy products	114.25	-17.77%	20.40%	0.85%
Ice cream and others	201.34	10.14%	31.70%	9.97%
Spreads	119.54	-9.44%	52.82%	-4.65%
Sales by Region				
Region	Revenue	YoY Change	Margins	YoY Change
Beijing	669.03	15.33%	26.73%	4.02%
Outside Beijing	493.2	-6.88%	23.89%	-1.90%

Source: Sanyuan Foods

Note: Liquid milk refers to fresh milk, UHT milk and yoghurt products

TABLE 12: Production, Sales and Inventory of Sanyuan Foods' Products in 2021

Main Category	Production, t/a	YoY Change	Sales volume, t/a	YoY Change	Inventory, t/a	YoY Change
Liquid milk	535,483.74	6.47%	565,282.77	3.34%	10,501.26	56.01%
Powdered dairy products	25,178.42	-19.68%	28,980.35	-8.54%	1,178.28	-46.20%
Ice cream and others	96,736.92	-2.60%	99,875.00	0.08%	8,366.73	415.00%
Spreads	29,707.30	-0.87%	28,451.01	-4.41%	2,306.33	119.64%

Source: Sanyuan Foods

Note: Liquid milk refers to fresh milk, UHT milk and yoghurt products

Beingmate Reports Earnings of 2021 and Q1 2022

Summary: In 2021, Beingmate's revenue slipped 4.71% but its net profit soared 122.61%. In Q1 2022, its revenue grew by 43.68% YoY and net profit by 38.45%.

On 30 April, Beingmate released its financials for 2021 and Q1 2022, with key data as follows:

2021

- Revenue: USD386.70 million (RMB2,540 million), down 4.71% from 2020
- Net profit attributable to shareholders of the parent group: USD11.16 million (RMB73.3 million), up 122.61% vs. the loss in 2020

The year saw stronger competition, exacerbated by the declining birth rate, the resulting slow growing IMF market and the ongoing pandemic shock. However, despite this challenging situation, Beingmate was able to maintain stable performance compared with 2020, and even achieved sales growth in Q4 after its strategic restructuring on 3 fronts:

- Capacity: optimising capacity utilisation

- Product portfolio: launching new products such as "Qingcai Milk-based Nutrition Tablets with lutein" and "Doudou Milk" (soy milk powder)
- Operations: cutting distribution expenses by 31.6% to USD114.20 million (RMB750 million) and administrative expenses by 21.8% to USD28.93 million (RMB190 million) – the latter figure compared with USD38.07 million (RMB250 million) in the previous year.

2022

Thanks to these efforts, in Q1 2022, the firm achieved revenue growth of 43.68% YoY to USD124.06 million (RMB814 million), and a net profit surge of 38.45% to USD3.06 million (RMB20.1 million), its highest Q1 growth over the last 4 years.

This year Beingmate is aiming to take advantage of the growth potential in market segments such as goat milk powders, organic milk powder and nutritional formulae, as well as accelerating its rollout of super premium lines. At the same time, it will continue to improve its innovation and production of FSMP for infants and adults.

TABLE 13: Key Financials of Beingmate, 2021 vs. 2020, USD million

Item	2020	2021	Trend
Revenue	405.83	386.7	-4.71%
Net profit attributable to equity shareholders of the listed company	-49.38	11.16	122.61%
Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses	-73.32	1.11	101.52%
Net cash flows from operating activities	4.62	37.57	713.34%

Source: Beingmate

TABLE 14: Key Financials of Beingmate, Q1 2022, USD million

Item	2021, Q1	2022, Q1	Trend
Revenue	86.32	124.02	43.68%
Net profit attributable to equity shareholders of the listed company	2.21	3.06	38.45%
Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses	0.64	2.36	266.35%
Net cash flow from operating activities	3.29	8.05	145.02%

Source: Beingmate

TABLE 15: Revenue Split of Beingmate, 2021 vs. 2020

Category	2020		2021		Trend
	USD million	Share	USD million	Share	
Powdered milk products	368.26	90.73%	322.27	83.34%	-12.49%
Rice cereal	5.06	1.25%	2.78	0.72%	-44.96%
Others	32.5	8.01%	61.65	15.94%	89.67%

Source: Beingmate

TABLE 16: Production and Sales of Beingmate, 2021 vs. 2020

Category	Item	2020	2021	Trend
Powdered milk products	Sales, tonnes	16,786.99	17,089.72	1.80%
	Production, tonnes	17,655.84	18,578.36	5.23%
	Inventory, tonnes	1,979.77	1,815.65	-8.29%
Rice cereal	Sales, tonnes	583.31	352.59	-39.55%
	Production, tonnes	576.78	381.91	-33.79%
	Inventory, tonnes	151.1	119.13	-21.16%
Others*	Sales, tonnes	309.26	193.13	-37.55%
	Production, tonnes	369.94	195.42	-47.18%
	Inventory, tonnes	43.24	32.21	-25.51%

Source: Beingmate

Note: *Others = modified milk powder, nutritional tablet/powders, powdered beverages, snacks for young children, etc.

