

# Dairy Products China News

## Guaranteed Exclusive Analysis

Vol. 16 Issue 11 2023

Welcome to the November issue of Dairy Products China News.

The world seems back to relative normal after the pandemic in some respects, but we're finding that most of the Asian markets are still recovering from COVID in truth. It was evident that the Food & Hotel Show in Hanoi this month was not as busy as those prior to the pandemic, for instance, with about 10% of the exhibition stalls cancelled and no-show. This is also the case in China, where demand is generally still quite flat, hence the deflation seen in October, the 2<sup>nd</sup> instance of this during the year. Some other indicators suggest market hesitancy: for example, looking at broader indicators of consumer confidence, it is telling that the country's consumers are travelling overseas less than they did before, with outward bound tourism down, even though most of China's pandemic-era restrictions were lifted in April. In some ways this even affects China's domestic market – travel may or may not broaden the mind, but it certainly impacts what people want to eat! This month's decision to allow a year's visa-free access to China to visitors from six European countries and Malaysia is also surely aimed at revitalizing the inward tourism sector.

In dairy, milk production has continued to grow this year in China, and domestic farmgate milk prices are likely to rise in 2024 when tariffs on WMP imports from New Zealand are reduced. But there are some positive macro-indicators that demand in general could revive next year. Despite the well-known structural economic problems the country faces, in 2023 its GDP in Q1- Q3 grew 5.2% YoY at constant prices to reach USD12.7 trillion (RMB91.3 trillion); over the same period total retail sales of consumer goods increased 6.8% YoY to USD4.8 trillion (RMB34.2 trillion). In particular, the GDP figures suggest that economic growth in Q3 was generally better than that in Q2. And growth continues to be strong in key channels – for instance, during October, online retail sales of physical goods were up by 8.4% (making up 26.7% of total retail sales of consumer goods).

In addition, the increasing demand for improved health and nutrition is undoubtedly driving positive change in the local food industry, which is why Danone's launch this month of Fortimel looks very timely. Domestic companies are focusing on this category more and more, offering opportunities to overseas exporters who are willing to partner and can add value.

Richard Field, Editor  
richard.field@orrani.com

## Publishers



**Guangzhou CCM Information  
Science & Technology Co., Ltd**  
17<sup>th</sup> 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

**orrani**  
consulting

**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

▶ <b>Headlines</b> . . . . .	2
▶ <b>Market Analysis</b> . . . . .	3
<i>Modern Dairy's 3 Farm Construction Project Progress Updates</i> . . . . .	3
<i>Yiming Food Profits from "Milk+Bakery"</i> . . . . .	4
<i>More Dairy Brands Join China's Niche Special Foods Category</i> . . . . .	5
▶ <b>Governmental Direction</b> . . . . .	6
<i>First Draft Association Standard for Dairy Products for Children Open for Public Comments</i> . . . . .	6
<i>Barred Dairy Imports in Sept.–Oct. 2023</i> . . . . .	7
▶ <b>Company Dynamics</b> . . . . .	9
<i>Yili's Net Profit Surges Nearly 60% in Q3</i> . . . . .	9
<i>Bright Dairy's Downturn vs. New Hope Dairy's Sustained Growth in Q3</i> . . . . .	10
<i>H&amp;H Group's Baby Nutrition &amp; Care Sales Face Challenges in China</i> . . . . .	11
<i>Mengniu's Dairy Product Capacity Expansion Project Progress Updates</i> . . . . .	13
▶ <b>Raw Milk Price</b> . . . . .	14
<i>Major Milk Producing Provinces Report Production Growth Despite Continued Fall in Prices</i> . . . . .	14
▶ <b>News in Brief</b> . . . . .	16
<i>Dairy Imports in October 2023</i> . . . . .	16
<i>Inspection and Quarantine Requirements for Dairy Imports from Pakistan</i> . . . . .	17
<i>China Drafts Rules for Production Licensing of Liquid Baby Formula</i> . . . . .	17
<i>Beingmate's Capacity Ramp-Up Faces Second Delay</i> . . . . .	17
<i>Junlebao to Buy 30% Stake in More Yogurt</i> . . . . .	17
<i>Juneyao Health Sees Growth in Probiotic Foods</i> . . . . .	18
<i>Panda Dairy Profits Boom</i> . . . . .	18
<i>Royal Group Breaks Ground for Central Factory in Fuyang, Anhui Province</i> . . . . .	18
<i>Qinlong Dairy's Goat Milk Production Expansion Plan</i> . . . . .	19
<i>Chevallese Dairy Plans to Add Capacity</i> . . . . .	19

## Headlines

- ▶ Recently, Modern Dairy has announced the 1<sup>st</sup>-phase startup of its new farm involving 30,000 cattle in Hinggan League in Inner Mongolia, and disclosed details of 2 new farms in Tangshan in Hebei and in Tongliao City in Inner Mongolia.
- ▶ Yiming Food has reported a return to profit in Q1–Q3 2023 compared with same period last year, leveraging the "milk+bakery" business trend to its advantage.
- ▶ Latest developments have seen an increasing number of dairy brands like Ausnutria, Mengniu and China Feihe pushing further into special foods, including FSMP for infants and health food.
- ▶ China Dairy Industry Association (CDIA) recently issued a draft Association Standard for Dairy Products for Children, setting requirements for raw material use, ingredient content, etc.
- ▶ The General Administration of Customs of China (GACC) has released the lists of food products barred from entering the country in Sept.–Oct. 2023, including those from well-known brands like Mengniu, Vitasoy and Yakult.
- ▶ Yili has reported its latest results: net profit surged 59.44% in Q3 and was up 16.36% YoY in Q1–Q3.
- ▶ Regional enterprise Bright Dairy reported a loss in Q3 against previous profits, while New Hope Dairy remained on growth track.
- ▶ H&H Group's Q1–Q3 results show 10.9% growth in total revenue but a 9.7% decline in the Baby Nutrition and Care (BNC) segment as the depression in China's IMF market continues.
- ▶ In Nov., Mengniu received local authorities' approvals to expand its ice cream and UHT dairy capacities in Dangyang (Hubei Province) and Baoji (Shaanxi Province) respectively, and has completed construction work on several expansion projects for UHT dairy, chilled yoghurt and milk beverages and ice cream products.
- ▶ China saw a continued decline in raw milk prices in Nov., but major milk producing provinces have reported YoY growth in Q1–Q3 despite this persistent trend.

## Major Companies and Sites Mentioned in This Issue



## Market Analysis

### Modern Dairy's 3 Farm Construction Project Progress Updates

**Summary:** Recently, Modern Dairy has announced the 1<sup>st</sup>-phase startup of its new farm involving 30,000 cattle in Hinggan League in Inner Mongolia, and disclosed details of 2 new farms in Tangshan in Hebei and in Tongliao City in Inner Mongolia.

Recently, China Modern Dairy Holdings Ltd. (Modern Dairy, Stock Code: 01117.HK) provided updates on progress on 3 dairy farm projects – the 1<sup>st</sup> phase of the 30,000 cow farm in Hinggan League in Inner Mongolia has entered operation, whilst details were given on a 25,000 cattle farm in Tangshan in Hebei and a 15,000 cattle farm in Tongliao City in Inner Mongolia for the first time.

