

# Dairy Products China News

## Guaranteed Exclusive Analysis

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Welcome to the December issue of Dairy Products China News.

Internationally, increasing cow efficiency and dairying sustainability are surely the greatest imperatives and profoundest challenges the upstream dairy sector has yet seen. But meanwhile, at product level, innovation is becoming ever more vital – one reason that the China's dairy market continues to change rapidly. In November we saw Danone launch Fortimel and Nestlé introduce a range of low lactose milk powders, both products aimed at addressing consumers' health and nutrition concerns. It is notable that innovation is increasingly coming from China's own businesses and institutions. For example, Mengniu recently launched HMO liquid formula milk for children, meeting the nutritional needs of children aged 3 and above, especially those transitioning from formula milk to regular milk. And our recent patent analytics study looking at cheese – once that most "foreign" of dairy products for Chinese industry – shows that China has been increasingly dynamic in innovation by this measure, changing the global dairy IP landscape irrevocably in the process.

None of this alters the worrying demand picture in China for overseas exporters though. The latest data out at the end of the year is not encouraging in this respect – for example the official purchasing managers' index (PMI) has fallen to 49.5 in December from last month's 49.4, in a context where a score of 50 point is widely held to distinguish growth from contraction. Manufacturing activity likely also contracted for a 3<sup>rd</sup> consecutive month. Hence the impact of measures to support demand in the economy remains very questionable, and it is unsurprising that our trade interviews around the country this month support a picture of companies facing a difficult business environment.

So we can expect 2024 to prove challenging and increasingly competitive for the dairy business in China. Nevertheless, we'd like to end on a positive note by wishing all readers a very Happy New Year – China's scale, diversity and increasingly its ingenuity often mean that it has the tendency to deliver the unexpected after all!

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## Headlines

- ▶ In Q1–Q3 this year, China's sales of liquid dairy products slipped in value terms by 2.2% YoY, attributed to reduced purchase frequency per customer and lower average unit prices.
- ▶ In late Nov., the Beijing-based Sanyuan Foods announced it will take over Shandong Sanyuan to facilitate expansion, whilst Tianrun Dairy started its 1<sup>st</sup> dairy plant outside of its home region.
- ▶ On 23 Nov., the China Nutrition and Health Food Association (CNHFA) issued an Association Standard for A2  $\beta$ -Casein (T/CNHFA 422–2023), effective as of 1 Dec., 2023.
- ▶ The State Administration for Market Regulation (SAMR) has issued the Revision of Administrative Measures on Registration of Foods for Special Medical Purpose (FSMPs), effective as of 1 Jan., 2024.
- ▶ The recent 2023 National School Milk Programme Conference summarised that China's national supply of school milk was 27.75 million boxes/bottles per day in the 2022–23 school year, with a target of 32 million cartons/bottles per day in 2024–25.
- ▶ China has drafted the first National Standards for Ultra Pasteurised Milk, and revised the existing standards for UHT milk and pasteurised milk. All are open for public feedback currently.
- ▶ Late last month, New Hope Dairy posted it would sell a 45% stake in the freshly-made yoghurt brand "A Yoghurt Cow", but announced a RMB200.0 million cooperation with Freshippo, a New Retail-driven grocery chain.
- ▶ Want Want China has reported revenue up 4.08% and operating profit up 19.47% YoY in H1 FY2023 (April–Sept. 2023).
- ▶ Youran Dairy recently gave an update on its dairy farm construction projects – these will add a total of 12,000 head and 70,750 t/a milk production.
- ▶ China's raw milk price moved down further in Dec. by 0.3% MoM, but the market expects a better year to come.

## Major Companies and Sites Mentioned in This Issue



## Market Analysis

### Liquid Dairy Trends Report for Q1–Q3 2023

**Summary:** In Q1–Q3 this year, China's sales of liquid dairy products slipped in value terms by 2.2% YoY, attributed to reduced purchase frequency per customer and lower average unit prices.

On 11 Dec., the Economic Daily (a Chinese state-owned newspaper) and Yili jointly published the Q1–Q3 Dairy Products Consumption Trend Report, with analysis of consumer data from Kantar. This shows that China's sales of liquid dairy products (UHT/fresh milk, UHT/chilled yoghurt, milk beverages and lactobacillus drinks) fell slightly over this period of 2023, whilst the share made up by imported products fell still further. The report also illustrates the market is trending towards the healthier categories.

#### Weak Consumption

In Q1–Q3, national sales of liquid dairy products went down by 2.2% YoY, with 99.3% market penetration. Although more urban households were consuming liquid dairy products, the purchase frequency per customer dropped and the average unit price of liquid dairy products declined by 4.1% YoY according to data from the Ministry of Commerce as of end of June.

Segment performances were mixed:

- Ambient liquid dairy ((UHT milk, yoghurt and milk beverages):

sales down 1.1% YoY, dropping less than the overall category average

- Chilled liquid dairy (chilled milk, yoghurt and cultured milk): sales down 6.3% YoY, due to fewer consumer purchases; but chilled milk purchase volumes and prices were up

By distribution channel, sales of liquid dairy through hypermarkets and large supermarkets fell over Q1–Q3 by 14.5% and 7.5% YoY respectively. But sales increased in smaller stores (incl. mini markets up 13.6%, convenience stores up 13.6%, grocery shops up 3.8%), and also in wholesalers (up 13.1%) and online shopping platforms (up 0.4%).

- Sales of ambient liquid dairy: hypermarkets made up 16.2% (a 15.6% decline), while mini markets and online platforms accounted for shares of 17.4% and 15.3% (growth of 15.7% and 1.4% YoY)
- Sales of chilled liquid dairy: hypermarkets led with a share of 22.6% (but saw a 10.9% decline); mini markets accounted for 14.9% (4.0% growth), and online platforms accounted for 14.0% (down by 4.2%)

By consumption region, sales in county-level cities and counties grew faster, contributing 30.4% of

sales of liquid dairy products, up by 1.0% YoY; conversely, sales in provincial capital cities, prefecture-level cities and Beijing, Shanghai and Guangzhou all fell.

#### Health Awareness Driving Segments

As awareness of health and nutrition issues has grown among the public, demand grew in niche segments that feature sugar reduction, organics and speciality proteins.

- In Q1–Q3, sales of sugar-reduced yoghurt increased by 14%, in contrast with a 15.0% decrease in sales of whole sugar yoghurt
- Sales of organic milk were up by 19.0%, compared with a meagre 0.9% growth in non-organic milk
- Sales of milk marketed with speciality proteins grew sharply by 27%: A2 milk up 34%, immunoglobulin milk up 57%, lactoferrin milk up 65%; while standard milk grew only 2%.

#### Imports under pressure

In Q1–Q3, locally produced liquid dairy products accounted for 97.2% of total sales compared with imported liquid dairy products at 2.8% only in value terms, with a significant reduction in ambient products, and strong growth in chilled products, but from a very low base.

**TABLE I: Sales of Domestic and Imported Liquid Dairy Products, Q1–Q3 2023**

Item	Domestic		Imported	
	Market Share	YoY Change	Market Share	YoY Change
Liquid dairy	97.20%	-1.10%	2.80%	-21.30%
– Ambient dairy products	96.60%	0.10%	3.40%	-22.80%
– Chilled dairy products	99.50%	-5.80%	0.50%	105.30%

Source: Q1–Q3 Dairy Products Consumption Trend Report

## Sanyuan Foods and Tianrun Dairy Focus on National Expansion

**Summary:** In late Nov., the Beijing-based Sanyuan Foods announced it will take over Shandong Sanyuan to facilitate expansion, whilst Tianrun Dairy started its 1<sup>st</sup> dairy plant outside of its home region.