Yili Confirms Record Turnover in 2021

Summary: In 2021, Yili achieved growth of 14.15% in total revenue and 23.00% in net profit.

On 27 April, Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) released its annual financial report for 2021 with key data as follows:

- Total revenue: USD16.8 billion (RMB110.6 billion), up 14.15% – making it the first dairy firm achieving sales of over USD15.2 billion (RMB100 billion) Asia-wide
- Net profit: USD1.33 billion (RMB8.732 billion), up 23.00%

Key events for the company during 2021:

- In Oct., it started to buy Ausnutria shares through its wholly-owned subsidiary Hong Kong Jingang Trade Holding Co., Ltd, completing its takeover in March 2022
- The launch of "Yili Xinhua Functional Milk Powder" for adults and seniors (zero sucrose and added dietary fibre and herbal ingredients believed locally to control blood sugar levels)

- The 1st stage construction work on its Joyday ice cream factory in Indonesia was completed and commissioned, whilst its Westland butter factory in New Zealand was upgraded, greatly increasing production of grass-fed Westgold butter products and enabling it to grow its presence in the international market.

Yili's targets for 2022 include:

- Achieving total revenue above USD19.7 billion (RMB129.6 billion) and total gross profit of USD1.9 billion (RMB12.2 billion)
- Accelerating innovation in functional and premium dairy products, tapping into new areas such as premium natural mineral waters, plant-based dairy substitutes, functional milk formula and even beef, and expand its established business in foods for special medical purpose (FSMP), healthcare foods, nutritional supplements for infants and young children, etc.
- Increasing its international engagement

- Developing greater scale in its own dairy farming / milk supply.

Yili's Sales Performance in 2021

- Liquid dairy sales revenue grew 11.54% to USD12.9 billion (RMB84.9 billion) – No.1 in the market
 - Its UHT brands Yili Pure Milk, Jindian Pure Milk and Ambrosial yoghurt each attained sales over USD3 billion (RMB20 billion)
 - Its UHT liquid dairy products overall continued to lead the category, taking a 28.4% share by sales value on E-commerce platforms
- IMF sales increased by 2.2%, keeping its position as the 2nd leading domestic brand behind Feihe
- It remained the leader by sales value in both milk formulae for adults and ice cream
- Its retail market share in cheese products grew by 6.3%

TABLE 17: Yili's Sales Split in 2021

Item	Revenue, USD million	YoY Change	Gross Margin	YoY Change
Liquid dairy (fresh milk, UHT milk, modified milk and yoghurt products)	12,929.51	11.54%	28.33%	0.41%
Powdered milk products and other products (cheese, cream, etc.)	2,468.16	25.80%	39.22%	0.04%
Ice cream	1,090.35	16.28%	40.27%	-0.61%
Others (bottled water, etc.)	27.77	1.86%	23.87%	4.01%

Source: Yili

Production and Sales Change

Yili reported inventory buildup of liquid dairy, ice cream and other

products prior to its Spring Festival marketing. It has meanwhile raised

production of "Yili Inikin Bottled Drinking Water".

TABLE 18: Yili's Production and Sales Status in 2021

Item	Production, tonnes	YoY Change	Inventory, tonnes	YoY Change	Sales, tonnes	YoY Change
Liquid dairy (fresh milk, UHT milk and yoghurt products)	9,678,079	9.21%	9,612,677	6.75%	189,140	52.85%
Milk powders and other dairy products (cheese, cream, etc.)	248,948	11.40%	252,983	10.26%	38,878	-9.40%
Ice cream	479,520	11.22%	473,103	9.57%	21,456	42.67%
Others (bottled water, etc.)	54,053	30.35%	52,961	20.46%	2,169	101.39%

Source: Yili

TABLE 19: Yili's Construction Projects in Progress by the end of 2021, USD million

Projects by category	Cumulative Investment	Invested Amount in 2021	Project Progress
Liquid milk (fresh milk, UHT milk, modified milk)	1,942.71	466.96	66.80%
Powdered milk products	470.43	205.65	68.18%
Ice cream	190.06	71.87	86.33%
Yoghurt	198.89	37.73	94.02%
Others	684.73	88.2	81.26%
Total	3,486.81	870.41	/

Source: Yili

Milkground Food Growth in 2021 and Q1 2022

Summary: In 2021, Milkground Food's revenue grew 57.31% and its net profit by 160.60%; in Q1 2022, its revenue kept growing, up 35.24% YoY, and net profit surged again, up 129.55% YoY.