#### 30,000 Cow Farm Project in Ulanhot in Inner Mongolia Autonomous Region

On 18 Nov., the 1<sup>st</sup> phase of this project was announced as starting milk production. The project is a cooperation between Modern Dairy (Ulanhot) Co., Ltd. and the local government of Ulanhot to build a modern dairy farming base over 4 phases, integrating high-yield dairy cow milking and breeding, TMR (total mixed ration) processing and manufacturing (incl. silage manufacturing, hay storage, feed concentrate processing), and manure treatment. This base is designed to produce USD181.1 million (RMB1.3 billion) value of products per year and supply milk 600+ tonnes per day to Mengniu Dairy (Ulanhot) Co., Ltd. once in full operation.

- Construction nature: New construction
- Total investment: USD117.4 million (RMB842.5 million), 1% (USD1.2 million/RMB8.8 million) of which for environmental protection
- Location: Gegenmiao Town, Ulanhot, Hinggan League in Inner Mongolia Autonomous Region
- Site area: 204.4 ha, of which 81,470.8 m<sup>2</sup> for 1<sup>st</sup>-phase construction
- Construction content: 31 Cattle sheds, 2 milking rooms, supporting facilities and forage processing area, manure treatment area, and office area
- Designed capacity: 30,000 head (incl. 7,400 head

introduced in 1<sup>st</sup> phase), producing 197,100 t/a of milk

- Construction period: 24 months, started in July 2022

#### 25,000 Cow Farm Project in Tangshan, Hebei Province

On 30 Oct., this project's pre-construction environmental impact assessment report was accepted and published. The project is operated by Modern Dairy (Tangshan) Co., Ltd.

- Construction nature: New construction
- Total investment: USD73.8 million (RMB530 million), 0.94% (USD0.7 million/RMB5 million) of which for environmental protection
- Location: Xiaozhuang Town, Luanzhou City, Tangshan City, Hebei Province
- Site area: 107 ha
- Construction content: Farming area, forage processing centre, manure treatment area and office
- Designed capacity: 25,000 head, producing 227,500 t/a of milk
- End of construction (estimated): May 2024

#### 15,000 Cow Farm Project in Tongliao, Inner Mongolia Autonomous Region

On 14 Nov., this project's environmental impact assessment report was published – the project is operated by Modern Dairy (Tongliao) Co., Ltd.

- Construction nature: Expansion
- Total investment: USD2.4 million (RMB17 million)
- Location: Liaohe Town, Economic and Technological Development Zone, Tongliao City, Inner Mongolia Autonomous Region
- Site area: Project adding 12,100m<sup>2</sup> to the farm's present total of 667,000 m<sup>2</sup>
- Designed capacity: Currently 10,000 head, producing 175 t/d of milk. This project is to add 5,000 head, and set up a new cattle shed

## Yiming Food Profits from "Milk+Bakery"

**Summary:** Yiming Food has reported a return to profit in Q1–Q3 2023 compared with same period last year, leveraging the "milk+bakery" business trend to its advantage.

Zhejiang Yiming Food Co., Ltd. (Yiming Food, Stock Code: 605179) has reported growth in both revenue and net profit for Q1–Q3 2023, based on its business model of "milk (fresh milk / yoghurt) + bakery" with ranges produced at its own factories in Zhejiang and Jiangsu provinces.

**Key data are as follows:**

### Q3:

- Revenue: USD95.9 million (RMB688.1 million), up 7.20% YoY
- Net profit attributable to equity shareholders of the listed company: USD1.4 million (RMB10.3 million), a significant rise from the USD312,241 (RMB2.2 million) of Q3 2022

### Q1–Q3:

- Revenue: USD272.1 million (RMB2.0 billion), up 8.15% YoY
- Net profit attributable to equity shareholders of the listed company: USD4.9 million (RMB35.4 million), returning to profit from the loss of -USD8.9 million (-RMB64.0 million) in Q3 2022

**Three key growth drivers were cited:**

- Increased number of franchisers: Yiming Food added 289 franchised outlets selling freshly-made milk

drinks, yoghurt + bakery products in Q3, to a total of 2,050 nationwide (1,432 franchised and 618 self-operated), with plans to open 53 more in Q4

- Stable growth in school milk and E-commerce orders
- Strict budget management and cost control: In Q1–Q3, its sales costs were USD52.3 million (RMB375.5 million), a 25.18% cut compared with their level in the same period last year; and total operating costs edged up by 0.42% YoY only

### Attraction of the "Milk+Bakery" Combination

As demand in stores has been gradually recovering, the "milk+bakery" mix has proven attractive for a number of dairy and bakery brands:

- At the end of 2022, Dim Sum Bureau of Momo launched in Changsha. It is an emerging brand offering a diverse blend of Chinese and Western-style bakery products and freshly made milk drinks, and has already been copied by a crop of small brands across big cities such as Beijing and Guangzhou
- In Sept. 2023, the dairy business Lanzhou Zhuangyuan Pasture Co., Ltd. (Zhuangyuan Pasture, Stock Code: 002910.SZ, 01533.HK) embarked on a cooperation with local cake producer "LOVE GIFT" to tap into the same trend

- Last month Beidahuang Wondersun Dairy Co., Ltd. opened its first "Milk Shop" in Harbin, selling combos of dairy products plus bread or pastry.

### Factors Driving the Trend

Traditional bakery retail stores are struggling for survival, with both the newer and longer-established operators finding it hard to retain customers in a sea of sameness. Research data for 2022 from Meituan (the Chinese food delivery giant) show that on average each bakery store would go out of business after 32 months of operation, around 57.7% of stores had closed down within 2 years, and only 23.8% managed to stay open for over 4 years.

To differentiate, bakery businesses need to develop strong innovation capabilities and integrated supply chains. Milk+bakery operators focus on top-selling bakery items only, meaning easier supply chain management, and the product combinations can be altered freely for breakfast or afternoon tea scenarios to increase repurchase orders, whilst offering fresh milk or chilled yoghurt in each combo also helps drive repurchasing by health-conscious consumers.

"Involution" is a buzzword among young Chinese describing overwork due to excessive competition – businesses have effectively been seeking to escape from "involution" by tapping into the milk+bakery trend, just as it has already been shown in the market that dairy combined with coffee and new style tea drinks offers a similar opportunity.

## More Dairy Brands Join China's Niche Special Foods Category

**Summary:** Latest developments have seen an increasing number of dairy brands like Ausnutria, Mengniu and China Feihe pushing further into special foods, including FSMP for infants and health food.

As the increasing interest in health and nutrition becomes an ever more important opportunity for the dairy industry in China, businesses are seeking out opportunities in specialised products such as foods for special medical purpose (FSMP) and health food.

