

Dairy Products China News

Guaranteed Exclusive Analysis

Vol. 17 Issue 4 2024

Welcome to the April issue of Dairy Products China News.

China's economy grew by 5.3% in Q1, official figures indicate – slightly more than in 2023 overall and the 5% growth target set for this year, and a little ahead of most economists' expectations. Nevertheless, demand remains weak, and Chinese milk is in oversupply.

In dairying, the trend remains towards large farms which, although under pressure, can ride out the high operating costs which have put paid to many household producers. The same has happened at industry level, with the larger local brands pushing out the weaker local ones including OEMs – and making life harder for overseas brands unless they can provide a differentiated product. For instance, although such products lack a standard to confirm their specific differentiated status, Meiji's ESL milk has established itself in bakeries and competes with a few other brands – New Hope Dairy (Zhao Ri Weipin – the old Asahi brand), Weichuan, Junlebao (Yue Xian Huo).

This aligns with the Chinese government's focus on local businesses growing their market share wherever possible. This isn't just about agricultural products deemed strategic, of course – look at how the sales of Apple's Iphone have crashed this spring, the company falling to fourth place in the local smartphone market. In that case, geopolitical factors have been key – although not alone – in driving change. What is clear, in dairy as in other categories, is that international brands with longterm goals in China need to scrutinise what the major dairy businesses manufacturing locally are doing, and then offer something different. Imports will face increasing pressure and simple me-too brands will not make the distance.

Richard Field, Editor

richard.field@orrani.com

Publishers



Guangzhou CCM Information

Science & Technology Co., Ltd

17th Floor,
Huihua Commercial & Trade Building,
No.80 Xianlie Zhong Road,
Guangzhou, 510070, P.R.China
Tel: +86-20-3761 6606
Fax: +86 20 3761 6968
E-mail: econtact@cnchemicals.com



UK Head Office

Orrani Consulting
12 Lower Camden Place
Bath, BA1 5JJ, United Kingdom
Tel: +44 (0) 1225 318 222
Fax: +44 (0) 1225 430240

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Headlines

- ▶ The region of Guangxi, China's biggest buffalo milk producer, has started constructing an international buffalo breeding research base, and the leading buffalo milk processor Royal Group has been authorised to import embryos from Pakistan to facilitate its buffalo farming.
- ▶ DPC Dash (the Domino's franchisee) has reported over 50% growth in sales after its active expansion in 2023.
- ▶ Recently, Shaanxi announced new targets for local goat dairy industry development and new planned production projects.
- ▶ In April, Royal Group's Ushi Dairy has disclosed a plan to add 150,000 t/a dairy product capacity, Fuyang Foods has proposed to add 24,500 t/a capacity for WMP, whipping cream and concentrated milk, and Yoplait Dairy has announced that it will scale up yoghurt and skimmed milk production.
- ▶ In late March, Inner Mongolia issued subsidy rules for the local dairy industry, focusing on 4 areas: increased processing capacity of raw milk, spray drying of raw milk, processing of milk into natural cheese, and "refined and deep processing" of dairy products.
- ▶ In 2023, Mengniu ramped up its marketing efforts and sales promotions, resulting in a 6.5% increase in revenue.
- ▶ Ausnutria posted recently that its revenue was down by 5.3% and its net profit attributable to parent company shareholders was down by 19.4% in 2023 to a new 5-year low.
- ▶ To accelerate its growth in South China, New Hope Dairy has announced new progress in its acquisition of New Australia Dairy.
- ▶ Tianrun Dairy reported 12.62% growth in revenue last year but net profit attributable to parent company down by 27.71%, partly due to a large loss at a subsidiary.
- ▶ Raw milk prices slipped again in April, coinciding with the release of 2023 financial reports from many farming companies, including Modern Dairy, China Shengmu, Youran Dairy and AustAsia Group – all showing lower net profits.

Major Companies and Sites Mentioned in This Issue



Market Analysis

Development of the Dairy Buffalo Industry in Guangxi

Summary: The region of Guangxi, China's biggest buffalo milk producer, has started constructing an international buffalo breeding research base, and the leading buffalo milk processor Royal Group has been authorised to import embryos from Pakistan to facilitate its buffalo farming.

Guangxi Zhuang Autonomous Region has a buffalo population of 2.35 million head, including 46,400 dairy buffalo and 31,300 breeding cows. Its buffalo milk production averages 24,800 tonnes annually, the highest of any region or province in China. The total output value of the province's dairy buffalo industry chain is close to USD2.1 billion (RMB15.0 billion). Low yields are a major problem for China's dairy buffalo industry, and in recent years, relevant government departments, institutions, and enterprises in Guangxi have been promoting buffalo breeding research and quality embryo import.

Construction of International Buffalo Breeding Research Base

On 26 March, the Guangxi Buffalo Research Institute broke ground on an International Buffalo Breeding Research Base in Shangsi County, Fangchenggang City, Guangxi, expected to be China's only such base. It will carry out buffalo germplasm development projects, buffalo genetic improvement and new variety cultivation programmes. It aims to improve the reproduction rate, milk production levels, adaptability and disease resistance of dairy buffalo, strengthen international cooperation with countries with expertise in buffalo such as Italy, Pakistan, India, and Brazil, and develop high value buffalo germplasm resources through technological innovations such as genomic breeding, embryo biotechnology and nutrition management.

The construction budget is USD49.3 million (RMB350 million) and covers an area of 131.3 ha. It will include a buffalo breeding farm with 2,000 head and a 100-ha fodder cultivation area. Once completed, it will use 16,000 tonnes of local sugarcane leaves as cattle feed and produce 2,000 tonnes of buffalo milk, 20,000 quality embryos, 800 breeder cattle and 12,000 tonnes of organic fertiliser annually.

Royal Group: Imports of High-Quality Buffalo Embryos from Pakistan

It was announced on 10 April that China has approved imports of buffalo embryos that meet quarantine and health requirements from a producer in a specific disease-free area of Pakistan's Punjab which is owned by Royal Group Co., Ltd. (Royal Group, Stock Code: 002329). It is the only area in the world approved to export high-yielding buffalo embryos to China. Their introduction is expected to shorten the breeding cycle of improving dairy buffalo varieties from 12 years to 3 years and to treble the buffalo milk yields being achieved in China.

In 2021, Royal Group initiated its "Dairy Buffalo Breed Strategy" and established Royal Cell Biotechnology (Guangxi) Co., Ltd. (Royal Cell). In 2022, Royal Cell Biotechnology (Pakistan) Company (Pvt) Ltd. was set up, and by last year was capable of producing hundreds of pureblood buffalo embryos each week from top bull semen and oocytes of purebred high-yielding cows.

The embryo transfer to China looks set to boost the country's buffalo sector and milk production in the near future as a result. At present, Royal Group is building China's first buffalo farm in Shangsi County, expected to hold up to 10,000 head. The phase I construction is due to complete in June 2024, providing 3,000 cattle to receive the embryos from Pakistan

DPC Dash (Domino's Pizza) Posts Strong Sales in 2023

Summary: DPC Dash (the Domino's franchisee) has reported over 50% growth in sales after its active expansion in 2023.