On 24 March Shanghai Milkground Food Tech Co., Ltd. (Milkground Food, Stock Code: 600882) issued its annual report for 2021 with key figures as follows:

- Revenue: USD681.92 million (RMB4,478.31 million), up 57.31%
- Net profit attributable to equity shareholders of the listed company: USD23.52 million (RMB154.43 million), up 160.60%
- Cash and cash equivalents: USD370.93 million (RMB2,436 million)
- Total assets: USD1019.76 million (RMB6,697 million)
- Net assets: USD687.05 million (RMB4,512 million)

It listed its achievements for last year as follows:

- Its cheese plant in Jinshan District, Shanghai commissioned in April 2021, easing its capacity shortfall to some extent. In 2021, the company's total cheese production capacity reached 78,400 t/a, up 107.47% vs. 2020
- On the retail market:
 - In H1 2021 it launched new cheese stick products with cheese content \geq 51% and increased milk content, and premium cheese sticks free from preservative, flavouring or colouring
 - In Sept. it launched the pioneering ambient cheese sticks
- Overall, its cheese business achieved a higher gross margin of 48.51% (up 3.14 percentage points vs. 2020)
- Outside retail, it continued to play a leading role in supplying to foodservice customers with bulk Mozzarella, SOS processed cheese, whipping cream and cheese dips, as well as diced cheese for industrial use

- Conversely, its gross margin from liquid milk fell by 4.19 percentage points to 13.73%, whilst its operating costs rose 9.31% due to surges in local milk prices
- Meanwhile, its trading business in cheese, butter and milk powders did well, with its gross profit margin up 1.92 percentage points YoY to 3.90%.

TABLE 20: Revenue Split of Milkground Food in 2021

Category	Revenue, USD million	Share	Gross Margin, USD million	Share	Gross Margin Ratio	Revenue Change	Gross Margin Ratio Change
Cheese	507.81	74.62%	246.35	94.93%	48.51%	60.77%	3.14%
Liquid milk	65.48	9.62%	8.99	3.46%	13.73%	4.00%	-4.19%
Traded products	107.2	15.75%	4.18	1.61%	3.90%	96.97%	1.92%

Source: Milkground Food

Note: Cheese includes natural cheese and processed Cheese; Traded products mainly are milk powders, butter, cheese.

TABLE 21: Production and Sales of Milkground Food in 2021

Product	Production, tonnes	YoY Change	Sales, tonnes	YoY Change	Inventory, tonnes	YoY Change
Liquid milk	60,520	-4.13%	59,276	-3.19%	388	-15.75%
Cheese	55,998	56.50%	54,565	55.72%	3,001	86.33%
Trade products	-	-	30,619	106.96%	6,721	326.18%

Source: Milkground Food

TABLE 22: Manufacturing Capacity of Milkground Food, 2021 vs. 2020

Product	2021			2020		
	Capacity, t/a	Production, tonnes	Capacity Utilisation	Capacity, t/a	Production, tonnes	Capacity Utilisation
Cheese stick	78,400	31,258	71.43%	37,789	17,489	94.69%
Mozzarella		71.43%			12,443	
Other cheese products		71.43%			5,850	
Liquid milk and milk beverages	150,400	60,520	40.24%	150,400	63,126	41.98%

Source: Milkground Food

In Q1 2022, Milkground Food saw revenue up 35.24% YoY and net profit up 129.55%, despite the widespread logistics disruption and the demand drop caused by the resurgence of COVID-19 infections in areas where 4 of its factories are located.

TABLE 23: Financial Performance of Milkground Food, Q1 2022

Item	Q1 2022	YoY Change	Contributor
Revenue, USD million	195.82	35.24	Cheese sales surged 49.59% YoY
Net profit attributable to equity shareholders of the listed company	11.20	129.55	Cheese sales growth plus increased gross margin / lower marketing costs
Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses	10.47	118.13	same as above

Source: Milkground Food

Yantang Dairy Records its Best Ever Performance in 2021

Summary: Yantang Dairy has published 2021 financial results with revenue up 21.24% and net profit rising 50.38%.