### FSMP for Infants

This is a convenient segment for dairy processors which have already established their technology and production processes, distribution network and customer base. As of Nov. 2023, a total of 44 FSMP for Infants from dairy businesses alone are registered with the State Administration for Market Regulation (SAMR). (There others from non dairy-related firms of course, such as Wissun (Fuzhou) Infant Nutrition Co., Ltd and AusNuotore Nutritional Products Co., Ltd.)

#### Some recent activities in this area:

- In Sept., Ausnutria Dairy Corp Ltd. (Ausnutria, Stock Code: HK.01717) signed a contract with the local government to build a global R&D centre for FSMP products in Changsha, Hubei within 7 years (2024–2030), with a budget of USD139.3 million (RMB1.0 billion). The centre will involve hardware and software development, technical training, product inspection and testing, and commercialisation of technological achievements
- In Oct., Yeeper Dairy Group Co., Ltd. (Yeeper Dairy) was granted the GMP (Good Manufacturing Practice) certificate for its FSMP production in Heilongjiang (Beian Yeeper Dairy Co., Ltd), a guarantee of its compliance with production processes, facilities, and technological / innovation capabilities

- In Nov., the Department of Ecology and Environment of Guangzhou accepted the pre-construction environmental impact statement of Mead Johnson Nutrition (China) Co., Ltd. (Mead Johnson China) to build a production workshop for 4,000 t/a capacity for FSMP for infants

However, these businesses face some obvious challenges. First of all, there are the high financial and technical barriers, with China's implementation of strict requirements on the R&D, production, quality control and inspection capabilities of manufacturers of such products. Secondly, gaining market access takes some time, with a long process to obtain product approval and registration that can be extended if applying for infant formula for a specific kind of disease or symptom.

### Health Food and Other FSMP

In comparison, the areas of health food and other FSMP (not for infants) are more accessible, with lower requirements on capital input, shorter market access period, but a more diverse range of target consumers. As a result, these segments have been attracting many entrants:

- In Aug., Mengniu (Stock Code: 2319.HK) launched a ready-to-drink (RTD) immunity-enhancing yoghurt registered as health food under its chilled yoghurt brand "Champion"
- In early Nov., Danone launched Fortimel, its first adult FSMP category in China. It is a liquid whole-nutrition formula, each 200ml bottle containing 9.4g of milk protein, 28 kinds of vitamins and minerals and 2.6g of dietary fibres, to support the nutritional requirements of various groups with digestive and absorption disorders, metabolic disorders, etc
- In mid-Nov., China Feihe (Stock Code: 6186.HK) announced that it would step up R&D investment in FSMP for people dealing with lactose intolerance, protein allergies and malnutrition

However, whatever the segment, these moves all suggest another round of intense competition for dairy firms, in R&D, production, distribution and marketing.

## Governmental Direction

### First Draft Association Standard for Dairy Products for Children Open for Public Comments

**Summary:** China Dairy Industry Association (CDIA) recently issued a draft Association Standard for Dairy Products for Children, setting requirements for raw material use, ingredient content, etc.

On 23 Oct., the China Dairy Industry Association (CDIA) issued a draft Association Standard for Dairy Products for Children, including terms and definitions, technical requirements and requirements for production processes and labelling. The draft was open for public feedback until 23 Nov., 2023, including contents as follows:

**Application scope:** Dairy products for children include UHT milk, fresh milk, modified milk, fermented milk, flavoured fermented milk, processed cheese, cheese products, and modified milk powders that are exclusively designed and produced for children aged 3 to 15 years

#### Requirements for raw materials:

- The raw materials and bacterial strains used in dairy products for children should comply with the existing relevant safety standards or regulations
- The aerobic plate count of the raw milk used should be  $\leq 1 \times 10^5$  CFU/mL, and somatic cell counts/SCC be  $\leq 4 \times 10^5$  /mL
- No milk powders or concentrated dairy products should be used for UHT milk, modified milk, fermented milk and flavoured fermented milk for children
- No hydrogenated oils and fats nor any materials exposed to radiation should be added
- Sugar levels should be lower than 4.0% for modified milk, 7.5% for flavoured fermented milk, 10.0% for processed cheese and cheese

products (Note: according to the National Food Safety Standard – Processed Cheese and Cheese Products (GB25192-2022), "cheese products" contain 15%-50% natural cheese plus other ingredients), and below 5.0% for modified milk powder

#### Other requirements:

- The viable counts of fermented milk and flavoured fermented milk should be  $\geq 1 \times 10^6$  CFU/100g, excluding heat-treated fermented products
- Natural cheese content for cheese products should be  $\geq 30\%$
- Sodium level for processed cheese and cheese products should be  $\leq 600$  mg/100g

**TABLE 1: Essential Ingredient Levels in Modified Milk Powder for Children**

Item	Indicator for children aged 3-6 years		Indicator for children aged 6-15 years	
	Minimum	Maximum	Minimum	Maximum
Protein, g/100g	16.5	/	16.5	/
Vitamin A, $\mu\text{g RE}/100\text{g}$	154	900	300	900
Vitamin D, $\mu\text{g}/100\text{g}$	2.7	21.4	5	21.4
Vitamin B1, mg/100g	0.2	2.06	/	/
Calcium, mg/100g	500	2000	500	2000
Iron, mg/100g	2.5	25	/	/
Zinc, mg/100g	2.5	17.5	/	/

Source: Draft Association Standard for Dairy Products for Children

**TABLE 2: Content Requirements for Essential Ingredients in Other Dairy Products for Children**

Item	Category					
	Fresh milk	UHT milk	Modified milk	Fermented Milk	Flavoured fermented milk	Processed cheese and cheese products
Protein, g/100g, ≥	3	3	2.5	2.9	2.5	/
Calcium, mg/100g, ≥	90	90	80	90	80	330

Source: Draft of Association Standard for Dairy Products for Children

**TABLE 3: Content Requirements for Alternative Ingredients in Dairy Products for Children**

Item	Category		
	Modified milk	Flavoured fermented milk	Processed cheese and cheese products
Vitamin A, µg RE/100g, ≥	60	40	/
Vitamin D, µg/100g, ≥	1	1	5.7

Source: Draft Association Standard for Dairy Products for Children

## Barred Dairy Imports in Sept.–Oct. 2023

**Summary:** The General Administration of Customs of China (GACC) has released the lists of food products barred from entering the country in Sept.–Oct. 2023, including those from well-known brands like Mengniu, Vitasoy and Yakult.

In Sept.–Oct. 2023, there were 22 batches of dairy products barred from entering China according to information released by the Import and Export Food Safety Bureau of the General Administration of Customs of China (GACC) in late Oct. and Nov.

### Products barred included

- September – 9 batches totalling 20,284 kg, comprising milk beverages, pure milk, AMF, protein powders and protein bars
- October – 13 batches totalling 146,298 kg, comprising whey powder, WPC, modified milk powder for the middle-aged and elderly, fresh cheese, whole milk, probiotic drinks and ice cream

### Mengniu's Quality Concerns

In Sept., "Global Selection Milk Deluxe" from China Mengniu Dairy Company Ltd (Mengniu, Stock Code: HK.02319) was rejected due to "pollution and corruption" – meaning broken packs, product leakage, emission of sour odours or other sensory issues, caused by impurities in production or in

transit. The public raised immediate concerns over the quality of "Milk Deluxe", Mengniu's signature premium milk series. There is no response from Mengniu to date.