On 27 March, DPC Dash Ltd. (Stock Code: 1405.HK) – Domino's Pizza's exclusive master franchisee in China – announced its 2023 financial results. These shows strong growth in earnings, thanks to DPC Dash's efforts in market expansion and improving operational efficiency.

Full-year results:

- Revenue: USD430.1 million (RMB3.1 billion), growth of 51.0%, far above the 20.4% growth of the foodservice sector in China
- Adjusted EBITDA: USD42.3 million (RMB302 million), jumping by 117.7% from the USD19.6 million (RMB139 million) in 2022
- Adjusted net profit: USD1.2 million (RMB8.8 million), recovering from the loss of -USD16.1 million (-RMB114 million) in 2022

Store operation:

- Same-store sales: grew by 8.9%
- Store-level EBITDA: USD81.3 million (RMB577 million), up 80.1% from the USD45.1 million (RMB320 million) in 2022

- Store-level EBITDA margin: 18.9%, compared to 15.8% for 2022
- Store-level operating profit: USD59.2 million (RMB420 million), surged by 105.1% from the USD28.9 million (RMB205 million) in 2022
- Store-level operating profit margin: 13.8%, compared to 10.1% for 2022

New Growth Drivers

Whilst Shanghai and Beijing remain DPC Dash's most established markets in China, other 1st-tier cities and 2nd-tier cities have become key drivers for growth.

- In 2023, total sales in Beijing and Shanghai grew 20.8% to USD217.8 million (RMB1.55 billion), while total sales in new growth markets grew 102.9% to RMB1,505.6 million and contributed 49.4% of total revenue
- In the year, it entered 13 cities and had a net store opening total of 180 stores – 39 in Beijing/Shanghai and 141 in new growth markets. This brings the total store count to 768 stores (directly operated) across 29 cities in China, with 351 in Beijing/Shanghai and 417 in new growth markets

- 6 newly entered cities between Dec. 2022 and June 2023 – Jinan, Wuhan, Chengdu, Qingdao, Wenzhou and Changzhou – accounted for 48 stores as of Dec., 2023. Other newly entered cities in H2 2023 including Jiaxing, Xi'an, Changsha, Xiamen and Hefei have recorded good sales
- As of 31 Dec., 2023, the company's loyalty membership programme stood at 14.6 million, up 69.8% over the year

Business Outlook

DPC Dash predicts its same-store sales to continue to grow in 2024, following growth over 27 consecutive quarters since Q3 2017. It noted that from the beginning of 2024 to 22 March it had a net opening total of 55 new stores; it plans to open 240 new stores and its 1,000th store in China in 2024. Moreover, the company has raised its targets for store openings in 2025 and 2026 to 300 and 350 respectively, compared to 200 and 300 in the previous plan.

It also plans to open a new central kitchen in Wuhan in Q4 2024 to support the stores in the central region, in addition to the existing ones in Sanhe, Shanghai and Dongguan, and to relocate and upgrade its central kitchen in Sanhe.

Shaanxi Province Sets New Development Targets for Local Goat Dairy Industry

Summary: Recently, Shaanxi announced new targets for local goat dairy industry development and new planned production projects.

Shaanxi Province is the largest producer of dairy goats and goat dairy products in China. By the end of 2022, it had 3 demonstration counties with integrated dairy goat industry chains – Fuping, Longxian, Qianxian – with a total of 2.86 million dairy goats, 1.46 million of which are milking goats, producing 700,000 tonnes raw milk annually. There are 35 goat dairy processing plants in Shaanxi, with combined total capacities of 85,000 t/a goat milk powders, 102,000 t/a goat milk

formula and 12,000 t/a goat milk – over 85% of the national market.

On 28 March, Shaanxi Province, together with leading local businesses, outlined a development plan for the goat dairy industry in the province at a "Promotion Meeting for the Construction of Traditional Advantageous Food Production Areas for Shaanxi Goat Dairy Products".

Shaanxi's Development Plan

During the meeting, a "100 Billion-Level Goat Dairy Industry Action Plan" was issued, outlining goals by 2026: Shaanxi's raw goat milk production to continue to lead in China, with a

market share of over 85% in the national goat dairy product market; and with 2 national-level modern agricultural (dairy goat) industrial parks in Fuping of Weinan City and Yanliang of Xi'an City to be completed.

To achieve these goals, it lay out 4 key measures:

- Establish a dedicated task force mechanism
- Establish an industry innovation centre focusing on R&D, pilot testing, inspection and testing, industrial application of innovative technologies and talent cultivation
- Issue a series of financial subsidies
- Formulate and implement supportive policies for the industry

Construction Advancement

During the meeting, **Shaanxi Hongxing Meiling Dairy Co., Ltd.** (Meiling Dairy) announced its intention to increase its dairy goat herd up to 100,000 head by 2025 and reach sales of goat dairy products of USD704.8 million (RMB5.0 billion) within the following five years, based on efforts in 4 areas:

- Farm construction: Establish 20 dairy goat alliance centres in Fuping County and its surroundings
- Innovation: Invest USD8.5 million (RMB60.0 million) in the Shaanxi Goat Milk Products Innovation Centre, to enhance the supply capacity of demineralised whey

products

- Supplementary industry: Invest USD21.1 million (RMB150.0 million) to establish a meat product processing centre capable of processing 300,000 goats and 20,000 cattle annually
- Strengthen branding and marketing of goat dairy products

Meiling Dairy also signed an agreement at the meeting with Northwest Agriculture and Forestry University to acquire a "Goat Milk Whey Extraction Technology".

Meanwhile **Shanghai Milkground Food Tech Co., Ltd.** (Milkground Food, Stock Code: 600882) signed a strategic partnership agreement with Shaanxi Boling Dairy Co., Ltd., a company with some 200,000 dairy goats and producing 90,000 tonnes of goat dairy products per year. The cooperation involves establishment of a JV, but without further detail being disclosed.

Additionally, Fuping County Bureau of Agriculture and Rural Affairs settled a contract with **China Youran Dairy Group Ltd** (Youran Dairy, Stock Code: 09858.HK) to supply quality feed products for dairy goats' full lifecycles and to introduce advanced breeding technology to improve the local milk quality.

Chinese Dairy Project Update in April

Summary: In April, Royal Group's Ushi Dairy has disclosed a plan to add 150,000 t/a dairy product capacity, Fuyang Foods has proposed to add 24,500 t/a capacity for WMP. whipping cream and concentrated milk, and Yoplait Dairy has announced that it will scale up yoghurt and skimmed milk production.

In April, Royal Group Hunan Ushi Dairy Co., Ltd. (Ushi Dairy), Ningxia Fuyang Foods Co., Ltd. (Fuyan Foods) and Yoplait Dairy Co., Ltd. (Yoplait Dairy) unveiled their latest expansion project details.