On 27 April, Guangdong Yantang Dairy Co., Ltd. (Yantang Dairy, Stock Code: 002732) issued its 2021 report with results as follows:

- Revenue: USD302.26 million (RMB1,985 million), up 21.24%
- Net profit attributable to equity shareholders of the listed company: USD24.06 million (RMB158 million), up 50.38% – its best performance since listing

It cites key activities in 2021 as follows:

- At the beginning of the year, it encouraged distributors and marketing teams to stay put in their home cities or counties for the Spring Festival amid spreading Covid-19 cases and maintained its own stores, its home-delivery service

and supplies to supermarkets and other stores throughout the holiday, providing a good start for the year's sales. For the year, its sales to supermarkets and convenience stores rose 11%+, whilst its home-delivery sales rose 36%+ and its sales through schools and institutions) were up 43%+

- With the 2nd phase construction of its farm in Yangjiang City, Guangdong Province underway, it struck a cooperative agreement with Gansu Qianjin Animal Husbandry Science and Technology Co., Ltd. to establish a separate 6,000 dairy farm with an investment of USD30.45 million (RMB200 million)
- Pushing new differentiated products including A2 fresh milk, fresh milk pudding (80% cow milk content), Xianzhi Pasture (ESL milk) and a "0 sucrose and 0 fat Jianjunduo" (lactobacillus drink).

Strategic Plan for 2022

- Expand dairy farms and improve raw milk quality, and become a more integrated operation by broadening its production of corn silage and other forage crops around its farms to boost its internal feed supply capability
- Strengthen its position in local markets along the Guangdong-Hong Kong-Macao Greater Bay Area (includes Hong Kong, Macao and 9 cities in Guangdong Province, notably Guangzhou and Shenzhen) and step up penetration in 3rd and 4th tier cities and counties, paying particular attention to sales of chilled school milk and to specific target demographic segments
- Develop new-style distribution channels such as community group buying and government-supported "green channels" for daily necessities – "rice, flour, oil, meat, egg, vegetable and milk".

TABLE 24: Sales Split of Yantang Dairy in 2021

Category	2021, USD million	Share	Change
Liquid dairy	113.14	37.44%	28.05%
Milk beverages	69.06	22.85%	11.86%
Lactobacillus drinks	115.66	38.27%	20.40%
Ice cream and ice milk	1.13	0.37%	-9.38%
Others	3.23	1.07%	73.52%
Region	2021, USD million	Share	Change
Pearl River Delta Region	224.09	74.15%	21.89%
Outside Pearl River Delta Region	72.25	23.91%	18.97%
Outside Guangdong Province	5.88	1.94%	25.08%
Total	302.22	100%	21.24%

Source: Yantang Dairy

TABLE 25: Production and Sales of Yantang Dairy in 2021, tonnes

Product	Item	2020	2021	Trend
Milk beverages	Sales	46,397.94	49,729.31	7.18%
	Production	46,907.81	49,771.92	6.11%
	Year-end inventory	1,732.97	1,676.06	-3.28%
Lactobacillus drinks	Sales	78,659.84	93,150.25	18.42%
	Production	80,290.89	92,778.73	15.55%
	Year-end inventory	2,704.40	2,134.78	-21.06%
Liquid dairy	Sales	58,138.43	72,724.76	25.09%
	Production	59,452.40	73,152.96	23.04%
	Year-end inventory	2,206.77	2,120.81	-3.90%
Ice cream and ice milk	Sales	585.48	588.37	0.49%
	Production	583.60	586.53	0.50%
	Year-end inventory	1.84	-	-1 00.00%

Source: Yantang Dairy

TABLE 26: Operating Capacity of Yantang Dairy in 2021

Item	Designed Capacity, t/a	Actual Output, t/a	New Capacity*, t/a
Guangzhou	216,000	153, 833	27,700
Zhanjiang City (Guangdong Province)	55,000	34,262	0
Total	271,000	188,095	27,700

Source: Yantang Dairy

Note: * = under construction

Raw Milk Supply

May Milk Price Falling Slowly

Summary: China's raw milk price continued to slip back in May; however there are expectations that demand will return to normal level with easing lockdowns, supports for consumer spending and increasing economic activity.

In May, the milk price in China declined slightly, continuing the downtrend seen in the last two months but remaining at a high level. As of 11 May, it averaged USD633.5/t (RMB4,160/t), down 0.48% from the April average USD 636.5/t (RMB4,180/t) and down 1.7% vs. the same period last year.

The persistent trend reflects the high prices of primary agricultural products overall, leaving little space for the dairy market to rally, as well as the combination of oversupply and weak consumption which suggests 2022 will prove challenging for China's dairy farming sector.

In Q1 the response to the pandemic has impacted logistics and retail sales of dairy products to different degrees around the country, but several dairy enterprises have done well despite the short-term disruptions:

- Yili issued a Q1 report showing stable growth and commented that the present pandemic-induced impacts were controllable
- China Feihe reported its plan to work down its stocks is progressing well and that it expects to meet its targets in H1.

Some listed dairy businesses also achieved reasonably solid results in Q1 despite rising farming costs and falling milk prices.