China's dairy industry has been seeing a growing role played by some regional dairy firms, notable examples being Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429) and Xinjiang Tianrun Dairy Co., Ltd. (Tianrun Dairy, Stock Code: 600419) – although with contrasting performances in this regard.

### Sanyuan Foods

On 25 Nov. the company announced a proposal to take full control of Shandong Sanyuan Dairy Co., Ltd. (Shandong Sanyuan) from their mutual holding company Beijing Capital Agribusiness & Food Group Co., Ltd.(CAG). The target was valued at around USD15.0 million (RMB106.6 million) on 31 Dec., 2022, an 130.37% increase on its net assets which were worth USD6.5 million (RMB46.3 million) as of the valuation date.

Shandong Sanyuan has been entrusted to Sanyuan Foods by CAG to avoid the issue of horizontal competition. According to disclosed data, Shandong Sanyuan's operating profits were USD299,589 (RMB2.13 million) in 2021, USD541,418 (RMB3.85 million) in 2022, and USD283,472 (RMB2.02 million) in Q1–Q3 2023.

The deal is hoped to help drive its expansion outside Beijing, the motive behind its past acquisitions of French dairy brand St Hubert, Beijing Sunlon Livestock Development Co., Ltd., Beijing Allied Faxi Food Co., Ltd., and Hunan Taizina Biological Technology Co., Ltd. However so far this has been in vain: Sanyuan Foods' sales outside Beijing have been making a shrinking contribution to its total sales: 47.73% in 2020, 42.44% in 2021, and 38.63% in 2022.

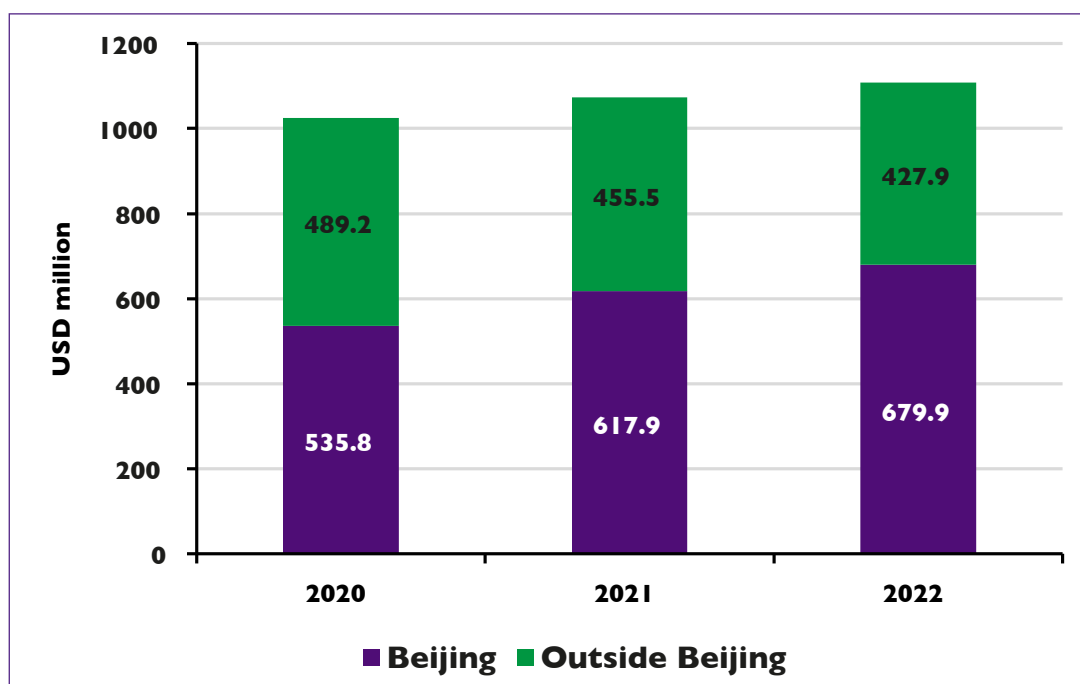
Moreover its overall performance has been unimpressive: in Q1–Q3 this year, its total sales reduced by 2.41% YoY to USD864.9 million (RMB6.2 billion) and its net profit after excl. extraordinary gains/losses plunged by 77.49% to USD3.4 million (RMB24.3 million).

### Tianrun Dairy

On 28 Nov., Tianrun Dairy completed the 1<sup>st</sup> phase of a 150,000 t/a dairy processing project, with 105,000 t/a liquid milk capacity becoming operational in Qihe County, Dezhou City, Shandong Province. This project entails a total investment of USD68.9 million (RMB489.7 million) and is led by its subsidiary Tianrun Qiyuan Dairy Co., Ltd. (Tianrun Qiyuan), which was founded in Jan. 2022. It is Tianrun Dairy's 1<sup>st</sup> large-scale construction project outside Xinjiang Autonomous Region, aiming to help develop the company's business on a more national scale. It is supplied by the local dairy farm (AustAsia's Chunyuan Pasture Co., Ltd) and sells products locally and to the neighbouring markets in the Beijing-Tianjin-Hebei region.

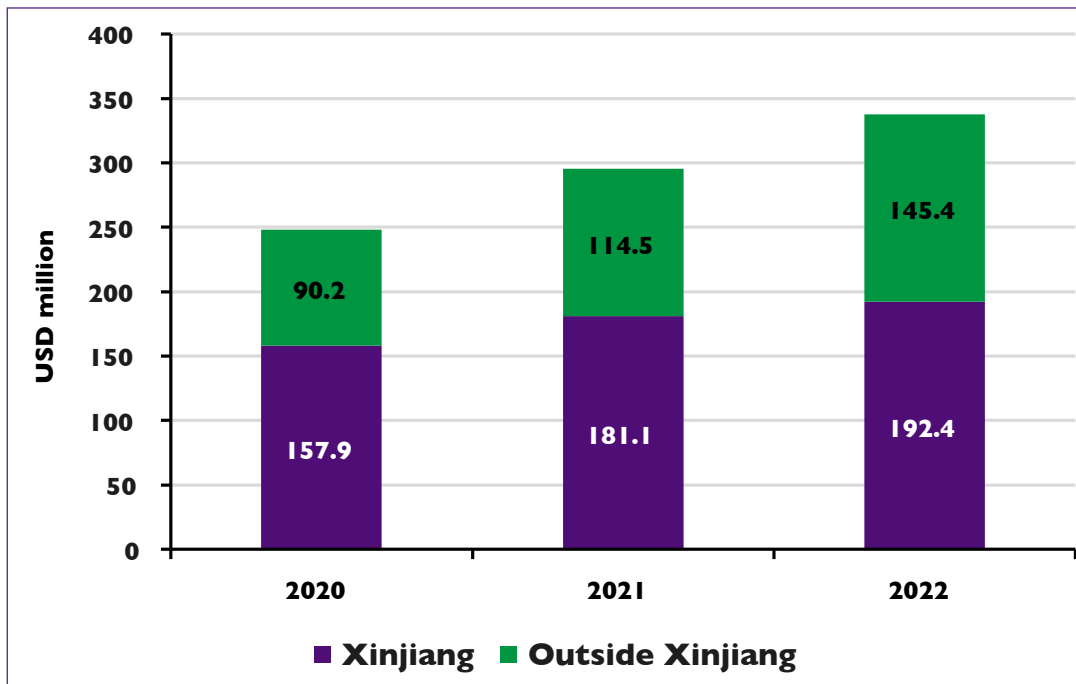
The contribution of sales outside Xinjiang to Tianrun Dairy's total sales has been growing in the past three years: 36.35% in 2020, 38.74% in 2021, and 43.04% in 2022. In Q1–Q3 this year, its sales outside Xinjiang were USD132.6 million (RMB942.6 million) representing 45.44% of its total sales; over the same period, 125 new distributors outside Xinjiang were added, taking its national total to 878 (496 outside Xinjiang overall).