Ushi Dairy: Plant Expansion Project

- Total investment: USD42.3 million (RMB300 million), 0.05% (=USD19,735/RMB140,000) of which for environmental protection
- Location: Ningxiang Economic and Technological Development Zone of Changsha City, Hunan Province
- Site area: 22,000 m²
- Construction content: Add a main factory building installed with 4 dairy processing lines and 2 filling lines; and upgrade the existing supporting facilities

- Working system: Add 100 workers, move to 7,200 working hours per year
- Construction period: 27 months

Ushi Dairy is a subsidiary of Royal Group Co., Ltd. (Stock Code: 002329). This project sits next to the Quality Dairy Engineering Research and Development Centre, a cooperation between Ushi Dairy and the Technology Innovation Alliance of the National Dairy Industry, aiming to integrate the dairy industry in central and southern regions, enhance the value of local dairy products and businesses' core competitiveness.

TABLE 1: Product Plan for Ushi Dairy's Plant

Product	Specification	Expanding capacity, t/a	Total capacity after expansion, t/a
Stirred yoghurt	180g/cup	0	8,000
Set yoghurt	100g/cup	0	10,000
Pasteurised milk (fresh milk)	250ml/bottle	0	10,000
UHT milk cartons	250ml/carton	0	10,000
Milk beverages	250ml/carton	0	10,000
Pure milk	1,000g/carton	12,000	12,000
Ultra pasteurised milk (fresh milk)	1,000g/carton	18,000	18,000
Modified milk	180ml/bottle	18,000	18,000
Bulk fermented milk and cheese	5,000g/bag	18,000	18,000
Bulk fruit juice	5,000g/bag	24,000	24,000
School milk	250ml/carton	30,000	30,000
UHT milk bottles	250ml/bottle	30,000	30,000
Total		150,000	198,000

Source: Environment Impact Assessment Report

Fuyang Foods: Expansion and Upgrading Project

- Construction nature: Expansion and technological upgrade
- Total investment: USD7.8 million (RMB55 million), 1.69% (=USD131,100/RMB930,000) of which for environmental protection
- Location: Hi-Tech Industrial Development Zone of Yinchuan City, Ningxia Hui Autonomous Region
- Site area: 13,335 m²
- Construction content: Add a production line for concentrated milk; extend the operating hours of the existing production lines for milk powders and whipping cream
- Designed capacity:
 - Add 9,500 t/a WMP, 3,000 t/a whipping cream, and 12,000 t/a concentrated milk
 - After expansion, the whole factory capacity is to be 14,500 t/a WMP, 4,000 t/a

formula powder for the middle-aged and elderly, 5,000 t/a whipping cream and 12,000 t/a concentrated milk

- Working system: 15 new workers, and annual working days to extend to 330 days from 200 days
- Construction period: 5 months

Fuyang Foods was founded in March 2022 and started production in March 2023; its output to date is valued at around USD22.6 million (RMB160 million), supplying Mengniu, Yili, and Bright Dairy amongst others.

Yoplait Dairy: Yoghurt and Skimmed Milk Expansion Project

- Construction nature: Expansion
- Total investment: USD704,841 (RMB5 million), 4%(=USD28,194/RMB200,000) of which for environmental protection
- Location: Zhangpu Township, Kunshan City, Jiangsu Province

- Construction content: Add production equipment at the existing workshop
- Designed capacity:
 - Add 6,700 t/a yoghurt, 7,350 t/a skimmed milk (by-product)
 - After expansion, the whole factory will be able to produce 16,700 t/a yoghurt and 18,350 t/a skimmed milk
- Working system: Add 20 workers, working for 7,200h per year
- Construction period: 2 months

The factory in Kunshan in Jiangsu Province producing the Yoplait brand owned by French group Sodiaal has operated since 2013. In March 2019, Yoplait China was sold to Tiantu Capital by its US owner, General Mills. In Dec., Yoplait Dairy launched a range of premium fresh milks targeting high-end retail markets in Beijing, Shanghai and other top-tier cities, as well as foodservice businesses like coffee and bakery.

Governmental Direction

Inner Mongolia Issues Subsidy Rules for Local Dairy Processors

Summary: In late March, Inner Mongolia issued subsidy rules for the local dairy industry, focusing on 4 areas: increased processing capacity of raw milk, spray drying of raw milk, processing of milk into natural cheese, and "refined and deep processing" of dairy products.

In late March, the Department of Industry and Information Technology of Inner Mongolia Autonomous Region revised 4 subsidy rules for local dairy processing, in line with the "Several Policies and Measures for Advancing High-quality Development of the Dairy Industry in Inner Mongolia Autonomous Region" issued in Sept. 2023. These focus on 4 areas: increased processing capacity of raw milk, spray drying of raw milk, processing of raw milk into natural cheese, and "refined and deep processing" of dairy products. All subsidies are to be distributed within the period 1 Oct. 2023 to 31 Dec. 2025 after applicants' eligibility has been verified.

Rule for Increased Processing Capacity of Raw Milk

- Subsidy Purpose: Activate idle capacity to scale up raw milk processing
- Subsidy Standard: Based on the previous year's volume of raw milk processed by the enterprise, USD28.2/t (RMB200/t) is provided for each additional tonne of raw milk processed. Enterprises with raw milk processing increments of less than 100 tonnes are not eligible for the subsidy

Rules for Spray Drying of Raw Milk

- Subsidy Purpose: Encourage purchase of raw milk during the off-season from March to May
- Subsidy Standard: USD141/t (RMB1,000/t) is provided to cover 10% of the quantity of raw milk purchased by spray-drying enterprises from 1 May to 31 May each year. Enterprises with raw milk usage for spray drying less than 10% of the purchased raw milk, are given subsidies based on the actual amount used. Those using less than 100 tonnes of raw milk for spray drying are not eligible for the subsidy

Rules for Processing of Raw Milk into Natural Cheese

- Subsidy Purpose: Support increasing production of natural cheese

- Subsidy Standard: Based on the previous year's volume of raw milk processed into natural cheese by the enterprise, USD281.9/t (RMB2,000/t) is provided for each additional tonne of raw milk processed. Enterprises with raw milk processing increments of less than 10 tonnes are not eligible for the subsidy

Rules for Refined and Deep Processing of Dairy Products

- Subsidy Purpose: Support enterprises in enhancing processing capabilities for natural cheese, whey, lactoferrin and other dairy ingredients
- Subsidy Standard: For new construction or expansion projects that are completed within 1 Oct. 2023 to 31 Dec. 2025, a subsidy will be provided to cover 10% of the total equipment investment, with a maximum one-time subsidy of USD7 million (RMB50 million)

As China's largest dairy region, Inner Mongolia's key dairy sector data in 2023 included:

Dairying:

- The cattle herd size grew by 6.1% to 1.687 million head; 16 new farms with over 3,000 cows were built in 2023; 567 farms with over 100 Holsteins are operating, accounting for 92% of all Holstein dairy farms in Inner Mongolia (20 percentage points higher than the national average)
- Raw milk production reached 7.926 million tonnes, an 8.0% increase compared to 2022
- The total forage growing area reached 1.27 million ha, and the self-sufficiency rate of good-quality alfalfa reached 80%, an increase of 5 percentage points from 2022

Dairy processing:

- The Region's total output of dairy products from processors with turnovers above RMB20 million reached 4.73 million tonnes, up by 13.2%. There are 83 dairy companies in Inner Mongolia with turnovers above RMB5 million, with a total processing capacity of up to 12.3 million t/a. As of Nov. 2023, the entire dairy industry chain in Inner Mongolia represented a production value of USD31.4 billion (RMB222.5 billion)

Company Dynamics

Mengniu Sees 6.5% Rise in Revenue for 2023

Summary: In 2023, Mengniu ramped up its marketing efforts and sales promotions, resulting in a 6.5% increase in revenue.