The "Global Selection Milk Deluxe" product is only available in physical stores at present. It is produced by New Zealand's Miraka Ltd as part of a cooperation with Mengniu started in 2014, and imported by Tianjin Tongrui Supply Chain Co., Ltd., a wholly-owned company of Mengniu.

### Vitasoy and Yakult's Problems

In Sept., a batch of Vitasoy Chocolate Milk Beverage produced by Vitasoy International Holding Ltd. (Vitasoy) and imported from Hong Kong, was rejected for "unqualified label". In Jan., March, May, July and Aug. this year, multiple batches of Vitasoy milk products and drinks were barred from entering for the same reason. Vitasoy pointed out that all these batches were exported through unofficial/unauthorised channels from Hong Kong where regulations on product labels differ from that in Chinese mainland, admitting that it did expose a weakness in the company's channel management.

In Oct., a batch of Yakult Lactobacillus Drink produced by Hong Kong Yakult Co., Ltd. was rejected for failure in sensory inspection – 5 batches of the same product totalling 27,800 kg were rejected for unqualified labels in 3 consecutive months from Jan. to March this year.

As consumer demand for high-quality dairy products continues to grow, the quality and safety of dairy products, as well as the production process and sources of imports, have come under

scrutiny. In China's increasingly competitive dairy market, companies will have to focus on product quality and channel control if they want to maintain their competitive advantage.

**TABLE 4: China's Barred Dairy Products in Sept., 2023**

No.	HS code	Product item	Place of origin	Manufacturer	Weight, kg	Reason of disqualification
1	2202990099	Vitasoy Chocolate Milk Beverage	Hong Kong, China	Vitasoy International Holding Ltd.	12,150	Unqualified label
2	401200000	Global Selection Milk Deluxe	New Zealand	Miraka Limited	5,234	Pollution and corruption
3	405900000	Anhydrous milk fat (AMF)	Denmark	Thise Mejeri A.m.b.a	4	Pollution and corruption
4	2106909090	BSN Syntha-6 Protein Matrix Chocolate Milkshake (Protein Powder Drink Mix)	US	Glanbia Performance Nutrition (Manufacturing), Inc.	40	Out-of-range usage of food additives
5	2106909090	BSN Syntha-6 Protein Matrix Chocolate Milkshake (Powdered Beverage)	US	Glanbia Performance Nutrition (Manufacturing), Inc.	1,816	Out-of-range usage of food additives
6	2106909090	BSN Syntha-6 Protein Matrix Cookie and Cream Flavour (Powdered Beverage)	US	Glanbia Performance Nutrition (Manufacturing), Inc.	1,017	Out-of-range usage of food additives
7	2106909090	BSN Syntha-6 Protein Crisp Salted Toffee Pretzel Flavour	US	Glanbia Performance Nutrition (Manufacturing), Inc.	22	Out-of-range usage of food additives
8	2106909090	BSN Syntha-6 Protein Crisp Vanilla	US	Glanbia Performance Nutrition (Manufacturing), Inc.	1	Out-of-range usage of food additives
9	2106909090	BSN Syntha-6 Protein Crisp Chocolate	US	Glanbia Performance Nutrition (Manufacturing), Inc.	1	Out-of-range usage of food additives

Source: GACC

**TABLE 5: China's Barred Dairy products in Oct., 2023**

No.	HS code	Product item	Place of origin	Manufacturer	Weight, kg	Reason of disqualification
1	404100090	Whey powder	Russia	OJSC "Babushkina Krynka" management company (Holding "Mogilev Dairy" Company "Babushkina Krynka")	25,000	Ash content exceeding the standard
2	2106909090	Viking Force Empire Whey Protein Powder/Viking Force Empire WPI (Sports Nutritional)	Romania	Pro Nutrition Impex Srl	8,281	No inspection and quarantine access
3	1901900000	Meshj Middle-Aged And Elderly Formula Milk Powder	Australia	Viplus Dairy Pty Ltd	3,900	Out-of-range usage of nutrition enhancer fructo-oligosaccharide (FOS)
4	406100000	Murgella Fresh Burrata Original	Italy	Caseificio Palazzo S.P.A.	252	Excessive coliform group
5	401200000	Mukki Whole Milk	Italy	Centrale del latte d'Italia S.P.A.	96,495	Exceeding the shelf life
6	2202990099	Yakult Lactobacillus Drink	Hong Kong, China	Hong Kong Yakult Dairy Co., Ltd.	10,300	Unqualified sensory inspection
7	2202990099	Calpis Lactobacillus Drink	Japan	Asahi Soft Drinks Co., Ltd.	120	Certificate discrepancy
8	2202990099	Calpis Yoghurt-Flavoured Soda	Japan	Asahi Soft Drinks Co., Ltd.	120	Certificate discrepancy

Source: GACC



No.	HS code	Product item	Place of origin	Manufacturer	Weight, kg	Reason of disqualification
9	2105000000	Lotte Condensed Milk Ice Cream	Japan	Santa Corporation	114	Unqualified label
10	2105000000	Andeico Condensed Milk Ice Cream Cone	Japan	Taguchi & Co., Ltd. Tatsuno Plant	168	Unqualified label
11	2105000000	Glico Ice Cream Cones (Variety of 3 Flavours)	Japan	Ezaki Glico Co., Ltd.	276	Unqualified label
12	2105000000	Ohayo Soft Serve Ice Cream Café Latte	Japan	Ohayo Dairy Products Co., Ltd	192	Unqualified label
13	2105000000	Meiji Super Cup Vanilla Ice Cream	Japan	Meiji Co., Ltd. Kansai Ice Cream Factory	1,080	Unqualified label

Source: GACC

## Company Dynamics

### Yili's Net Profit Surges Nearly 60% in Q3

**Summary:** Yili has reported its latest results: net profit surged 59.44% in Q3 and was up 16.36% YoY in Q1-Q3.

On 30 Oct., Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) issued its report for Q3 2023, demonstrating its resilient growth and strong profitability:

#### Q3:

- Revenue: USD4.3 billion (RMB31.1 billion), up 2.71% YoY
- Net profit attributable to equity shareholders of the listed company: USD428.4 million (RMB3.1 billion), up 59.44% YoY
- Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses: USD370.1 million (RMB2.7 billion), up 56.95% YoY

#### Q1-Q3:

- Revenue: USD13.5 billion (RMB97.1 billion), up 3.84% YoY
- Net profit attributable to equity shareholders of the listed company: USD1.3 billion (RMB9.4 billion), up 16.36% YoY
- Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses: USD1.2 billion (RMB8.5 billion), up 11.51% YoY

The Q3 net profit exceeded expectation, attributed to a cut in advertising and sales costs. Yili noted that it was the result of the pandemic in 2022 when the surplus stocks required

clearance by massive discounts. However, this quarter, free from this factor, saw distribution expenses down 2.14% YoY to USD777.2 million (RMB5.6 billion). Meanwhile, the falling prices of raw milk and packaging materials helped improve its gross margin and net profit figures.