**FIGURE I: Sanyuan Foods' Main Business Revenue by Region, 2020–2022**



Source: Sanyuan Foods

**FIGURE 2: Tianrun Dairy's Main Business Revenue by Region, 2020–2022**



Source: Tianrun Dairy

## Chinese Association Standard for A2 $\beta$ -Casein Comes into Force

**Summary:** On 23 Nov., the China Nutrition and Health Food Association (CNHFA) issued an Association Standard for A2  $\beta$ -Casein (T/CNHFA 422–2023), effective as of 1 Dec., 2023.

A2  $\beta$ -Casein has been a trending dairy ingredient in China over recent years. On 23 Nov., the China Nutrition and Health Food Association (CNHFA) issued an Association Standard for A2  $\beta$ -Casein (T/CNHFA 422–2023), effective as of 1 Dec., 2023, the drafting of which has been led by Hangzhou Adopt A Cow Biotechnology Co., Ltd., Beidahuang Wondersun Dairy Co., Ltd. and Northeast Agricultural University (NEAU).

This Standard provides the definition of commercialised A2  $\beta$ -casein milk, requirements for technical indicators, inspection rules, labelling and packaging, and transport and storage.

- Definition: A2  $\beta$ -Casein is a variant of  $\beta$ -casein with proline in the amino acid position 67 in the primary sequence
- An A2 Cow is a dairy cow that produces homozygous A2  $\beta$ -casein during the synthesis of  $\beta$ -casein
- Application scope: This standard applies to whole UHT milk or whole fresh milk sourced only from A2 cows
- Physicochemical indicator range: Fat $\geq$ 3.4g/100g; protein $\geq$ 3.2g/100g; A2  $\beta$ -casein $\geq$ 0.9g/100g

A survey from JD.com (one of China's leading E-commerce platforms) showed that in 2022, sales of A2  $\beta$ -casein milk grew 7-times faster than the sales of conventional milk on the platform.

This year, many dairy firms have launched products into the category:

- In Feb., Nestlé introduced its first fresh A2  $\beta$ -casein milk in China
- In April, Beijing Sanyuan Foods Co., Ltd. (Sanyuan Foods, Stock Code: 600429) announced it was to upgrade all of its IMF lines to using A2  $\beta$ -casein milk from its own farms in cooperation with the National Dairy Cows Embryo Engineering Technology Research Centre
- In May, Adopt a Cow Holding Group Co., Ltd. opened an A2 organic dairy farm in Anda City, Heilongjiang Province, and in Oct., it celebrated its cumulative production of A2  $\beta$ -casein milk reaching 400 million bottles
- In Nov., a2 Milk Company launched the China Label a2 Milk "Zhichu"<sup>®</sup> Infant Formula series using single-stage dried New Zealand A2 fresh milk. The series guarantees 95% purity of lactoferrin and contains A2  $\beta$ -casein only (i.e. not including A1 $\beta$ -casein)

However, the A2  $\beta$ -casein milk category, despite its recent hype, has made only limited progress in penetrating China's dairy market overall. Consumer data from Kantar shows that in a year from June 2022 to June 2023, A2  $\beta$ -casein-based IMF products made up only 7.5% of the country's IMF market.

One of the reasons is the high selling price of such products that – other than the addition of A2  $\beta$ -casein – have no other particularly distinctive nutritional features. Another constraint is consumers' lack of related knowledge, so how this category will develop remains an open question.



## Governmental Direction

### Revision of Administrative Measures on FSMP Registration

**Summary:** *The State Administration for Market Regulation (SAMR) has issued the Revision of Administrative Measures on Registration of Foods for Special Medical Purpose (FSMPs), effective as of 1 Jan., 2024.*

In early Dec., the State Administration for Market Regulation (SAMR) has issued the *Revision of Administrative Measures on Registration of Foods for Special Medical Purpose (FSMPs)*, effective as of 1 Jan., 2024.

FSMPs are foods formulated to meet the special dietary requirements of people with restricted feeding, digestive and absorption disorders, metabolic disorders or specific diseases or conditions, including products for infants aged 0–12 months and for people of above 12 months (including full-nutrition FSMP, non-nutrition FSMP, and full-nutrition formula food for use in special diseases).

The Revision includes stricter regulations on production registration conditions and procedures to ensure higher levels of product quality and safety and clinical effect, and promotes clinical value-oriented innovation and innovation for a wider range of special groups. In addition, it adds rules for overseas companies that plan to produce and market FSMPs in China, or export FSMPs to China, covering application conditions, registration procedure, clinical trials, labelling and instruction manual, supervision and management, and legal liability.

#### Major revisions:

##### 1. Detailed product registration management

- The conditions, capabilities, legal responsibilities and obligations of applicants are further emphasised
- Registration are to be refused in 7 situations which which are not clearly defined in the current version:

1. Application documents are falsified or false
  2. Product deficiency in terms of safety, nutritional adequacy or clinical effectiveness
  3. The applicant lacks capabilities for developing, producing or testing the product
  4. The applicant fails to submit supplementary or replacement documents (if missing / incorrect from their first submission) within the prescribed time limit
  5. The applicant refuses / fails to cooperate with on-site or sampling inspections
  6. Conclusion of on-site inspection report or sampling inspection report does not meet the registration requirements
  7. Other situations falling short of national laws, regulations, rules and food safety standards
- Requirement for on-site inspection to verify the consistency between application documents and the actual production situation, and for follow-up inspection on raw materials when necessary, are refined
  - An item of "Other Product Technical Requirements" is added on the registration certificate, to exhibit the product's quality and safety

##### 2. Support for clinical value-oriented innovation

- Prior assessment and approval processes should be set up for products designed for rare diseases, urgent clinical needs, or belong to a brand new category that has yet to be approved; this prior assessment time is reduced to 30 working days from 90 days, with priority given to on-site inspection and sampling

##### 3. Labelling standardisation to protect consumer rights and interests

- Labels of FSMPs should provide truthful, accurate, clear and clearly marked and legal information
- The main panel on the label should include product name, registration number, suitable users for the product, and the notice "Please Use under the Supervision of a Doctor or Registered Dietitian Nutritionist"
- No misleading claims of the functions of added nutrients or other ingredients should be on the product label

##### 4. Optimisation of registration procedure

- Applicants are given 30 days for preparation for on-site inspection before written reply of whether or not accepting the designed date to the official body
- On-site inspection is shortened to 10 days to improve the overall work efficiency of product registration
- The acceptability of e-certificates to confirm registration is underlined

##### 5. Strict supervision and management and strengthened legal responsibility

- Applicants suspected of dishonesty during the registration process are expressly prohibited from withdrawing the application for registration and are dealt with in accordance with the law
- Obtaining registration certificates by deception and bribery, as well as illegal acts such as forging, altering, reselling, renting and lending registration certificates should be severely punished
- Applicants suspected of involvement in criminal activities should be transferred to the public security bodies for criminal sanctions

## 2023 National School Milk Programme Summary and Outlook

**Summary:** The recent 2023 National School Milk Programme Conference summarised that China's national supply of school milk was 27.75 million boxes/bottles per day in the 2022–23 school year, with a target of 32 million cartons/bottles per day in 2024–25.

On 6 Dec., the Dairy Association of China held the 2023 National School Milk Programme Conference. At the event, it summarised the programme achievements made in the 2022–23 school year and outlined the next stage of the Programme.