On 26 March, China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319) issued its report for 2023 with key data as follows:

- Revenue: USD13.9 billion (RMB98.6 billion), up 6.5%
 - This growth was primarily driven by improved distribution through expansion of both online and offline channels; however, this also caused a 12.7% increase in sales and distribution costs to USD3.6 billion (RMB25.2 billion), a record high in recent years
- Operating profit: USD869.9 million (RMB6.2 billion), up 13.8%
 - This increase was attributed to a decline in raw milk prices throughout the year, which allowed the company to increase its gross margin by 1.9 percentage points to 37.2%
- Operating profit margin: up 0.4 percentage points to 6.3%
- Profit attributable to equity shareholders: USD677.9 million (RMB4.8 billion), down 9.3%
 - This decrease was mainly due to the lower value of bulk powder stocks built up from spray drying excess raw milk, reduced income from associated companies, and the absence of the one-off gain from divestment which the company benefited from in 2022

Category Performance in 2023

Liquid dairy:

- Ambient products, such as pure milk, continued to grow at a higher pace than the industry overall, with the brand Milk Deluxe seeing notable growth in market share and double-digit sales growth. Ambient milk beverages also grew their higher market share with higher sales revenue, driven by the recovery of offline store traffic and outdoor consumption, as well as new product launches like "Zhenguoli" Flower & Fruit Milkshake Yoghurt Drinks and "Suan Suan Ru" LABs Fruit Tea Drink. Online sales of ambient products grew steadily, with registered membership on Mengniu's online channels exceeding 74 million
- Chilled products did well despite the challenging market. Mengniu's probiotics drinks ranked 2nd after the Japanese brand Yakult. Its premium brand SHINY MEADOW partnered with local boutique coffee brand SeeSaw with the launch of a cold brew coffee latte. Meanwhile, Little Meadow, SHINY MEADOW's sub-brand, achieved robust sales in convenience stores

Ice cream:

- The company launched a chocolate flavour of its Mengniu Suibian brand and 3 new Delux products with basic formulations
- "Aice" – the leading ice-cream brand in Southeast Asia acquired by Mengniu in 2021 – maintained strong sales and significantly improved profit margins through product innovation and multi-channel distribution

Milk formula:

- Its IMF brand Ruibuen rolled out "Ruibuen En'zhi" with structural fat MLCT (Medium-and-Long Chain Triacylglycerol – the only new ingredient approved to date for use in formula products by the new national standard), as well as a stage-4 growing-up milk formula with Mengniu's own HMO (human milk oligosaccharides). Bellamy's started new cooperation with Babemax and Freshippo to explore the Southeast Asian market, and reported significant growth in sales
- For the middle-aged and elderly, "Yourui", the premium formula line, upgraded its product formulations to focus on whey protein, complemented by other ingredients such as calcium citrate or milk calcium, MLCT, etc to offer various health aspects in areas such as blood sugar, intestinal and cardiovascular health

Cheese and cream:

- Mengniu introduced its first self-developed and self-produced whipping cream, as well as China's first fermented butter – "Mengniu Golden Butter"; it also upgraded its Mozzarella range with improved production technologies

As of 31 Dec., 2023, Mengniu has 45 production plants in China, 2 in Indonesia, 2 in Australia, 1 in the Philippines and 1 in New Zealand; these provide a combined capacity of 14.04 million t/a, an increase of 1.13 million t/a vs. 2022.

TABLE 2: Mengniu's Revenue Split by Main Business in 2023

Category	Revenue, USD million	Revenue to total ratio	YoY Change
Liquid dairy (fresh/UHT milk, milk beverages, yoghurt, etc.)	11,728.30	82.81%	4.97%
Ice cream	857.4	6.05%	6.65%
Milk powders (milk formula for infants, children and adults)	539.4	3.81%	-4.73%
Cheese and cream	617.4	4.36%	231.50%
Others (raw and auxiliary materials for dairy products and trading)	421	2.97%	-32.92%

Source: Mengniu's Financial Report for 2023

Ausnutria's 2023 Net Profit Hits 5 Year Low

Summary: Ausnutria posted recently that its revenue was down by 5.3% and its net profit attributable to parent company shareholders was down by 19.4% in 2023 to a new 5-year low.

On 27 March, Ausnutria Dairy Corp Ltd. (Ausnutria, Stock Code: HK.01717) posted its annual financial report for 2023, showing declines in key indicators:

- Revenue: USD1.0 billion (RMB7.4 billion), down by 5.3%
- Gross profit: USD402.1 million (RMB2.9 billion), down 15.9%
- Gross profit margin: 38.6%, down 4.9 percentage points
- Net profit attributable to shareholders: USD24.6 million (RMB174.4 million), down 19.4% to a new 5-year low

Ausnutria cited declining birth rates, fierce competition and weak demand as the primary causes for these results. However, it added that the rapid growth of Kabrita's goat milk formulae in several markets around the world and the continued rise of nutrition products have helped counter this situation to some extent.

Goat milk formula

In 2023, sales of Kabrita goat milk formulae were USD462.8 million (RMB3.3 billion), down 8.6%, and accounting for 44.5% of Ausnutria's total revenue.

- **In China**, their sales fell by 12.8% to USD408.6 million (RMB2.9 billion), due to varied factors: adjustment of inventory levels and distribution to compete as the market contracted, leading to sales decline; discount promotions on its old label "Youzhuang/悠装", to optimise the portfolio; and reduced discounting in Q3 2023 to ensure long-term healthy development, which resulted in short-

term sales pressure. Despite this difficult environment, in H2 2023, Ausnutria's goat milk formulae sales were up by 21.2% over H1, their market share rising as a result

- **In overseas markets** (including Europe, the US, the Middle East, the Commonwealth of Independent States (CIS), Mexico, South Korea, Vietnam, etc), sales surged by 44.7% to USD54.2 million (RMB384.5 million). This was facilitated by the global relaxation of pandemic restrictions and by solid growth in the United Arab Emirates (UAE), reflecting growing acceptance of goat milk formula

Cow milk formula

In 2023, its branded cow milk formulae sales were USD361.2 million (RMB2.6 billion), down 12.4%, and accounting for 34.7% of Ausnutria's total revenue. In addition to the market's contraction, these sales were affected by business unit integration and sales team reorganisation during the year. However, gross profit here reached USD194.5 million (RMB1.4 billion), with a 53.9% gross margin, up 2.1 percentage points vs. 2022.