The 16%+ growth in the full Q1-Q3 net profit was supported by different categories:

#### Liquid dairy (UHT/fresh milk, modified milk, yoghurt, milk beverages, etc.):

- Yili optimised the distribution network for liquid dairy, enabling sales at relatively stable input costs. Plus, demand was strong during the periods of the Mid-autumn Festival and National Day, and the Hangzhou Asian Games, when liquid dairy sales shot up
- An upgraded product mix with more premium products shored up Yili's profitability. Its "Jindian Milk" series (premium line including pure/low-fat/organic milk) saw double-digit growth in Q1-Q3

#### Powdered milk products and other dairy products (cheese, cream, etc.):

- Yili's commitment to its pricing of IMF products amid the intensifying price war in the market kept the category's profit at steady level
- Its retail market share in adult formula improved to 23.9%, with a spike in gift set sales in Q3

**Ice cream/lollies:** The category sales retained double-digit growth even on the high basis over the same period last year, exceeding RMB10 billion, despite slower growth in Q3 due to the cooler weather and strong competition.

**TABLE 6: Yili's Revenue Split by Main Business in Q1–Q3 2023**

Item	Q3 2023		Q1–Q3 2023	
	Revenue, USD million	YoY Change	Revenue, USD million	YoY Change
Liquid dairy (UHT/fresh milk, modified milk, yoghurt, milk beverages, etc.)	3,205.50	8.48%	9,115.80	2.07%
Powdered milk products and other dairy products (cheese, cream, etc.)	891.8	-3.85%	2,775.50	6.38%
Ice cream/lollies	170.7	-35.69%	1,446.60	12.86%
Others (bottled water, etc.)	21	44.40%	65.7	51.50%

Source: Yili's Report for Q3 2023

## Bright Dairy's Downturn vs. New Hope Dairy's Sustained Growth in Q3

**Summary:** Regional enterprise Bright Dairy reported a loss in Q3 against previous profits, while New Hope Dairy remained on growth track.

Among the listed dairy companies having issued this year's Q1-Q3 results so far, Bright Dairy & Food Co., Ltd. (Bright Dairy, Stock Code: 600597) and New Hope Dairy Holdings Co., Ltd. (New Hope Dairy, Stock Code: 002946) ranked 2<sup>nd</sup> and 3<sup>rd</sup> in revenues over the period, behind only Yili.

The 2 companies' earnings, however, are heading in contrasting directions — Bright Dairy made a loss in Q3, while New Hope Dairy achieved growth in net profit.

### Bright Dairy's key financial data:

#### Q3

- Revenue: USD909.1 million (RMB6.5 billion), down 6.44% YoY
- Net loss attributable to equity shareholders of the listed company:

-USD2.1 million (-RMB15.3 million), vs. a net profit of USD12.3 million (RMB88.0 million) in Q3 2022

- Net loss attributable to equity shareholders of the listed company excl. extraordinary gains/losses: -USD652,984.5 (-RMB4.7 million), vs. a net profit of USD5.6 million (RMB40.2 million) in Q3 2022

#### Q1–Q3

- Revenue: USD2.9 billion (RMB20.7 billion), down 3.37% YoY
- Net profit attributable to equity shareholders of the listed company: USD45.0 million (RMB322.7 million), down 12.67% YoY
- Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses: USD43.5 million (RMB311.9 million), up 10.68% YoY

In addition to lower domestic sales and a loss at New Zealand's Synlait Milk Ltd in Q3, Bright Dairy faced business challenges, according to its report:

- Stagnant margin growth: In Q1-Q3 this year, Bright Dairy's gross margin was 18.67%, unchanged from the same period of last year — compared with the 30%+ at Yili
- Increased costs-to-sales ratio: Although its spending was down by 0.89% to USD357.6 million (RMB2.6 billion) in Q1-Q3, the costs-to-sales ratio rose by 0.35 percentage points to 12.42%, meaning Bright Dairy had spent more to achieve the same revenues compared with the period last year
- Slow expansion: With merely 0.01% growth in sales in Shanghai, its core market, the company saw sales outside Shanghai drop by 6.56% in Q1–Q3
- Weak sales: Liquid dairy (UHT/fresh milk, chilled and ambient yoghurt, milk beverages), the major revenue contributor, was up 1.04% in Q1–Q3, offering little growth to offset the reductions in other categories

**TABLE 7: Bright Dairy's Revenue Split by Main Business, Q1–Q3 2023 vs Q1–Q3 2022**

Category	Revenue, USD million		Change
	Q1–Q3 2022	Q1–Q3 2023	
Liquid dairy (UHT/fresh milk, chilled and ambient yoghurt, milk beverages)	1,685.40	1,702.90	1.04%
Other dairy products (cheese, milk powders, milk formula, butter)	836.4	790.3	-5.51%
Dairying products	285.2	201.8	-29.23%
Others	131.1	164.6	25.55%

Source: Bright Dairy's Q1-Q3 2023 Report

On the other hand, New Hope Dairy enjoyed growth in Q1–Q3 net profit.

**New Hope Dairy's key financial data:**

**Q3:**

- Revenue: USD403.4 million (RMB2.9 billion), up 7.25% YoY
- Net profit attributable to equity shareholders of the listed company: USD20.1 million (RMB144.2 million), up 19.08% YoY
- Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses: USD22.5 million (RMB161.6 million), up 54.39% YoY

**Q1–Q3:**

- Revenue: USD1.1 billion (RMB8.2 billion), up 9.55% YoY
- Net profit attributable to equity shareholders of the listed company: USD53.1 million (RMB380.9 million), up 22.78% YoY
- Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses: USD54.5 million (RMB391.2 million), up 58.11% YoY

In May, New Hope Dairy issued a plan for 2023–2027 reiterating its "Fresh Cube" strategy for the 5 years ahead, emphasizing its DTC (direct-to-consumer) operation. This strategy has

propelled its fresh milk business forward in different ways:

- Overall DTC sales were up by nearly 20% in Q1–Q3
- Supply capacity continued to ramp up, with record output levels in 6 factories across East and West China
- In Sept., it added an organic product to its "24-hour Fresh Milk" series, which has performed well across several regions. This series' sales soared almost 40%, whilst sales of its "Today's Fresh Milk Shop" series jumped over 70% in Q1–Q3. New products accounted for over 10% of total sales in Q3.

**H&H Group's Baby Nutrition & Care Sales Face Challenges in China**

**Summary:** H&H Group's Q1–Q3 results show 10.9% growth in total revenue but a 9.7% decline in the Baby Nutrition and Care (BNC) segment as the depression in China's IMF market continues.

H&H Group (Stock Code: 01112.HK) reported its Q1–Q3 results for 2023 on 1 Nov., showing total revenue up 10.9% YoY to USD1.4 billion (RMB10.3 billion). China contributed 70.7% of total revenue, with sales up 6.9% YoY to USD1.0 billion (RMB7.3 billion) in Q1–Q3, but down 9.0% YoY to USD305.8 million (RMB2.2 billion) in Q3. In Q3 the Group's growth was primarily fuelled by robust sales in Adult Nutrition and Care and Pet Nutrition and Care, while the Baby Nutrition & Care segment continued to stagnate, mainly in China.