### Latest Achievements

- A total of 153 dairy producers, affiliated to 81 groups, have won the "School Milk of China" logo for their dairy products, an increase of more than 30 vs. the total in 2020; their gross processing capacity for school milk is 84,000 tonnes per day, sufficient to meet national demand
- In the spring semester of 2023 (Feb. to July), national school milk output was 453,000 tonnes, valued at USD606.2 million (RMB4.3 billion) — 90% comprised UHT milk and UHT modified milk, 10% fermented and fresh milk – the newly-added categories to the Programme last year
- In the 2022–23 school year, the average daily supply of school milk nationwide was 27.75 million cartons/bottles, from which:
  - 46% were supplied to poor rural areas in line with China's Nutrition Improvement Program for Rural Compulsory Education Students that encourages students in rural compulsory education to consume 200g-300g of milk or dairy products per day
  - 54% were voluntary orders covering 32.10 million of students in 100,000+ schools across the country
- In the 2022-23 school year, 9 provinces consumed over 1 million cartons/bottles of school milk per day; these were

– in descending order – Hebei, Henan, Guangdong, Shandong, Hubei, Yunnan, Sichuan, Guangxi and Jiangsu; and 10 provinces' school milk supply covered over 1 million students, composed of Hebei, Guangdong, Henan, Shandong, Hubei, Yunnan, Guangxi, Sichuan, Jiangsu and Hunan

### Outlook for 2024–25

For 2024-25, the Programme aims to cover 36 million students, providing over 36 million cartons/bottles of school milk per day; the numbers of producers is expected to reach 180 and certified school milk production sites to 450, with a product mix including UHT/fresh milk, UHT modified milk, fermented milk and processed cheese.

Measures for the Next Stage are listed out:

- Strengthen supervision and management of manufacturers to ensure that especially the quality of raw milk for school milk products and the milk-into-school operation process are up to the related association standards, and to complete the traceability system for school milk products
- Tighten unified use of the "School Milk of China" logo on products, including requirements on the logo pattern and printing
- Give full play to the role of experts, and support cooperation of universities and research institutes with enterprises in innovation
- Strengthen promotion efforts to further enhance the community's understanding of the School Milk Programme
- Deepen communication and collaboration among government departments of agriculture, market supervision and management, education, healthcare, to push the Programme's involvement with non-government nutritional institutes, educational institutes, foundations, etc.
- Make good use of international platforms and channels to intensify international exchanges and cooperation with other countries and regions in the field of school milk

## Drafts National Standards for Pasteurised, Ultra Pasteurised and UHT Milks

**Summary:** China has drafted the first National Standards for Ultra Pasteurised Milk, and revised the existing standards for UHT milk and pasteurised milk. All are open for public feedback currently.

On 7 Dec., the National Food Safety Standards Review Committee released draft national food safety standards for ultra pasteurised milk, ultra-high temperature (UHT) Milk and pasteurised milk, open for public feedback until

10 Feb., 2024. The 3 standards include clear product definitions and requirements for production techniques, package labelling, and physicochemical indicators for speciality milks from water buffalo, yaks, camels and horses.

### The National Food Safety Standard for Ultra Pasteurised Milk

Definition of terminology: Ultra Pasteurised milk is the liquid product made with raw milk from a single

animal source processed through high temperature sterilisation.

Technical requirements:

- High temperature sterilisation process:
  - heating at 115°C or above for at least 20s
  - heating at 120°C or above for at least 15s
  - heating at 130°C or above for at least 2s

• If other thermal processing methods that achieve an equal sterilisation effect are used, the milk samples need to meet the following targets:

- Alkaline phosphatase tests negative
- Furosine content is  $\leq 100.0$  mg in per 100g of protein

Labelling requirement: Ultra pasteurised milk should be labelled with "高温杀菌×乳(奶)" / "ultra pasteurised x milk" on the main packaging surface. (Note: "x" refers to the animal providing the raw milk).

### The National Food Safety Standards for Ultra-High Temperature (UHT) Milk and for Pasteurised Milk

These are revisions of the existing standards GB 25190-2010 and GB 19645-2010, adding more

specific technical requirements and physicochemical indicators for milk of special animal sources.

Technical requirements for UHT milk:

- Ultra-high temperature sterilisation process: heating milk in a continuous process at 132°C or above for at least 4s, or using other thermal processing methods that achieve an equal sterilisation effect
- Retort sterilisation process: heating at 116°C or above for at least 20 mins after filling and sealing

Technical requirements for pasteurised milk:

- As shown in the table below, the temperature and time in the pasteurisation process and in other heating processes should meet the corresponding requirements

**TABLE 2: Temperature and Time Requirements for Pasteurisation**

Temperature	Time
63°C	30 mins
72°C–80°C	15s
89°C	1.0s
90°C	0.5s
94°C	0.1s
96°C	0.05s
100°C	0.01s

Source: Draft National Food Safety Standard for Pasteurised Milk

**TABLE 3: Equivalent Indicators for Other Thermal Processing Methods for Pasteurised Milk**

Item	Index
Alkaline phosphatase	Negative
furosine, mg/100g protein	$\leq 12.0$
Lactoperoxidase	Positive

Source: Draft National Food Safety Standard for Pasteurised Milk

Note: 1. Samples shall be taken during processing 2. At least one of lactoperoxidase or furosemide should comply with the requirement

**TABLE 4: Physicochemical Indicators for Ultra Pasteurised Milk, Pasteurised Milk, and UHT Milk**

Item	Index						
	Cow milk	Goat/sheep milk	Water buffalo milk	Yak milk	Camel milk	Horse milk	Donkey milk
*Fat, g/100g, $\geq$	3.2	3.1	5.5	5	3.5	0.4	0.25
Protein, g/100g, $\geq$	2.9	2.8	3.8	3.8	3.3	1.4	1.5
Non-fat milk solids, g/100g, $\geq$	8.1	8.1	8.8	9	8.1	7	7.5
Acidity, °T	10–18	6–14	10–18	16–22	16–24	$\leq 18$	$\leq 6$

Source: Draft national food safety standards for ultra pasteurised milk, pasteurised milk, and UHT milk

Note: \*only applicable to whole milks



## Company Dynamics

### New Hope Dairy Spins Off "A Yogurt Cow" Chain

**Summary:** Late last month, New Hope Dairy posted it would sell a 45% stake in the freshly-made yoghurt brand "A Yogurt Cow", but announced a RMB200.0 million cooperation with Freshippo, a New Retail-driven grocery chain.

On 29 Nov., New Hope Dairy Holdings Co., Ltd. (New Hope Dairy, Stock Code: 002946) posted a notification that it would transfer a 45% stake in Chongqing Xinniu Hanhong Industrial Co., Ltd. (CXHI, operating "A Yogurt Cow", a freshly made yoghurt and tea chain) to Caogen Zhiben Group (a branch of New Hope Group focused on cold chain logistics and FMCG sales). At present A Yogurt Cow has 1,000+ stores in China, most in Chengdu, Chongqing and Xi'an.

#### Out of Freshly-Made Yoghurt

Once the transfer completes, New Hope Dairy will retain a 15% stake in CXHI and continue to supply the chain with fresh milk, yoghurt and other raw materials, but the operating financials of CXHI will no longer be incorporated into its annual statement; Caogen Zhiben Group and Chongqing Jingrun Hanhong Enterprise Management Consulting Co., Ltd. will own 45% and 40% respectively of CXHI.

Back in 2021, New Hope Dairy acquired a 60% stake in CXHI for USD32.5 million (RMB231.0 million), along with the related brand assets and operation sources of A Yogurt Cow. The chain had carved out a position for itself in the niche freshly-made yoghurt market, making sales of USD33.8 million (RMB240.0 million) in 2019. New Hope Dairy aimed to build the business through the chain's stores and via social media apps like Wechat, Weibo, Douyin etc. Under the terms of the deal, New Hope Dairy would acquire the remaining 40% of the equity if CXHI's cumulative net profit exceeded USD17.9 million (RMB127.4 million).