- Zhuangyuan Pasture: a net profit of USD1.72 million (RMB11.3 million), albeit down 45.5% YoY

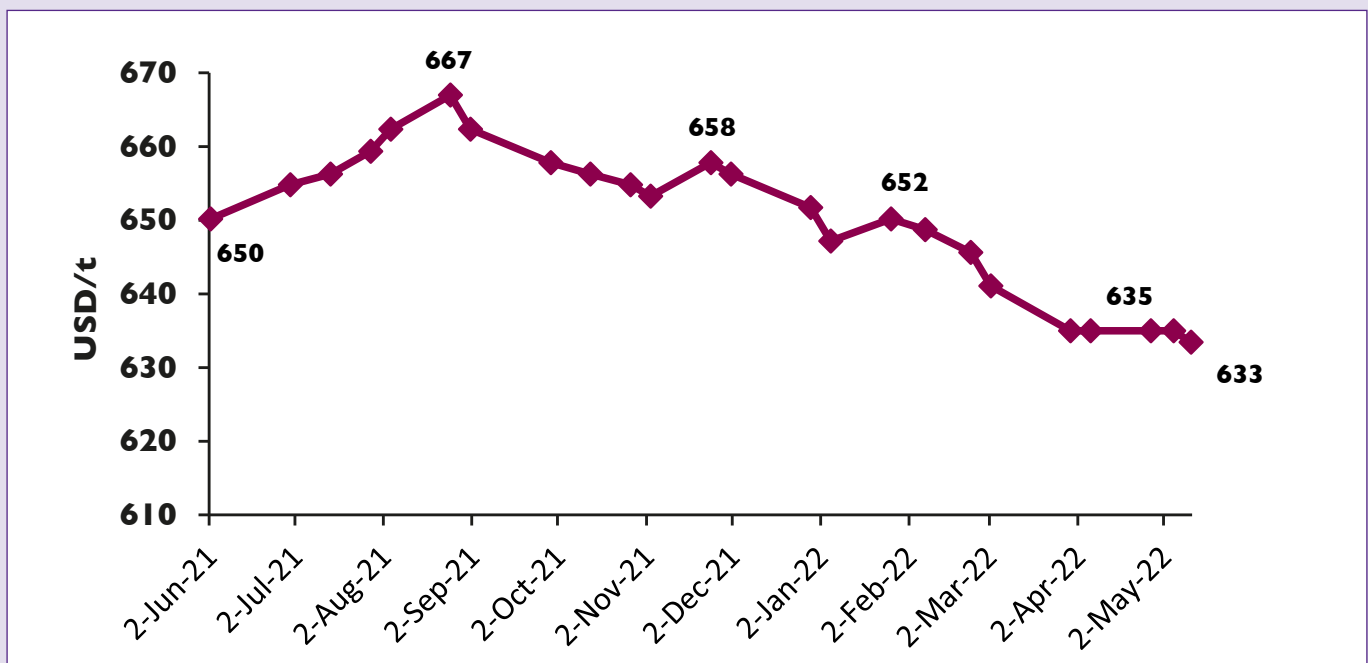
- Xinjiang Western Animal Husbandry Co., Ltd.: net profit of USD0.35 million (RMB2.3 million), up 4.95% YoY
- Henan Kedi Dairy Co., Ltd.: net profit of USD3.9 million (RMB25.6 million), surging 529.56% YoY
- Bright Dairy:
 - net profit of USD25.28 million (RMB166 million), up 65.93% YoY
 - during the period, the company managed to buy milk at lower prices than in the same period last year and to increase sales of its higher margin products, aiding its gross margin overall.

Provincial and city governments have introduced various coupon and voucher programs to stimulate retail sales, with more rounds are expected. For H2, if the pandemic hits ease and government policies for boosting consumption work as intended, demand should recover and businesses which have suffered should be able to retrieve their position over the year as a whole.

Local milk production has seen various trends by region in Q1; for example, Inner Mongolia's production of 1.37 million tonnes was up 15.0% YoY, whereas Shandong Province's: 0.5 million tonnes was down 4.3% YoY. Subsequently, some new regional dairy sector policies have been launched in May:

- Hebei Province – *Plan for Advancing Construction of Premium Dairy Industrial Clusters for 2022*
 - Aims to prioritise local dairy product structure and improve production capacity of high quality dairy products and their market share
 - Targets the province's herd to reach 1.45 million head and milk production to rise to 5.4 million tonnes, with the development of 16 modern dairy farms and 4 premium dairy plants
- Guangdong Province – *Development Plan for Modern Husbandry Industry during the 14th Five-year Plan Period (2021–2025)*
 - Targets dairy industry output to reach 158,000 tonnes, the province's herd to reach 68,000 head and the proportion of standard dairy farms with 100+ cows to exceed 70%
 - Focuses on the development of dairying in Meizhou, Zhanjiang, Zhaoqing, Qingyuan, Yunfu cities, and encourages promotion of water buffalo and goat dairy farming in the suburban area of the Pearl River Delta region
 - Supports local consumer demand for fresh milk and yoghurt.