**Segment Performance in Q1–Q3:**

**Baby Nutrition and Care (BNC)**

- Global BNC sales slipped by 9.7% YoY, accounting for 41.7% of the Group total
- The infant milk formula (IMF) business recorded a 13.5% decline in sales over the period, with Q3 sales of USD129.7 million (RMB930.9 million) down 20.6% YoY
- In Q3, the Group rolled out 'Inostime' in France – an IMF series fortified with lactopontin (LPN), a crucial component of breast milk, maintaining its leading position in that country's pharmacy channel
- In China, IMF sales declined 13.8% in Q1–Q3, reflecting to the depression in the market compounded by intensified competition after the launch of the new

national IMF standard, and its effort to move stocks to enable it to secure distribution of new product launches at the end of this year. In Q3, its sales of paediatric probiotic and nutritional supplements fell 45.6% YoY, as customers were de-stocking and demand reduced for immunity-related products in pharmacies after the pandemic peak

#### Adult Nutrition and Care (ANC)

- Global ANC sales rose 35.9% YoY, accounting for 44.8% of the Group total
- In China, the segment's sales increased 40.8% YoY; the brand Swisse (which it acquired from Australia) made up 23.8% of sales with YoY growth of 74.1% and a market share of 7.9% online

- Sales in the Australia and New Zealand (ANZ) market were up 25.7% YoY, led by new Swisse products

#### Pet Nutrition and Care (PNC)

- Its Global PNC sales increased 23.8% YoY, accounting for 13.5% of the Group total
- In China, the segment sales increased 28.0% YoY; by the end of Q3 its PNC products were available in 8,800+ pet stores and veterinary clinics nationwide

On the BNC operation in China, H&H Group indicated that it would continue to expand its IMF series and innovate supplements including DHA, calcium tablets, Swisse Gummies and probiotic products to consolidate its leading position, suggesting that the weak BNC performance could be offset by growth in nutritional supplements.

**TABLE 8: H&H Group's Revenue Split by Segment, Q1–Q3 2023**

Segment		Q1–Q3		Q3	
		Revenue, USD million	YoY Change	Revenue, USD million	YoY Change
Baby Nutrition and Care (BNC)	IMF	438.1	-13.50%	129.7	-20.60%
	Paediatric probiotic and nutritional supplements	127.2	12.90%	23.6	-45.30%
	Other infant products	31.9	-24.92%	9.8	-14.81%
	<b>Sub-total</b>	<b>597.2</b>	<b>-9.70%</b>	<b>163.1</b>	<b>-25.20%</b>
Adult Nutrition and Care (ANC)		641.8	35.90%	232.4	24.60%
Pet Nutrition and Care (PNC)		193.0	23.80%	63.9	28.20%
<b>Total</b>		<b>1,432.0</b>	<b>10.90%</b>	<b>459.4</b>	<b>0.70%</b>

Source: H&H Group

**TABLE 9: H&H Group's Revenue Split by Geography, Q1–Q3 2023**

Regions	Q1–Q3		Q3	
	Revenue, USD million	YoY Change	Revenue, USD million	YoY Change
Chinese mainland	1,013.0	6.90%	305.8	-9.00%
Australia / New Zealand	191.7	25.70%	76.1	36.60%
North America	156.7	22.50%	54.1	25.90%
Other territories	70.5	13.70%	23.3	13.80%
<b>Total</b>	<b>1,432.0</b>	<b>10.90%</b>	<b>459.4</b>	<b>0.70%</b>

Source: H&H Group

## Mengniu's Dairy Product Capacity Expansion Project Progress Updates

**Summary:** In Nov., Mengniu received local authorities' approvals to expand its ice cream and UHT dairy capacities in Dangyang (Hubei Province) and Baoji (Shaanxi Province) respectively, and has completed construction on several expansion projects for UHT dairy, chilled yoghurt and milk beverages and ice cream products.

In Nov., China Mengniu Dairy Company Ltd (Mengniu, Stock Code: 02319.HK) gave updates on the latest progresses of 5 dairy capacity expansion projects — 2 were approved by the local departments of ecology and environment and ready for ground-breaking, to add 50,000 t/a capacity for ice cream, and 18,600 t/a capacity for UHT pure milk and 18,600 t/a for modified milk; 3 are complete and ready for operation, adding a total of 417,555 t/a capacity for UHT dairy, chilled yoghurt and milk beverages, and ice cream products.

### Approved project 1:

#### 50,000 t/a Ice Cream Project in Dangyang, Hubei Province

- Construction unit: Mengniu Dairy (Dangyang) Co., Ltd.
- Construction nature: Expansion
- Total investment: USD16.7 million (RMB120.0 million), 1.05% (=USD176,237/RMB1.3 million) of which for environmental protection
- Location: Hi-Tech Industrial Development Zone of Dangyang City, Hubei Province
- Construction content: To add 2 ice cream production lines and supporting facilities
- Designed capacity: Ice cream – 50,000 t/a
- Main material consumption: Milk powders – 2,100 t/a
- Working system: 60 New workers
- Construction duration: 7 months

### Approved project 2:

#### UHT Dairy Production Line Expansion Project in Baoji, Shaanxi Province

- Construction unit: Mengniu Dairy (Baoji) Co., Ltd.
- Construction nature: Expansion
- Total investment: USD7.2 million (RMB52.0 million), 0.25% (=USD18,111/RMB130,000) of which for environmental protection
- Location: High-tech Zone of Baoji City, Shaanxi Province
- Construction content: To add a production line in the existing workshop, plus sterilisation machine and tank, filling machine, all-in-one packer and uncaser, and supporting equipment
- Designed capacity: UHT milk – 18,600 t/a; UHT modified milk – 18,600 t/a
- Main material consumption: Raw milk – 35,600 t/a
- Working system: No new workers given the high level of automation of new equipment
- Construction duration: 1 month

### Completed project 1:

#### 130,300 t/a UHT Milk Project in Beijing Factory

- Construction unit: Mengniu Dairy (Beijing) Co., Ltd.
- Construction nature: Expansion and retrofitting
- Total investment: USD25.1 million (RMB180.1 million), 0.83% (=USD208,978/RMB1.5 million) of which for environmental protection
- Location: District Food Industrial Park of Tongzhou District, Beijing
- Construction content: Removed 4 production lines, built 4 new lines for product of different package specifications, reconstructed 1 "Milk Deluxe" line into "Mengniu Pure (UHT) Milk" line, and added 50 sets of production equipment

- Designed capacity: UHT milk – 130,300 t/a
- Main material consumption: Raw milk – 140,107 t/a
- Start of construction: Jan. 2023
- Commissioning time: June 2023
- Site acceptance test: Sept. 2023