Nutritionals

In 2023, sales of nutritional products amounted to USD40.1 million (RMB284.5 million), up by 113.9%; and accounting for 3.9% of the total revenue (vs. 1.7% in 2022). This growth was mainly due to the consolidation of Bioflag Group after progressively increasing its stake in this firm from 27.5% to 82.0% over the year. Moreover, during the year it merged Aunulife, a probiotics brand targeting at infants and toddlers, with NC (Nutrition Care), an Australian professional gut nutrition brand targeting adults, in order to provide a more comprehensive offer in the market.

New Hope Dairy's Strategic Advance in South China Market

Summary: To accelerate its growth in South China, New Hope Dairy has announced new progress in its acquisition of New Australia Dairy.

New Hope Dairy Holdings Co., Ltd. (New Hope Dairy, Stock Code: 002946) updated its strategic development in South China on 1 April, including completing most of the payment for the acquisition of a 55% stake in Fujian New Hope Australia Dairy Co., Ltd. (New Australia Dairy).

Back in Aug. 2019, New Hope Dairy agreed to acquire 55% stakes in both New Australia Dairy and Fujian New Australia Husbandry Co., Ltd. (New Australia Husbandry), completing the registration of these business changes in June 2020.

The acquisition of New Australia Dairy involved a total transaction value of USD15.7 million (RMB 111.4 million), with USD13.7 million (RMB97.1 million) paid in installments in Feb. 2021 and Feb. 2022. An additional USD1.7 million (RMB12 million) was paid in March 2024, with the balance to be settled following the completion

of certain procedures. On top of that, the company increased its holding in New Australia Dairy to 86.5% by Oct. 2023, indicative of its confidence in the local dairy market in Fujian province.

New Australia Dairy focuses on fresh milk and has a well-established presence in Fujian, achieving an annual revenue of USD27.6 million (RMB196 million) on average in recent years. This acquisition is seen as a strategic fit to complement New Hope Dairy's existing geographical focus in the southwest and to extend its reach into the South China market, starting with Fujian and gradually moving into Guangdong and Guangxi.

Halt for Dairying Expansion

However, according to the announcement, New Hope Dairy divested its entire 55% stake in New Australia Husbandry to an independent 3rd party in Nov. 2023, a decision based on several factors:

- Dairying is in a downturn, with accelerating price declines and profitability challenges for leading husbandry firms since

2023. Taking on dairying business at the moment seems likely to do more harm than good for New Hope Dairy

- The fiercely competitive southern marketplace features the majors Yili and Mengniu alongside growing regional brands such as Yantang Dairy and Fengxing Milk, as well as international competitors like Meiji. The weak presence of New Hope Dairy in the region is an issue it needs to remedy
- New Hope Dairy is actively addressing the high debt level stemming from its previous aggressive investment and acquisitions. As of Q3 2023, the company's debt amounted to USD924.9 million (RMB6.6 billion), with a debt ratio of 70.48%

In its strategic development plan posted in mid-2023, the company has unsurprisingly shifted its focus towards internal growth as the primary driver for future expansion, with investment and acquisitions assuming a supportive role.

Tianrun Dairy Reports Mix Results for 2023

Summary: Tianrun Dairy reported 12.62% growth in revenue last year but net profit attributable to parent company down by 27.71%, partly due to a large loss at a subsidiary.

On 15 April, Xinjiang Tianrun Dairy Co., Ltd. (Tianrun Dairy, Stock Code: 600419.SH) posted its 2023 report, showing increased revenue without profit growth.

- Revenue: USD382.6 million (RMB2.7 billion), up 12.62%
- Net profit attributable to equity shareholders of the listed company: USD20.0 million (RMB142.0 million), down 27.71%, with a substantial decline in H2

- Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses: USD19.8 million (RMB140.2 million), down 21.53%

Tianrun Dairy acquired 100% of Alar Xinnong Dairy Co., Ltd. (Xinnong Dairy) in May 2023 and has included it in its consolidated financial statements since 1 Jun. 2023. Xinnong Dairy has production capacities of 60,000 t/a of ambient dairy products, 40,000 t/a of chilled dairy products, and 8,000 t/a of WMP, including production of organic milk formula. However, the subsidiary was not performing well in 2023, lowering Tianrun Dairy's profit by -USD13.4 million (-RMB95.4 million) in 2023.

Key Operations in 2023

- Sales: Tianrun Dairy sold 284,500 tonnes of dairy products in 2023, a 6.21% increase from the previous year. Its network of company-owned retail stores has reached 1,000 across China, becoming one of its key channels for sales outside Xinjiang Autonomous Region
- Production:
 - Shandong Tianrun Qiyuan Dairy Factory completed 1st phase construction putting 105,000 t/a dairy production capacity (24,500 t/a UHT Pure milk, 17,500 t/a UHT yoghurt, 17,500 t/a fresh milk, 17,500 t/a fresh yoghurt and 28,000 t/a "Milk Beer") into trial run during the reporting period, with 45,000 t/a designed capacity to be built in the next phase
 - Xinjiang Tianrun Biotechnology Co., Ltd. has a 200,000 t/a plant under construction (168,000 t/a UHT milk, 16,200 t/a ambient yoghurt and 15,840 t/a premium fresh milk), due for completion by the end of 2024. The project is expected to bring 100,000 t/a capacity on stream by 2025 and reach full capacity by 2027
 - Xinjiang Tianrun Tangwangcheng Dairy Co., Ltd. is nearing completion of an expansion project adding

30,000 t/a dairy product capacity – including UHT milk, fresh yoghurt and "Milk Beer"

- R&D: More than 70 new products, including O-Sucrose Yoghurt and Sea Buckthorn Flavoured Milk Beer, have helped drive the overall sales growth of dairy products
- Marketing: Online media platforms such as Little Red Book ("Xiaohongshu") and Douyin (China's version of TikTok) have become major channels for online distribution. Tianrun Dairy noted performance through online channels in its annual report for the first time, with sales of USD4.6 million (RMB32.9 million, +12.49% YoY) and gross profit margins of 67.16% (+11.06 percentage points). The key was Douyin, which contributed 97.78% (=USD4.5 million/RMB32.1 million) of online sales
- Dairying: As of Dec. 2023, Tianrun Dairy owned 26 large-scale farms with some 65,000 dairy cows, supplying 92.36% of its milk requirements

In 2024, Tianrun Dairy aims to boost dairy sales to 320,000 tonnes / USD422.9 million (RMB3.0 billion), while further integrating Xinnong Dairy and achieving growth from its organic milk products and functional set yoghurt range.

TABLE 3: Revenue and Gross Margins of Tianrun Dairy by Product / Region, 2023

Item	Revenue		Gross margins	
	USD million	YoY change	Ratio	YoY change
Total	380.6	12.40%	19.25%	up 1.34 percentage points
By Product				
Ambient dairy products	215.7	18.65%	18.81%	up 2.74 percentage points
Chilled dairy products	152.3	7.57%	21.54%	up 0.58 percentage points
Dairying products	11.3	-10.08%	-3.40%	down 14.29 percentage points
Others	1.3	-50.61%*	22.15%	up 7.51 percentage points
By Region				
Xinjiang	204.5	6.03%	17.88%	up 3.01 percentage points
Outside Xinjiang	176.1	20.84%	20.85%	down 1.08 percentage points

Source: Tianrun Dairy's annual report

Note: *Major decline results from lower sales of Xinjiang speciality products (incl. dairy products, healthcare products and farm animal products) by subsidiary company Xinjian Tianrun Youpin Trading Co., Ltd.