However, operational misjudgements and the repercussions of the pandemic meant disappointing results:

- 2022: Sales revenue was only USD29.4 million (RMB208.7 million), resulting in a net loss of -USD1.4 million (-RMB9.9 million)
- Q1–Q3 2023: Sales revenue went up to USD33.0 million (RMB234.7 million), but still with a net loss of -USD585,466 (-RMB4.2 million)

Two consecutive years of losses and the rapid rise of new entrants like MORE YOGURT have reduced New Hope Dairy's interest in the segment and led it to refocus on more promising areas such as fresh milk and featured chilled products including 0-sugar yoghurt, probiotic yoghurt and carbonated yoghurt drinks.

#### Into New Retail

In late Nov., New Hope Dairy signed a USD28.1 million (RMB200.0 million) purchase contract with Freshippo, Alibaba Group's digital intelligence-powered new retail-driven grocery chain converging online and offline shopping.

Freshippo was launched in 2015 as Alibaba looked to leverage its expansive logistics network. In 2017 Alibaba's co-founder Jack Ma announced a 'Five New' strategy – comprised of New Retail, New Finance, New Manufacturing, New Technology and New Energy. He said that *"E-commerce is rapidly evolving into New Retail. The boundary between offline and online commerce disappears as we focus on fulfilling the personalized needs of each customer."* Freshippo supermarkets (formerly operating as Hema) are designed to provide a seamless convergence of offline and online where the offline stores serve as warehousing, sorting, and distribution centres, in contrast to its competitors' use of a front-end warehouse model, which often carries higher fulfillment costs. It is expected to deliver cost-effective improvements in both the companies' supply chains. By analysing a constant stream of real-time data, Freshippo is able to gain instant insights into changing consumer needs online and offline, allowing multiple fresh milk collaborations which should improve New Hope Dairy's inventory turnover. Meanwhile, New Hope Dairy will start fresh milk supply for Freshippo's bakery production in Kunshan City, Jiangsu Province, hopefully maximising its plant utilisation through economies of scale.

New Hope Dairy production sites in Kunming, Chengdu, Changsha, Qingdao and Hangzhou will be able to support timely and cost-efficient delivery of milk to Freshippo's stores nationwide.

Freshippo has partnerships in place with a wide range of overseas leading food brands and retailers – in the Chinese dairy industry, it also has established partnerships with Yili, Mengnu, Bright Dairy and other brands to sell products exclusively in Freshippo stores.

## Want Want China Reports Growth in H1 FY2023

**Summary:** *Want Want China has reported revenue up 4.08% and operating profit up 19.47% YoY in H1 FY2023 (April–Sept. 2023).*

In late Nov., Want Want China Holdings Ltd. (0151.HK) released its mid-term financial report for FY2023 (April–Sept. 2023) with key data as follows:

- Revenue: USD1.6 billion (RMB11.3 billion), up 4.08% YoY
- Operating profit: USD348.2 million (RMB2.5 billion), up 19.47% YoY
- Profit attributable to shareholders: USD243.6 million (RMB1.7 billion), up 8.53% YoY

A combination of rising gross margin and decreased operating costs contributed to the surge in the company's operating profit. During the reporting period, Want Want China's gross margin rose 2.4 percentage points YoY to 45.2%, thanks both to its

continuous rationalisation of its product range and the reduction of prices of commodities and packaging materials; its operating costs ratio fell by 0.3 percentage point to 26.2%, due to improved supply chain and channel management.

### Dairy Products and Beverages

Dairy products and beverages remain Want Want China's main focus, accounting for 54% of its total revenue. This category saw its gross margin up 2.0 percentage points to 47.3%, due to high single digit to median double digit declines in packaging material cost per unit and steady WMP imports costs per tonne.

- Sales of "Hot-Kid Milk", its flagship line, grew by medium-high single digits, with bottles up by 20% YoY because of the recovering demand in foodservice and vending machines

- Beverage sales grew by double digits, with sales of its PET bottles of its Lactobacillus Drink" doubling
- New products launched during the period to meet the more diverse market demands include: "Milk for Everyday" (modified milk for breakfast), "Hot-Kid Milk" upgraded package (1L, for the foodservice channel) and "Hot-Kid Nut Milk for Children" (a premium product, selling at USD19.5 or RMB138.6 per 125ml\*36 cartons)

### Overseas Operations

Want Want China's overseas sales enjoyed double digit growth, with Asia and the Americas the main contributors. The Vietnam factory started to take overseas orders during the reporting period. The 5 overseas divisions in Vietnam, Thailand, Indonesia, Germany and North America are all now operational.

**TABLE 5: Want Want China's main business sales in H1 FY23 (April–Sept. 2023), USD million**

Category	H1 FY22	H1 FY23	YoY Change
Dairy products and beverages (UHT/chilled flavoured milk and yoghurt, lactobacillus drinks, RTD coffee, juice drinks, sports drinks, etc.)	800.7	857.4	7.09%
Leisure snacks (candy, ice cream & popsicle, biscuits, jellies, nuts, etc.)	433	426.4	-1.53%
Rice crackers and extruded snacks	277.3	289.7	4.46%
Others (mainly alcohol)	12.5	12.1	-2.81%

Source: Want Want China's Mid-term Financial Report for FY2023

## Progress on Youran Dairy's New Dairy Farms

**Summary:** *Youran Dairy recently gave an update on its dairy farm construction projects – these will add a total of 12,000 head and 70,750 t/a milk production.*

In Dec., China Youran Dairy Group Ltd (Youran Dairy, Stock Code: 09858.HK) published construction plans for 2 dairy farms in Yinchuan City, Ningxia and Ordos City, Inner Mongolia, and updated on its completed new farm in Hulunbuir City, Inner Mongolia. These 3 farms are adding 12,000 head in total.

### Farm Expansion in Yinchuan, Ningxia

- Construction unit: Ningxia Saikexing Reproduction Co., Ltd.
- Construction nature: Expansion
- Total investment: USD15.5 million (RMB110.0 million), 19.03% (=USD2.9 million/RMB20.9 million) of which for environmental protection
- Site area: 230,011 m<sup>2</sup>
- Construction content: add 4 cattle sheds and the supporting facility; relocate 2,800 heifers that were introduced during the 1<sup>st</sup>-phase construction of the farm to the expansion area; add 2,800 milking cows to the 1<sup>st</sup>-phase area (please see the following chart)
- Construction period: 10 months

### Farm Expansion in Ordos, Inner Mongolia

- Construction unit: Ordos Saikexing Reproduction Co., Ltd.
- Construction nature: Expansion
- Total investment: USD1.4 million (RMB10.2 million), 8.86% (=USD126,575/RMB900,0000) of which for environmental protection
- Site area: on the existing site of 757,671 m<sup>2</sup>
- Construction content: add 2 sheds for adult milking cows and the supporting facilities
- Scale: add 2,000 dairy cows in total (937 milking cows and 1,063 replacement heifers); the total stock will be 10,000 head (5,063 milking cows and 4,937 replacement heifers)
- Designed capacity: see chart below
- Start of construction: March 2024
- End of construction: Nov. 2024

### New Farm Construction in Hulunbuir, Inner Mongolia

- Construction unit: Hulunbuir Saikexing Animal Husbandry Co., Ltd.
- Construction nature: New construction

- Total investment: USD74.0 million (RMB526.2 million), 4.42% (=USD3.3 million/RMB23.4 million) of which for environmental protection
- Site area: 875,992 m<sup>2</sup>
- Construction content: 22 cattle sheds, 2 milking rooms and the supporting facility
- Scale: 7,434 dairy cattle including 2,352 adult milking cows, 4,124 replacement cattle and 985 calves
- Designed output: 20,000 t/a raw milk for sale and annual cullings of 19 dairy cows
- Construction period: Oct. 2020 to Feb. 2023
- Site acceptance test: 4-5 April, 15-16 July, 8 Nov., 2023

These farms are wholly-owned subsidiaries of Youran Dairy's Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (Saikexing), which is one of the largest dairy breeders in China. In Dec., the Holstein Association USA released the results of genomic testing and evaluation of bulls. Two Saikexing bulls won the 1<sup>st</sup> and 2<sup>nd</sup> places among Chinese registrations in the US, scoring 3158 and 3134 on the Genomic Total Performance Index (GTPI) respectively, and it has 16 bulls amongst the top 20 Chinese registrations.