### Completed project 2:

#### 82,855 t/a UHT Milk Project in Shenyang, Liaoning Province

- Construction unit: Mengniu Dairy (Shenyang) Co., Ltd.
- Construction nature: Expansion
- Total investment: USD7.0 million (RMB50.0 million), 0.28% (=USD19,505/RMB140,000) of which for environmental protection
- Location: Shenbei New Area, Shenyang City, Liaoning Province
- Construction content: Added one 250ml line, two 240ml line
- Designed capacity: UHT milk – 82,855 t/a (42,705 t/a for 250ml Tetra Brik and 40,150 t/a for 240ml Tetra Pak Pillow)
- Main material consumption: Raw milk – 31,000 t/a
- Start of construction: June 2023
- Commissioning time: Sept. 2023
- Site acceptance test: Sept. 2023

### Completed project 3:

#### Dairy Product Expansion and Retrofitting Project (Phase I) in Urumqi, Xinjiang Uygur Autonomous Region

- Construction unit: Xinjiang Mengniu Tianxue Food Co., Ltd.
- Construction nature: Expansion and retrofitting
- Total investment: USD40.0 million (RMB287.0 million), 14.4% (=USD5.8 million/RMB41.4 million) of which for environmental protection
- Location: Toutunhe District Industrial Park, Urumqi City, Xinjiang Uygur Autonomous Region

- Construction content: Reconstructed the original ambient production factory, ice cream / lollies workshop, raw and auxiliary material storage and power centre, and built new chilled products workshop with supporting facilities
- Designed capacity:
  - UHT dairy (pure milk, milk beverages and modified milk) – 109,500 t/a
  - Chilled dairy (yoghurt and milk beverages) – 73,000 t/a
  - Ice products (ice lollies, ice cream & ice milk) – 21,900 t/a
- Start of construction: June 2020
- Site acceptance test: Sept. 2023

## Raw Milk Price

### Major Milk Producing Provinces Report Production Growth Despite Continued Fall in Prices

**Summary:** China saw a continued decline in raw milk prices in Nov., but major milk producing provinces have reported YoY growth in Q1–Q3 despite this persistent trend.

In the week ended 8 Nov., China's raw milk price averaged USD516.9 (RMB3,710) per tonne, down 0.3% from the first week of the month and down 10.2% YoY.

#### Feed market:

- The national price of corn averaged USD405.4/t (RMB2,910/t), down 0.3% from the first week of the month and down 4.3% YoY; the average in major production regions (Heilongjiang, Jilin and Liaoning) was down 0.4% to USD370.6/t (RMB2,660/t) compared with the first week; and the price in the main demand area, Guangdong, edged down by 0.3% to USD423.5/t (RMB3,040/t) from the first week (the province does not produce corn itself and relies on supply from the major production regions, so serves as a key indicator of the ceiling price of corn, whereas other provinces such as those strong in cattle farming see corn sold at around USD370.6/t – the average in major production regions)
- The national price of soybean meal averaged USD633.9/t (RMB4,550/t), up 0.2% from the first week of the month and down 18.2% YoY

Milk production in major producing provinces ramped up in Q1–Q3 compared with the same period last year, according to data from provincial departments of statistics or departments of agriculture and rural affairs:

- Inner Mongolia Autonomous Region: Dairy herd expanded 4.1% to 1.687 million head, milk production increased 6.8% to 4.613 million tonnes, and dairy industry output volume was up 13.3% to 3.498 million tonnes. Inner Mongolia led the country's dairy industry in output value, its USD31.0 billion (RMB222.5 billion) accounting for 35.3% of the national total
- Hebei: Milk production increased by 5.9% to 4.389 million tonnes in Q1–Q3 and the annual total is expected to reach 5.470 million by the end of this year, with the herd up to 1.480 million head
- Heilongjiang: Milk production was up 1.0% to 3.379 million tonnes
- Ningxia: The dairy herd rose 13.9% to 909,300 head, milk production was up 26.8% to 3.145 million tonnes, and dairy industry output volume up 8.0%; the output value of the dairy industry grew 19.0% to USD1.3 billion (RMB9.0 billion)

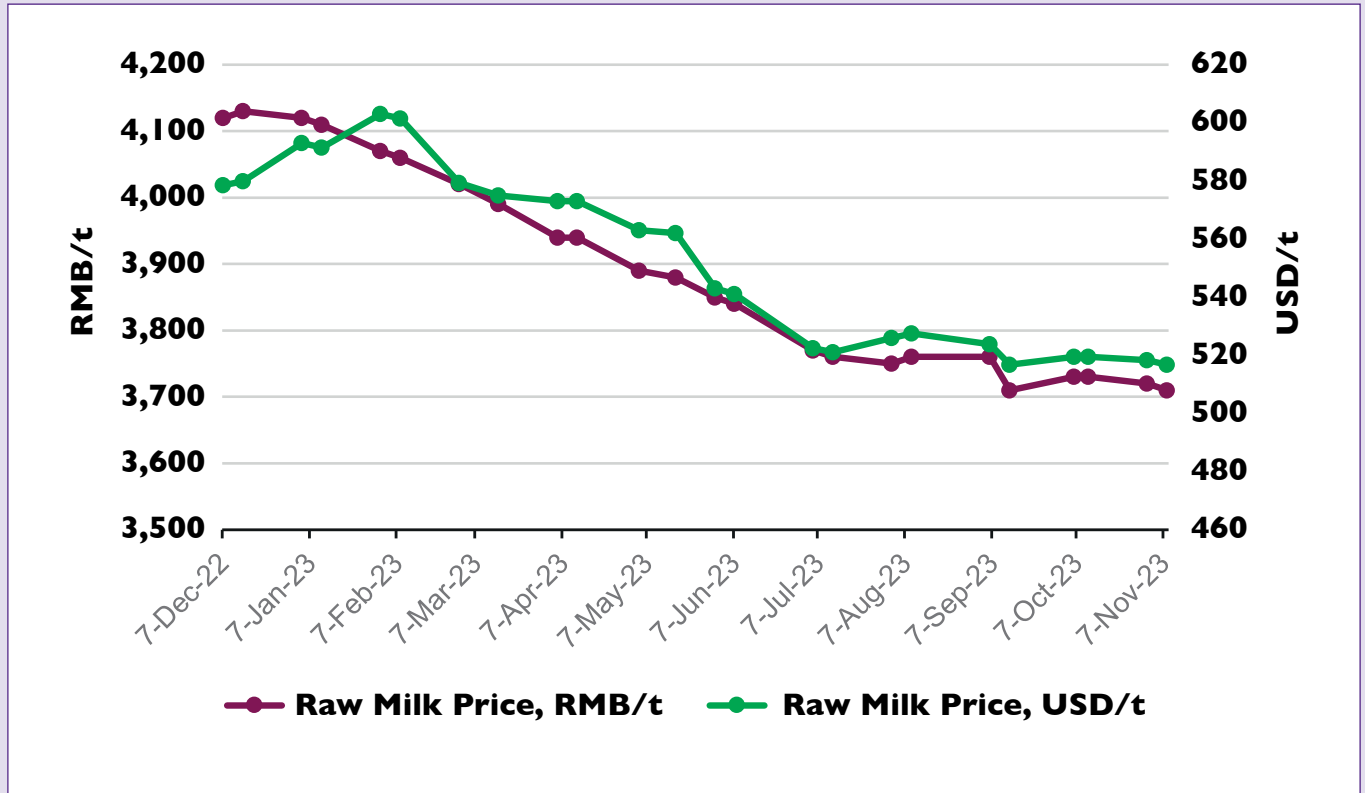
- Shandong: Milk production was up 1.0% to 3.379 million tonnes
- Xinjiang Uygur Autonomous Region: 14,800 head of Holsteins were introduced to the Region in the period; milk production was up 3.3% to 1.692 million tonnes
- Shanxi: Milk production was up 4.8% to 1.086 million tonnes
- Yunnan: Milk production was up 9.9% to 425,100 tonnes
- Shaanxi: Milk production was up 2.2% to 194,000 tonnes
- Liaoning: Milk production was up 1.1%.