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



Source: Ministry of Agriculture and Rural Affairs (MARA)

News in Brief

Dairy Imports in April 2022

As might be expected, China's import volumes for April do not make happy reading for most exporters – especially those I've been speaking with trapped by the local lockdowns! All HS codes are down on a YoY basis bar just a few exceptions – cream, butter, infant nutritionals and WPC80/WPI. If we consider YTD volumes, 1.3 million tonnes compares with 1.5 million tonnes over the same period last year. The only increases by this measure are WMP, lactose and the old favourite, blue cheese. In LME, this means a drop from 8.1 billion L to 7 billion L, decline of 13%. The world trade situation overall needs lower prices and easier logistics, the latter having continued to be a key problem for supply into China – there have been signs of both issues improving in April/May, which could start to feed through into the trade data over the coming months – once again we are forced to wait and see.

TABLE 26: 2022 April Imports, tonnes

HS code	Product	202204	202203	202104	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	7,741.7	9,223.2	10,806.0	-16.1%	-28.4%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	45,284.8	50,287.7	68,077.1	-9.9%	-33.5%
04014000	Milk & cream, 6%	1.5	5.1	2.4	-70.1%	-36.0%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	21,495.8	25,405.9	20,724.0	-15.4%	3.7%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	24,353.9	22,995.9	35,735.7	5.9%	-31.8%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	60,176.9	58,119.6	65,695.0	3.5%	-8.4%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	225.8	190.7	398.5	18.4%	-43.3%
04041000	Whey and modified whey	46,400.4	37,758.4	66,465.5	22.9%	-30.2%
04049000	Products consisting of natural milk constituents, nes	452.1	867.8	499.9	-47.9%	-9.5%
04051000	Butter	9,823.0	10,888.5	9,168.4	-9.8%	7.1%
04059000	Other fats & oils derived from milk	2,582.0	2,827.9	6,058.1	-8.7%	-57.4%
04061000	Fresh cheese, incl. whey cheese, curd	4,079.1	4,838.6	5,745.2	-15.7%	-29.0%
04062000	Grated or powdered cheese	2,565.0	5,485.7	3,791.5	-53.2%	-32.4%
04063000	Processed cheese, not grated or powdered	1,406.1	2,466.5	1,982.3	-43.0%	-29.1%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	14.1	17.1	8.0	-17.9%	76.7%
04069000	Cheese, nes	2,901.7	3,117.8	3,813.3	-6.9%	-23.9%
17021100	Anhydrous lactose, lactose wt. ≥99%	12,222.9	11,442.3	12,560.0	6.8%	-2.7%
17021900	Lactose syrup & other lactose	375.5	191.3	509.9	96.3%	-26.4%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	19,820.9	22,132.1	19,476.7	-10.4%	1.8%
35011000	Casein	785.5	1,014.9	1,691.3	-22.6%	-53.6%
35019000	Caseinates	1,577.8	1,675.7	1,983.7	-5.8%	-20.5%
35022000	WPC80/WPI	3,665.4	2,946.9	3,211.5	24.4%	14.1%

Source: China Customs

Vanillin Detected in Arla Baby & Me's IMF

On 29 April, the State Administration for Market Regulation (SAMR) notified its detection of vanillin in Arla Baby & Me products:

- Food item: Arla Baby & Me, the Lanxi sub-range (0-6 months, stage 1)
- Importer: Dumex Baby Food Co., Ltd.
- Manufacturer: Arla Foods amla AKAFA
- Country of origin: Denmark
- Production date: 29 Sept., 2020
- Expiration date 29 Sept., 2023
- Failed item: The level of vanillin was found to be 1360µg/kg, whereas 1st stage formulae should not include this ingredient.

Arla Baby & Me is an IMF brand of Arla marketed by Yashili, with various sub-ranges – "Arla Baby & Me Lanxi", "Arla Baby & Me Organic" and "Dumex" (the latter now due to leave, as Danone is planning to take over Dumex Baby Food Co., Ltd. from Yashili as it parts from Mengniu.)

On 5 May, Arla Baby & Me confirmed that this batch (marketed by Shandong Weifang Baoduoduo Baby products Co., Ltd.) had been recalled from sale, and attributed the failure to equipment problems, adding that an overhaul of the production processes has been conducted.

Youzhijian Dairy Plans New Dairy Plant

On 7 May, the Li Xian County Government posted on its website the draft approval environment assessment for the first dairy plant of Hunan Youzhijian Dairy Co., Ltd., a business founded on 20 Oct., 2021 with a registered capital of USD1.52 million (RMB10 million).