Raw Milk Price

Continued Milk Price Decline Hitting Farming Firms

Summary: Raw milk prices slipped again in April, coinciding with the release of 2023 financial reports from many farming companies, including Modern Dairy, China Shengmu, Youran Dairy and AustAsia Group – all showing lower net profits.

In the week ended 11 April, China's raw milk price averaged USD489.2/t (RMB3,470/t), down 0.3% from the first week of the month and down 11.9% YoY.

Feed market:

- The national price of corn averaged USD362.3/t (RMB2,570/t), down 0.4% from the first week of the month and down 12.6% YoY; the average price in major production regions (Heilongjiang, Jilin and Liaoning) remained unchanged at USD331.3/t (RMB2,350/t) compared with the first week; and the price in the main demand area, Guangdong, levelling off at USD377.8/t (RMB2,680/t) from the first week
- The national price of soybean meal averaged USD532.9/t (RMB3,780/t), down 1.0% from the first week of the month and down 13.1% YoY

Poor Results in Dairying

Amidst the persistent decline in raw milk prices, most upstream dairy enterprises are confronting

significant challenges, and their latest reports indicate substantial declines in net profit.

Here are key indicators from the 4 leaders for 2023 (% changes are based on year-on-year calculations):

- **Modern Dairy** (Stock Code: 01117.HK): Revenue grew by 9.5% to USD1.9 billion (RMB13.5 billion) whilst net profit shrank by 68.9% to USD24.7 million (RMB175.2 million); by the end of the year, it had 450,562 cows, up by 45,204 head, with annual production of raw milk up by 9.5% to 2,588,000 tonnes
- **China Shengmu** (Stock Code: 01432.HK): Revenue grew by 5.5% to USD496.2 million (RMB3.5 billion) whilst net profit plummeted by 79.3% to USD12.1 million (RMB86.1 million); by the end of the year, it had 148,029 cows, with annual production of raw milk up by 12% to 711,465 tonnes, of which organic milk amounted to 548,000 tonnes, an increase of 19.7%
- **Youran Dairy** (Stock Code: 09858.HK): Revenue grew by 3.6% to USD2.6 billion (RMB18.7 billion) whilst net profit turned to a loss of -USD148 million (-RMB1 billion); by the end of the year, it had 582,739

cows, up by 16.7%, with annual production of raw milk up by 27.1% to 3,020,182 tonnes

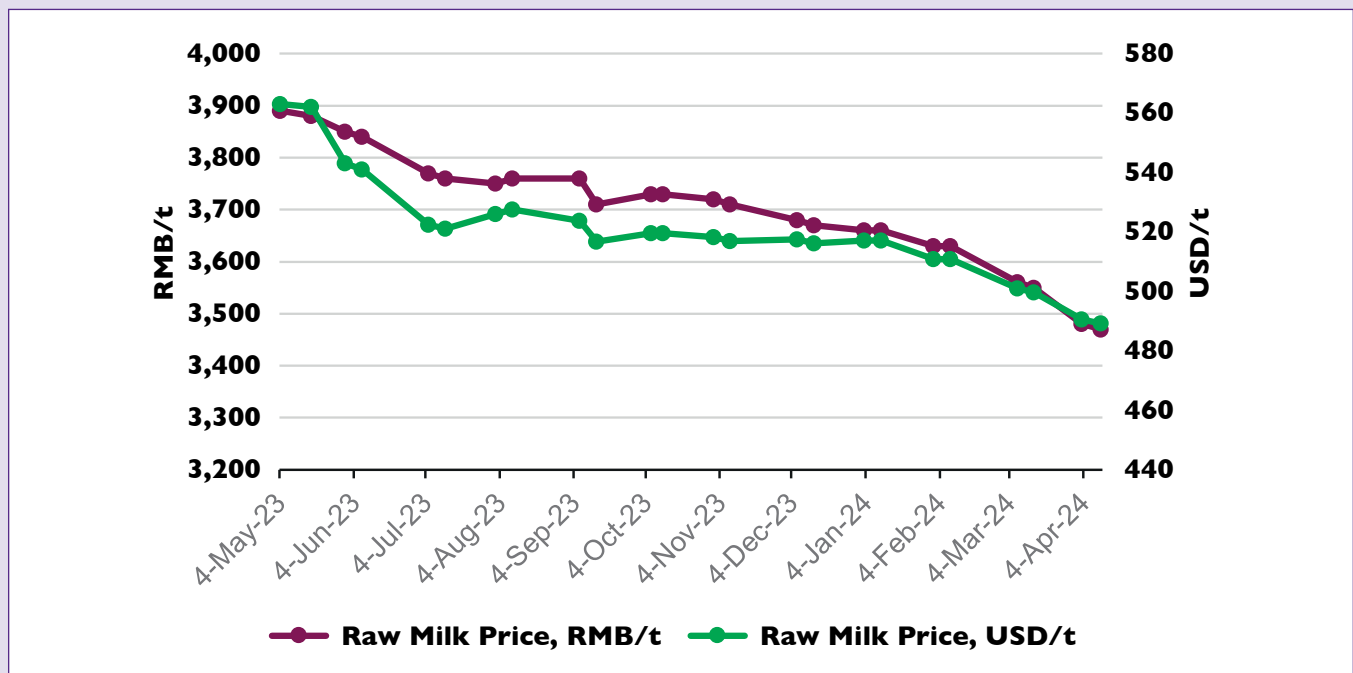
- **AustAsia** (Stock Code: 02425.HK): Revenue grew by 3.2% to USD553.2 million (RMB3.9 billion) whilst net profit turned to a loss of -USD68.9 million (-RMB488.8 million); it produced 783,000 tonnes of raw milk in the year, up by 9.8%. AustAsia is also reducing its farm construction work, including putting off work on a farm in Shandong originally planned for a start-up this year, to the end of 2025 – it cited severe performance pressure and market uncertainties as the reason

The number of dairy cows and milk output in China maintained growth rates of over 6% in 2023, and H1 2024 is expected to continue to see a significant surplus of raw milk, so Chinese dairying has to keep slowing its expansion to adjust to the imbalance between supply and demand.

Latest reference trading prices for raw milk for Q2 2024:

- Inner Mongolia: USD511.7/t (RMB3,630/t), with no upper limit for upward adjustment and not exceeding 7% for downward adjustment
- Shandong: USD465.2/t–USD521.6/t (RMB3,300/t–RMB3,700/t)

FIGURE 1: Trends in China's Raw Milk Price, May 2023–April 2024



Source: Ministry of Agriculture and Rural Affairs (MARA)

News in Brief

Dairy Imports in March 2024

Underlining the difficult market which has been apparent for some time now, China's dairy import volumes were almost universally down on March last year – the main exceptions being AMF, some cheeses, caseinates and WPC80/WPI.