**TABLE 6: Dairy Stock and Product Scheme of Farm Expansion in Yinchuan, Ningxia**

Item	Current operation		After expansion		
	Phase I	Phase II	Phase I	Phase II	Expansion
<b>Stock, head/year</b>					
Milking cows	1,000	1,500	3,800	1,500	/
Heifers	2,800	1,000	/	1,000	2,800
Dry cows	200	200	200	200	/
Calves	200	300	200	300	/
<b>Sub-total</b>	<b>4,200</b>	<b>3,000</b>	<b>4,200</b>	<b>3,000</b>	<b>2,800</b>
<b>Total</b>	<b>7,200</b>		<b>10,000</b>		
<b>Product, t/a</b>					
Raw milk	22,000	15,000	60,000	15,000	/
<b>Total</b>	<b>37,000</b>		<b>75,000</b>		

Source: Ningxia Saikexing Reproduction Co., Ltd.

**TABLE 7: Product Plan of Farm Expansion in Ordos, Inner Mongolia**

Product type		Expansion	Total after expansion
Milk, t/a		12,750	63,900
Culling, head/year	Adult milking cows	330	1,650
	Replacement heifers	20	102
	Calves	16	80

Source: Ordos Saikexing Reproduction Co., Ltd.

## Raw Milk Price

### China's Milk Price Decline Continues in Dec.

**Summary:** China's raw milk price moved down further in Dec. by 0.3% MoM, but the market expects a better year to come.

In the week ended 13 Dec., China's raw milk price averaged USD516.1 (RMB3,670) per tonne, down 0.3% from the first week of the month and down 11.1% YoY.

#### Feed market:

- The national price of corn averaged USD396.6/t (RMB2,820/t), down 0.7% from the first week of the month and down 8.1% YoY; the average in major production regions (Heilongjiang, Jilin and Liaoning) was down 0.8% to USD362.8/t (RMB2,580/t); and the price in the main demand area, Guangdong, down by 0.3% to USD410.7/t (RMB2,920/t) from the first week
- The national price of soybean meal averaged USD610.4/t (RMB4,340/t), down 0.2% from the first week of the month and down 16.7% YoY

**Despite continuing, the pace of decline has slowed.**

- In H1 2023, China's milk price dropped from USD593.0/t (RMB4,120/t) to USD541.0/t (RMB3,840/t), with a monthly decline of -1.3% on average in RMB terms
- In H2 2023, the average milk price continued to fall from USD522.0/t (RMB3,770/t) to USD516.1/t (RMB3,670/t), but at a lower monthly rate. In particular, there was an uptick in September as demand was buoyed by holiday and back-to-school sales.

#### Dairying changes

The sector's concentration has increased – data from the Ministry of Agriculture and Rural Affairs (MARA) shows that the number of certified farming householders by Q3 2023 was down by 0.9% QoQ and down by 25.3% YoY. However, the total dairy cattle number increased by 1.5% QoQ and 6.2% YoY, and cows per householder increased by

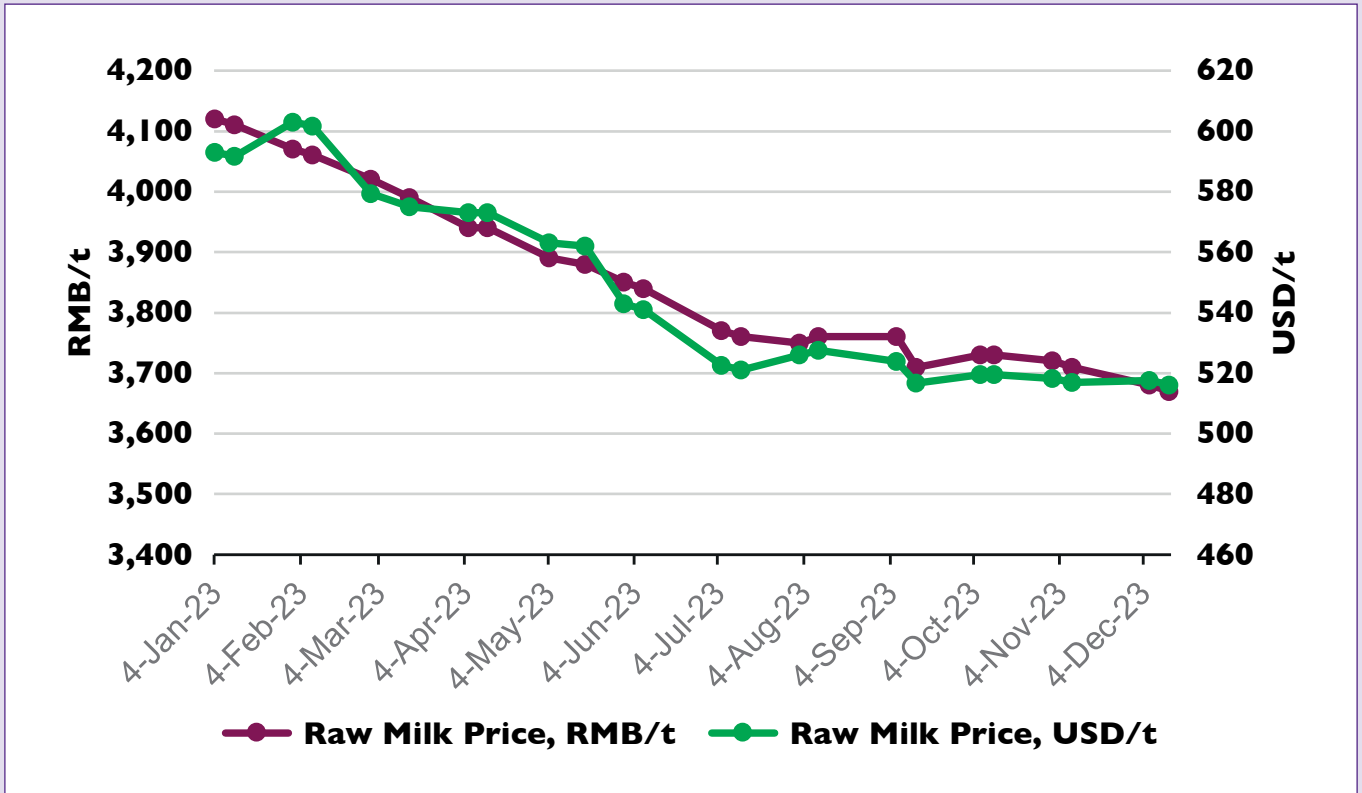
2.4% QoQ and 42.1% YoY.

Cost pressure has eased. Since Sept., the corn price has fallen month on month, from USD427.6/t (RMB3,070/t) to USD396.6/t (RMB2,820/t) in Dec., and the soybean meal price was down from USD690.9/t (RMB4,960/t) to USD610.4/t (RMB4,340/t) in Dec., though both remained at historical highs.