Project Overview:

- Investment: USD7.61 million (RMB50 million), 2% (=USD0.15 million or RMB1 million) of which is for environmental protection
- Area: 2,961 m²
- Location: High-tech Development Zone of Li Xian County, Changde City, Hunan Province
- Main construction scope: raw materials area, fermentation area, packing zone, chemical, physical and biological labs, public utilities and environmental protection facilities
- Designed capacity: 5,000 t/a of dairy products in total
 - 1,080 t/a – fresh milk
 - 350 t/a – modified milk
 - 400 t/a – flavoured fermented milk
 - 3,327 t/a – fermented milk beverages
- Raw material consumption:
 - 3,500 t/a – raw milk
 - 320 t/a – white sugar
 - 6 t/a – fruit jam
 - 0.3 g/a strains of probiotics

Multiple Dairy Products Prohibited from Entry in March

On 21 April, the General Administration of Customs (GACC) released the March list of foods which were prevented from entering at the border due to irregularities, including 5 batches of dairy products.

TABLE 27: China's Barred Dairy Products in March

Item	Place of origin	Manufacturer	Importer	Weight, kg	Reason of Disqualification	Port of Entry
Modified Camel Milk Powder	Australia	Ferngrove Pharmaceuticals Australia Pty Ltd.	Pai Qu (Shenzhen) Technology Trading Co., Ltd.	1,200.0	No inspection and quarantine access	Guangzhou
Modified Camel Milk Powder	Australia	Ferngrove Pharmaceuticals Australia Pty Ltd.	Pai Qu (Shenzhen) Technology Trading Co., Ltd.	4,803.6	No inspection and quarantine access	Guangzhou
Anchor Digestion Support Milk Powder for Adults	New Zealand	Synergy Nutrition Ltd (Fonterra)	Shanghai Creation Food Co., Ltd.	3,614.4	Beyond shelf life	Ningbo
Anchor Digestion Support Milk Powder for Adults	New Zealand	Synergy Nutrition Ltd (Fonterra)	Shanghai Creation Food Co., Ltd.	2,923.2	Excessive use of nutritional fortification substances of vitamin D, vitamin C, calcium and zinc	Ningbo
Yoghurt Powder	US	Bluegrass Ingredients Inc.	Fuchs China Co., Ltd.	1,564.9	Protein level not conforming to the national standard	Qingdao

Source: General Administration of Customs (GACC)

Kabrita Granted China's 1st Goat Milk Patent

On 26 April, Ausnutria (with Yili as lead shareholder) posted online that its goat milk formula brand Kabrita's invention patent -"A Preparation Method and Application of DPP-V Inhibitory Peptides Produced From Goat's Milk Whey Proteins" – had been granted a Chinese patent, making it the first in China's goat milk sector to achieve this.

DPP-V inhibitory peptides are described as a stable, natural functional factor for reducing blood sugar, mild and long-lasting in effect, exerting almost no toxic reaction and able to co-exist with other blood sugar-reducing compositions. This patented technology will enable Kabrita to expand and diversify its product mix for different age groups.

Ausnutria Launches Lactase Milk Powder

On 9 May, Ausnutria Dairy Corp Ltd. (Ausnutria, Stock Code: HK.01717) launched "Soforla Naibao", and addition to its Soforla nutritionals range. The new product is a lactase formulated milk powder containing probiotics and prebiotics, adapted for Chinese consumers' nutritional needs, and aimed at infants aged from 1-12 months.

Ausnutria noted that 90%+ of Chinese are lactose intolerant according the 10 years plus it has spent on researching baby and infant nutrition and product development, with babies and young children often susceptible to problems like malabsorption and developmental delay due to weak gastrointestinal functions.

Product info:

- Specification: can (1g*36 sachets) / box (1g*10 bags) / pack (1g*2 bags)
- Main ingredients: lactose, whey protein powder (27%), lactase, galacto-oligosaccharides (GOS, 3.76%), bifidobacterium Bb-12, fructo-oligosaccharide (FOS, 2.24%)
- Content of key nutrients:
 - protein: 27.0g
 - fat: 2.8g
 - sodium: 495mg

Revised Administrative Measures for Promoting China School Milk Programme Rolled out

On 6 May, the China Dairy Industry Association launched the *Administrative Measures for Promoting the China School Milk Programme (Revision)* looking to enhance the programme's efficiency and guarantee school students' health status.

At present, there are 124 manufacturers of school milk in China, capable of processing over 50,000 t/d of raw milk; and 353 designated school milk plants producing 12,000 t/d fresh and UHT milk. In the 2020-2021 school year, China's daily supply of school milk amounted to some 25 million cartons/bottles for over 30 million primary and secondary school students in around 70,000 schools in 31 provinces/autonomous regions/municipalities.