TABLE 4: 2024 March Imports, tonnes

HS code	Product	202303	202402	202403	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	4,944.7	4,475.7	4,674.7	4.4%	-5.5%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	33,085.3	26,099.2	27,477.8	5.3%	-16.9%
04014000	Milk & cream, 6%	3.8	0.2	5.0	/	30.7%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	27,210.1	15,027.2	25,498.0	69.7%	-6.3%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	37,737.4	25,306.2	25,573.9	1.1%	-32.2%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	39,039.3	50,020.7	33,066.5	-33.9%	-15.3%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	75.4	2.5	1.4	-43.9%	-98.1%
04041000	Whey and modified whey	55,640.2	38,066.4	47,859.2	25.7%	-14.0%
04049000	Products consisting of natural milk constituents, nes	758.4	278.5	606.7	117.8%	-20.0%
04051000	Butter	11,828.3	7,933.4	8,175.8	3.1%	-30.9%

HS code	Product	202303	202402	202403	MOM	YOY
04059000	Other fats & oils derived from milk	1,136.3	1,623.6	3,019.1	86.0%	165.7%
04061000	Fresh cheese, incl. whey cheese, curd	8,099.7	4,149.0	6,261.6	50.9%	-22.7%
04062000	Grated or powdered cheese	3,394.0	2,625.2	4,989.0	90.0%	47.0%
04063000	Processed cheese, not grated or powdered	1,784.1	1,103.2	1,849.9	67.7%	3.7%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	10.5	4.9	9.7	97.4%	-7.5%
04069000	Cheese, nes	3,221.4	2,482.2	2,293.2	-7.6%	-28.8%
17021100	Anhydrous lactose, lactose wt.≥99%	12,596.3	11,169.3	11,417.0	2.2%	-9.4%
17021900	Lactose syrup & other lactose	15.7	2.5	5.8	137.0%	-63.0%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	32,528.1	16,967.5	12,363.5	-27.1%	-62.0%
35011000	Casein	1,730.4	1,546.4	1,701.7	10.0%	-1.7%
35019000	Caseinates	1,547.4	2,546.1	1,931.7	-24.1%	24.8%
35022000	WPC80/WPI	2,321.7	1,936.2	2,680.9	38.5%	15.5%

Source: China Customs

Shanghai Trials Labelling System for Sweet Beverages

In late March, the Shanghai Municipal Center for Disease Control and Prevention started a trial to add Nutri-Grade labels on beverages in stores, a move expected to raise consumer awareness of healthier drinks and to encourage companies to focus on healthier ingredients and product innovation.

This system classifies beverages into 4 tiers (A, B, C and D) based on their content of non-dairy sugars, saturated fats, trans fats and non-sugar sweeteners, with 'A' being the healthiest options and 'D' the least healthy. The labels are to be placed prominently on menus, packaging, and at sale points. To date, 3 beverage chains (CHAGEE, Nayuki, Starbucks) and a bottled fruit and vegetable juice producer (Hangzhou Leyuan Beverage Co., Ltd.) have committed to the system.

TABLE 5: Beverage Nutri-Grade Standard in Shanghai

Grade	Content, g/100ml			
	Non-dairy sugars	Saturated fats	Trans fats	Non-sugar sweeteners
A	≤0.5	≤0.75	≤0.3	No addition
B	0.5-5	0.75-2.5	≤0.3	Added
C	5-11.5	0.75-2.5	>0.3	Added
D	≥11.5	≥2.5	>0.3	Added

Source: Shanghai Municipal Center for Disease Control and Prevention

Meiji's New Dairy Factory Opens up in Guangzhou

On 21 March, Meiji China celebrated the official opening of Meiji Food (Guangzhou) Co., Ltd., its 6th factory and the first integrated manufacturing site for dairy products and chocolate confectionery in China.

The investment for this factory was USD211.5 million (RMB1.5 billion), providing a production capacity of up to 75,000 t/a for products including "CHUNYI" UHT Milk, "Probio" Yogurt Series, chocolate milk beverages and other milk beverages. The chocolate milk beverage series was launched in March in response to the growing chocolate snack market in China, and Meiji China plans to double its current capability for these items in Guangzhou.

At present, Meiji has 3 main dairy production operations across China: one in Tianjin (North China), one in Suzhou (East China) and this latest one in Guangzhou (South China).

China Feihe's Canadian Baby Formula Plant Approved

Recently, Canadian Food Inspection Agency (CFIA) approved Canada Royal Milk, a subsidiary of China Feihe Ltd (China Feihe, Stock Code: HK.06186), to begin sales in Canada. The 1st batch of products is expected to enter the local retail channel this summer, according to the company.

Canada Royal Milk was established between China Feihe and the Province of Ontario, with a joint investment of USD243.7 million (CAD330.0 million). The plant's construction began in June 2017 and was completed in 2019. It is China Feihe's 1st formula plant outside China – quite a move for a company which had a conservative reputation on the whole – and is designed to cover not only the local market, but also Asia, Europe and America in the future. The plant is expected to use the endorsement of Canada's rigid safety and quality systems to export its products to China.

Chevalese Dairy Expansion Details

On 3 April, Inner Mongolia Chevalese Dairy Group Co., Ltd. (Chevalese Dairy, Stock Code: 832786) announced it is increasing its capital spend by USD3.5 million (RMB25.0 million) on Phase II of the construction of its dairy plant in Baotou City, Inner Mongolia Autonomous Region. This is due to rising material costs. Initially involving an investment of USD7.0 million (RMB50.0 million), this phase is to provide 30,000 t/a designed capacity for milk powders.

The site's Phase I completed in 2019 and now produces 1,500 t/a yoghurt, 2,000 t/a fresh milk and 3,000t/a Lactobacillus drinks; Phase III is in the planning with a budget of USD41.7 million (RMB296.1 million), expected to build capacities including 66,000 t/a UHT milk, 2,640 t/a whipping cream, 23,100 t/a filtered milk, 16,500 t/a set yoghurt and 33,000 t/a stirred yoghurt within 3 months of completion after Phase II.

The company currently has 1,000 t/d milk processing capacity, due to rise to 1,500 t/d upon the completion of Phase III.

Nestlé Expanding Qingdao Factory

On 12 April, Nestle Qingdao Ltd broke ground for a UHT milk project in the food industry cluster zone of Laixi City (county-level). The construction of this expansion project is carried over 3 phases, with the 1st phase accounting for a budget of USD35.24 million (RMB250 million) to provide for 18,000 t/a Nestle Velvet Thickened (filtered) Milk Drink 1L, 30,000 t/a Nestle Whipping Cream 1L, and 14,000 t/a Nestle Whole Milk 1L. The estimated annual production value is up to USD225.5 million (RMB1.6 billion). It is designed to start operation in June 2025. It is not yet disclosed what phases 2 and 3 will involve.