#### Government support

To boost demand in the economy overall, the state launched two national measures in H2 (separately, one to restore and expand demand and another to steady growth in light industry). Market segments such as functional food, sports nutritionals, food for special medical purpose (FSMP) are all seen as areas for promotion. Time will tell how effective these measures may have been, but the trade has welcomed them so far at least.

**FIGURE 3: Trends in China's Raw Milk Price, Jan. 2023–Dec. 2023**



Source: Ministry of Agriculture and Rural Affairs (MARA)



## News in Brief

### Dairy Imports in November 2023

In terms of YoY trends, the import volumes for November show a mixed picture. They were lower for products such as milk powder, despite increased activity by Chinese buyers in the last GDT event of the year, and not yet reflecting New Zealand's higher milk powder shipments during the same month. Additionally, they were down in the cases of liquid milk, milk fats, casein and whey proteins, also IMF. However, they were significantly increased in some cases, such as cream, cheese (all the main segments), lactose – and also to a lesser extent for whey powders/permeates.

**TABLE 8: 2023 November Imports, tonnes**

HS code	Product	2022 I I	2023 I O	2023 I I	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	8,110.7	5,361.7	5,127.9	-4.4%	-36.8%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	55,325.0	43,389.1	36,652.3	-15.5%	-33.8%
04014000	Milk & cream, 6%	0.0	2.7	0.2	-93.2%	/
04015000	Milk & cream, fat >10%, not concentrated or sweetened	21,662.7	22,098.4	24,699.3	11.8%	14.0%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/sweetened	25,184.6	22,472.9	23,516.9	4.6%	-6.6%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	34,543.8	18,486.9	22,131.3	19.7%	-35.9%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	69.5	41.9	1.4	-96.6%	-97.9%
04041000	Whey and modified whey	56,576.3	53,917.1	58,840.2	9.1%	4.0%
04049000	Products consisting of natural milk constituents, nes	440.0	776.9	501.4	-35.5%	13.9%
04051000	Butter	6,779.1	5,481.6	5,337.1	-2.6%	-21.3%
04059000	Other fats & oils derived from milk	3,829.5	2,343.8	1,717.2	-26.7%	-55.2%
04061000	Fresh cheese, incl. whey cheese, curd	3,259.1	4,166.0	5,429.7	30.3%	66.6%
04062000	Grated or powdered cheese	3,653.9	3,837.0	6,085.9	58.6%	66.6%
04063000	Processed cheese, not grated or powdered	1,375.6	1,080.8	1,785.4	65.2%	29.8%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	8.1	7.8	11.9	53.2%	46.3%
04069000	Cheese, nes	1,965.6	2,166.0	3,491.3	61.2%	77.6%
17021100	Anhydrous lactose, lactose wt. ≥99%	10,065.1	16,683.0	16,886.0	1.2%	67.8%
17021900	Lactose syrup & other lactose	11.4	2.6	5.8	120.1%	-49.3%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	24,447.5	17,067.2	13,151.2	-22.9%	-46.2%
35011000	Casein	1,980.1	2,232.8	1,278.6	-42.7%	-35.4%
35019000	Caseinates	2,118.3	2,129.7	1,811.2	-15.0%	-14.5%
35022000	WPC80/WPI	3,462.8	2,663.7	2,452.8	-7.9%	-29.2%

Source: China Customs

## Weigang Dairy's New Chilled Dairy Plant Starts Up

On 28 Nov., Nanjing Weigang Dairy Co., Ltd. (Weigang Dairy) announced that its smart digital plant has come onstream with 24 production lines providing 600,000 t/a capacity for fresh products such as milk and yoghurt. The plant represents an investment of USD239.1 million (RMB1.7 billion) and covers an area of 170,000 m<sup>2</sup>. It is equipped with optimised production processes, including double bacteria removal (2 separators) and direct steam infusion/INF technology for sterilisation in pre-treatment area, and high-efficiency processes filling 28,000 bottles per hour – on par with the speed in UHT milk filling.

To complete a dairy cluster in southern region, on the same date, Weigang Dairy broke ground on a 3.56-ha smart innovation centre next to its smart digital plant in the Economic and Technological Development Zone of Jiangning District, Nanjing. This centre is planned to integrate leading edge technological development, technology transfer, pilot production facilities, an industrial incubation centre and supporting facilities for cultural and tourism services.

Founded in 2004, Weigang Dairy mainly focuses on Jiangsu and Anhui Provinces and the neighbouring markets. It has 7 plants in Xining (Qinghai Province), Shangluo (Shaanxi Province), Nanjing, Huai'an and Xuzhou (Jiangsu Province) and Rizhao and Jinan (Shandong Province). According to its strategic goals, by 2028 Weigang Dairy should have 140,000 dairy cattle and over 1.5 million t/a production capacity.

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## Ausnutria's 60 t/a Probiotics Line Starts Up

On 25 Nov., Bioflag Group, a subsidiary of Ausnutria Dairy Corp Ltd. (Ausnutria, Stock Code: HK.01717) announced the startup of a probiotics production line, capable of producing 60 t/a of probiotics powder for infant foods from 8 families of single-strain material or 33 single strains. These will meet requirements in Ausnutria's own production of probiotics powders, IMF products and other probiotic dairy products.

This line is the first part of its cooperation with Jiangnan University to establish a probiotics smart plant in Huai'an, Jiangsu Province. This plant is designed as a world-class R&D, production and application base for functional probiotic strains with advantages in the following areas:

- Process: High levels of control and testing capabilities to achieve "zero" pathogenic bacteria to ensure the quality and safety of the products
- R&D: It has patented the Lactocaseibacillus Rhamnosus MP108 strain, approved in 2021, a major breakthrough in the area of probiotics for infants in China
- Production: It has developed a complete functional strain screening platform with >1,000 strains in stock
- Application: It will provide customised nutritional solutions for people of all ages using scientifically formulated strains and nutrients

Bioflag Group was founded in 2008 in Taiwan, originally known as Fenghua Biotechnology Co., Ltd. In July 2019, Ausnutria acquired a 26.1% stake in the company and bought the full ownership of its wholly-owned subsidiary Aunulife Pty Ltd. to consolidate its position in probiotics. In Oct. 2020, Bioflag Group initiated a completely fresh brand strategy, focusing all out on the health food industry. At present, it has 4 plants – 1 in Huai'an, 1 in Suzhou (Anhui Province) and 2 in Taiwan.

## Yunxin Industry's Herd Reaches 8,000 Head

Gansu Yunxin Industry Co., Ltd. (Yunxin Industry) has completed commissioning of the 2<sup>nd</sup> phase of its dairy farm project, which had almost 8,000 dairy cattle in place as of end of Nov.

The company's overall project involves a total investment of USD13.9 million (RMB100 million), expected to set up the biggest farm for Jerseys in China, occupying an area of 686,000 m<sup>2</sup>; it is meant to have 10,000 Jerseys at the site in Zhangye City, Gansu Province by the end of 2023. The project construction started in Aug. 2021, with its 1<sup>st</sup> phase (4,000 head) completing in May 2022.

At present, there are approximately 40,000 Jerseys in China, with the largest farm having 8,000 head – a site run by Liaoning Huishan Dairy Group Co., Ltd. (Huishan Dairy). In addition, Yunnan Ouya Dairy Products Co., Ltd. has a 10,000 Jerseys farm under construction.

Yunxin Industry was incorporated in April 2021 with registered capital of USD13.9 million (RMB100 million). It is an agricultural and animal husbandry enterprise with operations in breeding and farming of beef and dairy cattle, growing of animal fodder, and production of straw-based feeds.