General actions required under the Revision:

- Improve enterprises' awareness of production quality and safety
- Upgrade and popularise Management Information Systems
- Promote training in professional skills
- Tighten up administration of licensing labels
- Encourage adaptation of expert technologies and skills
- Continue to guide promotion of public education
- Encourage consumers' support for school milk

It also underlines the importance of dairy firms focusing on natural and quality materials to better serve new generations' nutritional needs and tastes, and calls for students' consumption of school milk to be better organised to develop their milk drinking routines and (strangely) that such sessions should be under the supervision of special personnel due to quality concerns about dairy products.

Mengniu China Dairy Industrial Park Initiates Key Construction Projects

On 12 May, Mengniu China Dairy Industrial Park held a cornerstone laying ceremony for 9 key projects and Mengniu's 9th spray drying plant at the site in Hohhot City, Inner Mongolia Autonomous Region.

- The projects comprise a dairy plant, 3 dairy cow/dairy goat/beef cow farms, 2 feed and forage growing projects and 3 infrastructure / equipment projects
- The dairy plant will produce milk formulae for adults, IMF, goat milk powder and SMP on a site of 123.4 ha. It entails an investment of USD304.5 million (RMB2,000 million) and is expected to have an output of 36,000 t/a valued at USD456.8 million (RMB3,000 million) once in operation.

In addition, 7 agreements were settled on the day, involving projects in dairy upstream and downstream businesses, manufacturing and biomedical research on livestock, and representing total investment of USD3 11.9 million (RMB2,048 million). Further details of these projects were not specified at this point.

H&H Group Registers Solid Growth in Q1

On 11 May, H&H Group (Stock Code: HK. 01112) reported its Q1 revenue of USD408.58 million (RMB2,683.2 million), up 11.5% YoY. In China, its revenue grew by 2.6% to account for 71.8% of its global revenue.

However, factors like the pandemic, the lower birth rate, and fiercer global competition have impacted H&H's IMF sales during the period – these fell 6.6% YoY.

The company takes a 5.8% share in China's IMF market; its goat milk formula brand Biostime remains at No.3 in that segment of the market, which is led by Ausnutria's Kabrita, followed by Blue River's range.

TABLE 28: Sales Revenue of H&H Group, Q1 2022

Category	Q1 2021, USD million	Q1 2022, USD million	Change
Baby nutrition and care products	256.78	233.08	-9.20%
IMF	196.46	183.49	-6.60%
Probiotics	37.64	33.59	-10.70%
Other baby products	22.67	16.00	-29.40%
Adult nutrition and care products	99.17	122.29	23.30%
Pet nutrition and care products	10.4	53.20	411.20%
Region	Q1 2021, USD million	Q1 2022, USD million	Change
Mainland China	291.75	293.49	0.60%
Australia & New Zealand	38.81	50.17	29.30%
USA	11.48	41.57	262.00%
Other	24.3	23.34	-3.90%
Total	366.35	408.58	11.50%

Source: H&H Group

Mengniu and Danone Terminate Partnership

Danone sold off all its shares in Mengniu in May 2021. A year later, on 6 May, Mengniu and Yashili jointly announced their discontinuation of their partnership with Danone, with the following main changes in ownership:

- **Yoghurt JV:** Mengniu will acquire the 20% equity share of Danone Dairy (Shanghai) Co., Ltd. in this JV for up to USD243.6 million (RMB1,600 million), so becoming the sole owner. This venture produces chilled yoghurts and yoghurt drinks, and reported post-tax losses of USD47.8 million (RMB314 million) in 2020 and USD27 million (RMB177 million) in 2021, whilst holding unaudited net assets of USD307.6 million (RMB2,020 million) by the end of 2021
- **Dumex China:** Yashili International Holdings Ltd. (Stock Code: HK.01230) will sell its whole shareholding in Dumex China to Danone for USD132.5 million (RMB870 million), reinvesting the proceeds into its other business operations. Dumex China made post-tax profits of USD6.1 million (RMB40 million) in 2020 and USD1.8 million (RMB12 million) in 2021, whilst holding unaudited net assets of -USD1.7 million (-RMB11 million) by the end of 2021
- **Danone Nutrition:** Mengniu will buy Danone Asia Baby Nutrition Pte. Ltd's 25% stake in Yashili for approx. USD184.1 million (RMB1,209 million) in cash. Yashili made a post-tax profit of USD15.4 million (RMB101 million) in 2020 but then a post-tax loss of USD12.4 million (RMB81.4 million) in 2021; it held unaudited net assets of USD841.8 million (RMB5,528 million) by the end of 2021.

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