Established in 1994, Nestle Qingdao is Nestlé's biggest production site in the Greater China Region, with 2 factories for liquid dairy products and instant coffee, and an instant drink product innovation centre. In 2023, it created production valued USD845.8 million (RMB6.0 billion) and has played a significant role in driving construction of the local raw milk processing industry chain in Laixi. By early 2023, there are 75,000 dairy cows in the city, producing around 200,000 tonnes of milk per year.

ChaPanda Goes Public on HKEX

Sichuan Baicha Baidao Industrial Co., Ltd. (the tea chain business also known as ChaPanda, Stock Code: 02555.HK) debuted on the Stock Exchange of Hong Kong Ltd (HKEX) on 23 April, offering 147,763,400 overseas listed foreign shares, at USD2.2 (HKD17.5) per share. Its shares flopped though on the first day of trading, closing on 24 April at USD1.5 (HKD11.6) per share, a 33.7% slump. It is the 2nd-freshly-made tea drinks chain going public, after Nayuki Holdings Ltd. (Nayuki, Stock Code: 02150).

As of 18 Feb., 2024, ChaPanda has 7,927 stores in 31 provinces and cities across China, 58.4% of which are located in 1st and 2nd tier cities. From 2021 to 2023, its turnovers were USD513.7 million (RMB3,644 million), USD596.6 million (RMB4,232 million) and USD804.1 million (RMB5,704 million), respectively, with a CAGR of 16.11%; its net profits were USD109.8 million (RMB779 million), USD136.0 million (RMB965 million) and USD162.3 million (RMB1,151 million) respectively, with net profit margins higher than 20%, taking a leading position in the industry.

ChaPanda said that approximately 51% of the net proceeds from this offering will be used to improve its overall operational capabilities and to strengthen its supply chain, 20% to drive digitalisation and talent development, 12% for branding and marketing, 5% to build its store network and 2% for product development and innovation.

Milkground Food Takes Hit to Cheese Sales in 2023

In late March, Shanghai Milkground Food Tech Co., Ltd. (Milkground Food, Stock Code: 600882) released its 2023 report, showing declines in both revenue and net profit:

- Revenue: USD570.8 million (RMB4.0 billion), down 16.16%
- Net profit attributable to equity shareholders of the listed company: USD8.9 million (RMB63.4 million), down 53.90%

Milkground Food summed up that segment sales and other key data have been affected by volatility in trading and exchange rates.

- Instant Nutrition Line (= chilled cheese sticks) recorded a 23.93% decline in sales, down to USD268.1 million (RMB1.9 billion); Home Cheese Line (= cheese slices) suffered a 36.10% fall in sales whilst only the Field series (Mozzarella, cheese slices, whipping cream, cheese dips, etc.) enjoyed a 7.61% sales growth to USD125.2 million (RMB888 million), due to the recovery of the foodservice channel
- Total cheese sales were 57,641.95 tonnes, down by 18.74%; capacity utilisation on cheese products averaged just 35.73%, down by 17.16 percentage points
- By the end of 2023, Milkground Food had 5,036 distributors – 1,770 partnerships were withdrawn and 1,588 were new cooperations started during the reporting period, with the total number down by 182 vs. the end of 2022, reflecting the difficult market environment last year
- Distribution expenses were down by 22.99% as a result of a notable cut in ads and other promotional spend, showing that the company has been conservative in the retail cheese market

Nayuki Returns to Profit

On 27 March, the tea chain business Nayuki Holdings Ltd. (Nayuki, Stock Code: 02150) released its 2023 Annual Report, announcing a return to profitability, with cost and expense proportions down to some extent.

Key financial data for 2023:

- Revenue: USD728.0 million (RMB5.2 billion), up 20.3%
 - Company-operated store sales: USD661.3 million (RMB4.7 billion), up 18.2%, making up 90.8% of Nayuki's total sales
 - > freshly-made tea drinks: USD532.4 million (RMB3.8 billion), up 20.5%
 - > bakery products: USD99.8 million (RMB707.7 million), down 8.8%
 - > bottled drinks: USD37.6 million (RMB266.6 million), up 69.8%
- Adjusted net profit: USD2.9 million (RMB20.9 million) overturning the loss of -USD65.0 million (-RMB461.3 million) in the previous year
- Store operating profit: USD116.8 million (RMB828.7 million), up 76.3%
- Store operating profit margins: 17.7%, up 5.9 percentage points

Depressed demand was the key factor, Nayuki pointed out, saying though there was a notable recovery of offline consumption in Q1 2023, the momentum did not last long. During the May Day holiday and school summer holiday, sales were moderate or even less than expected.

In market expansion, the number of Nayuki stores has continued to grow in the 1st / 2nd tier cities. Meanwhile, in 2023, Nayuki started granting franchises to stores in the lower-tier cities, and overseas operation – its first location in Thailand opened at the end of 2023. By March. 2024, there are around 1,800 Nayuki stores across China, of which 205 are operated by franchisees.

Nayuki expects demand pressure will continue throughout 2024 and it will keep investing in franchising and overseas markets to reach a wider range of customers.

Sanyuan Foods Reports Sales Dip in 2023

On 20 April, Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429) released its annual report for 2023, with key data as follows:

- Revenue: USD1.1 billion (RMB7.8 billion), down 1.38%
- Net profit attributable to parent company: USD34.2 million (RMB242.7 million), surged 502.39% due to the sale of its stake in Beijing Sunlon Livestock Development Co., Ltd.
- Net profit after excl. extraordinary gains/losses: USD0.3 million (RMB1.8 million), down 93.84%

The report states that the financials of HCo Lux S.à.r.l. and Beijing Sunlon Livestock Development Co., Ltd are no longer incorporated in Sanyuan Foods' annual figures from May 2022 and May 2023 respectively. Excluding these factors, the company's revenue figure grew by 9.34% in 2023.

It also notes that weak demand has led to a supply and demand imbalance in raw milk. The various dairy categories saw mixed developments in 2023: pure (UHT) milk was recovering in general; fresh milk grew strongly with an increasing number of new entrants/product launches; yoghurt products enjoyed growth but encountered intense competition; infant formula was challenged by the falling newborn number, with the big brands gaining market share at the expense of the smaller ones.

TABLE 6: Sanyuan Foods, Main Business Sales in 2023, USD million

Category	Revenue	YoY change	Operating cost	YoY change	Gross Margin Ratio	YoY change
Liquid dairy (UHT/fresh milk, chilled and ambient yoghurt, milk beverages)	682.59	3.91%	529.45	10.72%	22.44%	-4.78%
Solid dairy (milk formula, cheese)	128.98	23.52%	107.20	28.63%	16.89%	-3.30%
Ice cream and others	239.25	17.75%	163.23	24.76%	31.78%	-3.83%
Spreads*	0.00	-100.00%	0.00	-100.00%	/	/
Dairying products	30.90	-70.25%	35.70	-65.94%	-15.53%	-14.62%

Source: Sanyuan Foods' 2023 Annual Report

Note: *These results were contributed by HCo Lux S.à.r.l. whose financials are no longer incorporated since May 2022.

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