## Yatai Dairy Starts Construction For New Goat IMF Factory

On 1 Dec., Shaanxi Yatai Dairy Co., Ltd. (Yatai Dairy) broke ground on a project to build a goat IMF factory with 3 major parts (R&D centre, plant, and cultural and tourism service centre). This will be on a site of 77,000 m<sup>2</sup> in Jingyang County, Xianyang City, Shaanxi Province, based on a spend of up to USD112.5 million (RMB800.0 million). The construction includes a wet blend line and a dry blend line, with a total of 15,000 t/a capacity for goat IMF.

Yatai Dairy was established in Dec. 2004 and is supplied from 7 farms, a mix of partly/wholly owned; these contain 80,000+ goats overall; it currently operates a 60,000-m<sup>2</sup> plant with goat milk processing capacity up to 30,000+ tonnes per year.

Capacity to produce powdered goat milk products has been ramping up in China over the past 12-18 months:

- In H2 2022, Shaanxi Herds Dairy Group (Longzhou) Co., Ltd. started up a 20,000 t/a line for goat milk FSMPs, based on an investment of USD36.1 million (RMB257.0 million)
- In Dec. 2022, Yeeper Dairy Group Co., Ltd. started up a plant in Laixi City, based on an investment of USD144.9 million (RMB1.0 billion) – this provides capacity for 9,000 t/a of goat IMF, 6,120 t/a IMF base powder, 1,000 t/a adult formula and 4,000 t/a whey powder
- In July 2023, Mileyn Dairy Group Co., Ltd. started up a new factory in Xi'an City, based on an investment of USD70.3 million (RMB500.0 million), providing capacity for 22,000 t/a goat IMF

As of early December, there are 95 brands of goat milk formula registered in compliance with the new national standard for IMF, accounting for 28% of the total number of registered products, a significantly higher share compared with the first round of formula registration in line with the new national standard in H1 2017. It also highlights the increasingly intense competition to be expected in the future goat milk formula market.

## Mengniu and Yum China Enter Strategic Cooperation

China Mengniu Dairy Company Ltd (Mengniu, Stock Code: 02319.HK) and Yum China Holdings, Inc. (Yum China, Stock Code: 09987.HK) have entered a strategic cooperation on 12 Dec. This targets the foodservice channel, and ranges from product innovation to the development of a digital intelligent supply chain and ESG. Mengniu will design exclusive menus for drinks, Chinese and western-style desserts combining its UHT/fresh milk, cheese and ice cream products, whilst Yum China will provide dairy raw material solutions.

Yum China is a spinoff from Yum! Brands (NYSE: YUM) and currently the biggest foodservice company in China – it is the exclusive operator of KFC, Pizza Hut and Taco Bell in the country, and owns several local restaurant chains. By Sept. 2023, its activities across China included:

- KFC – 9,900+ sites
- Pizza Hut – 3,200+
- Taco Bell – 114
- Lavazza coffee shops – 107 (In 2020, Yum China and the Italian coffee brand Lavazza founded a JV and opened the first Lavazza coffee shop outside Italy).

## Mengniu Buys into Greatview Aseptic Packaging

On 30 Nov., Greatview Aseptic Packaging Co., Ltd. (Greatview Aseptic Packaging, Stock Code: 00468.HK) posted a notice of a share subscription agreement signed with Xueyu Enterprise Management Consulting (Tianjin) Co., Ltd. (Xueyu Consulting – a business 98.04% owned by China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319).).

According to this, Xueyu Consulting will subscribe for 70,498,000 shares in Greatview Aseptic Packaging – equivalent to 5.01% of the enlarged issued share capital – for USD0.2 (HKD1.62) per share or a total of USD14.5 million (HKD113.0 million).

Greatview Aseptic Packaging is the 3<sup>rd</sup> largest aseptic packaging supplier for liquids in China, after Tetra Pak and SIG Combibloc. Its main customers include Mengniu, Nestlé and New Hope Dairy. The deal may improve Mengniu's competitiveness against Yili in terms of its packaging supply chain: in Oct. 2023, a 28.22% share in Greatview Aseptic Packaging was acquired by another leading aseptic packaging company Shandong Xinjufeng Technology Packaging Co., Ltd. (Shandong Xinjufeng, Stock Code: 301296) – in which Yili holds a 4.08% share, and for which Yili is the main customer, accounting for 74.69% of its main business sales in 2022.

There seems a prospect that these investments may accelerate Chinese aseptic packaging technological capabilities and reduce the major dairies' heavy dependence on the higher cost international suppliers.

## Arla's Upgraded Organic IMF Series Receives Registration under New National Standard

On 21 Sept, the Centre for Food Evaluation (CFE) of the State Administration for Market Regulation approved the registration of the Arla Baby & Me Organic IMF series (covering 3 stages from 0-36 months) under the new national standard. This series highlights its combination of "organic + A2 protein", produced with Arla's proprietary "Freshnutri" technology to preserve the products' nutritional properties as far as possible. It is an upgraded formulation adding natural OPO and Bifidobacterium animalis subsp. lactis Bb-12 to the previous combination of "GOS+FOS".

Along with earlier granted registrations of the its Baby & Me Lanxi IMF series and Milex adult formula series, Arla has built a complete formula portfolio in the market. The company's statement indicates that its IMF sales improved in Q1-Q3 this year, and for 2024, the Arla Baby & Me Organic IMF series will be its focus in online and offline marketing in China.

As of early December, there are 27 series of organic milk formula registered in compliance with the new national standard for IMF, accounting for 8% of the total number of registered products.

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## Shuangcheng Nestle Completes IMF Plant Upgrade

On 21 Dec., Shuangcheng Nestle Co., Ltd., Nestlé's first factory in China, completed an upgrade for its IMF production. Details are as follows:

- Construction nature: Technological upgrade
- Total investment: USD22.5 million (RMB160.0 million), 0.25% (=USD56,115/RMB399,000) of which for environmental protection
- Location: Shuangcheng District, Harbin City, Heilongjiang Province
- Construction content: Build one workshop equipped with whey protein hydrolysis process, adding hydrolysates to the existing raw materials processed (WPC + lactose)
- Capacity: 22,400 t/a Hydrolysed protein infant formula (unchanged after this upgrade)
- Main material consumption: 1,964 t/a WPC and 188 t/a lactose
- Construction period: Aug. 2022 to Oct. 2023
- Site acceptance test: 16-18 Nov. 2023

Shuangcheng Nestle now has 25 production lines with capacities including 52,853 t/a infant formula (incl. this upgraded 22,400 t/a capacity), 7,320 t/a rice cereal, 8,760 t/a AMF, 12,116 t/a cereals, and 500 t/a cookies and crackers for infants and young children.

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## Milkground Food Adjusts 3 Cheese Projects under Construction to Market Demand

On 20 Dec., Shanghai Milkground Food Tech Co., Ltd. (Milkground Food, Stock Code: 600882) announced market-driven changes to its plans for 3 cheese projects underway.

These projects' completion will now be delayed as a result:

- Shanghai site, with a budget of USD178.5 million (RMB1.3 billion), with a production plan for cheese sticks, Mozzarella, cheese slices, cheese cups, butter, etc., expected to start up in Dec. 2024
- Changchun site, with a budget of USD177.7 million (RMB1.3 billion), with a production plan for natural cheese, rennet casein, whipping cream, fresh cheese, etc., expected to start up in Dec. 2025
- Jilin site, with a budget of USD55.8 million (RMB396.5 million), with a production plan for cheese sticks, shredded cheese, Mozzarella, etc., expected to start up in Dec. 2024

As the market expects a steady rise in foodservice demand for cheese even though cheese sales in retail have largely stalled, Milkground Food said it would expand the current cheese lines to target more specific applications including bakery and new style tea drinks, and also to target retail demand in lower-tier cities.

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