In recent years, Inner Mongolia Autonomous Region, Heilongjiang, Yunnan and other major provinces have issued series of policies to lead the local dairy sector to focus on quality ahead of quantity. But the overall growth of milk production in major producing provinces has outpaced the growth in demand, causing a national surplus of milk and sending down prices.

Latest reference trading prices for raw milk for Q4 2023:

- Heilongjiang: USD536.4/t (RMB3,850/t), with a minimum price of USD508.5/t (RMB3,650/t)
- Jilin: USD515.5/t–USD557.3/t (RMB3,700/t–RMB4,000/t)
- Shandong: USD515.5/t–USD564.2/t (RMB3,700/t–RMB4,050/t)

**FIGURE 1: Trends in China's Raw Milk Price, Dec. 2022–Nov. 2023**



Source: Ministry of Agriculture and Rural Affairs (MARA)

## News in Brief

### Dairy Imports in October 2023

Despite some positive commentary from some industry observers and some broadly encouraging macroeconomic indicators, China's milk production has continued to rise. There remains little growth compared to last year in the November import volumes – the main exceptions being cheese, lactose and proteins.

**TABLE 10: 2023 October Imports, tonnes**

HS code	Product	202210	202309	202310	MOM	YOY
04011000	Milk & cream, fat ≤1%, not concentrated or sweetened	7,764.9	6,295.0	5,361.7	-14.8%	-30.9%
04012000	Milk & cream of >1% but ≤6% fat, not concentrated or sweetened	37,137.7	42,187.9	43,389.1	2.8%	16.8%
04014000	Milk & cream, 6%	3.2	0.5	2.7	445.8%	-13.5%
04015000	Milk & cream, fat >10%, not concentrated or sweetened	25,569.9	26,412.6	22,098.4	-16.3%	-13.6%
04021000	Milk & cream in solid forms, fat ≤1.5%, concentrated/ sweetened	22,295.5	19,513.9	22,472.9	15.2%	0.8%
04022100	Milk & cream in solid forms of >1.5% fat, concentrated, unsweetened	27,123.5	18,940.1	18,486.9	-2.4%	-31.8%
04022900	Milk & cream in solid forms of >1.5% fat, concentrated, sweetened	307.5	40.8	41.9	2.7%	-86.4%
04041000	Whey and modified whey	55,916.3	55,359.3	53,917.1	-2.6%	-3.6%
04049000	Products consisting of natural milk constituents, nes	240.0	901.2	776.9	-13.8%	223.6%
04051000	Butter	6,194.6	7,098.1	5,481.6	-22.8%	-11.5%
04059000	Other fats & oils derived from milk	3,961.3	3,484.6	2,343.8	-32.7%	-40.8%
04061000	Fresh cheese, incl. whey cheese, curd	4,527.1	4,440.9	4,166.0	-6.2%	-8.0%
04062000	Grated or powdered cheese	2,442.1	3,141.6	3,837.0	22.1%	57.1%
04063000	Processed cheese, not grated or powdered	1,459.6	1,374.9	1,080.8	-21.4%	-25.9%
04064000	Blue-veined cheese, other-veined cheese prod. by penicillium roqueforti	10.3	15.3	7.8	-49.1%	-24.8%
04069000	Cheese, nes	1,346.3	2,887.7	2,166.0	-25.0%	60.9%
17021100	Anhydrous lactose, lactose wt. ≥99%	11,343.4	14,029.3	16,683.0	18.9%	47.1%
17021900	Lactose syrup & other lactose	25.9	3.0	2.6	-12.5%	-89.9%
19011010	For infant food retail packaging formula, the defatted cocoa content < 5%	24,223.8	12,788.3	17,067.2	33.5%	-29.5%
35011000	Casein	1,209.3	1,490.6	2,232.8	49.8%	84.6%
35019000	Caseinates	1,764.5	1,103.9	2,129.7	92.9%	20.7%
35022000	WPC80/WPI	2,563.2	3,258.3	2,663.7	-18.3%	3.9%

Source: China Customs



## Inspection and Quarantine Requirements for Dairy Imports from Pakistan

On 6 Nov., China Customs published the Protocol of Inspection and Quarantine Requirements for the Imports of Dairy Products from Pakistan to China. Permissible products are milk or dairy products produced from cow or camel milk including milk powder, whey powder, whey protein powder, colostrum powder, UHT milk, modified milk, fermented milk, natural and processed cheese, whipping cream, cream, AMF.

Pakistan is world's 5<sup>th</sup> largest milk producing country. Its annual milk production reached around 65.7 million tonnes in 2022, however, lacking in milk processing technology and equipment, over 95% of its milk is marketed without processing, and its dairy exports are minimal – led by a mere 2,420 tonnes in 2022 for liquid milk and cream – mainly to Afghanistan. The impact of this arrangement is therefore likely to be minimal.

## China Drafts Rules for Production Licensing of Liquid Baby Formula

On 1 Nov., the State Administration for Market Regulation (SAMR) published draft *Detailed Rules for the Review of Production Licensing of Liquid Baby Formula* for public comments. The period for feedback ends on 1 Dec., 2023.

Liquid baby formula is a rising niche segment in China, mostly comprising imported brands, including Mead Johnson, Abbott Nutrition and Aptamil. There are also a few Chinese producers like Synutra and China Feihe and recently more domestic businesses have been showing interest in such products.

At present, China has no specific standard for liquid baby formula, which comes under the National Food Safety Standard – Infant Formula (GB 10765–2021) and the National Food Safety Standard – Infant Formula Foods (GB 10767–2021). The formulation of such a standard may now be imminent and should benefit the sales of these high value products.

The following areas are underscored in the draft:

- Raw materials: Raw milk used should derive from the processor's own farms, with microorganisms and somatic cell counts/SCC at conforming levels: total plate count  $\leq 10 \times 10^4$  CFU/m, psychrophiles  $\leq 1 \times 10^4$  CFU/mL, thermophilic bacteria  $\leq 100$  CFU/mL, and SCC  $\leq 30 \times 10^4$ /mL
- Production process: Regulations for aseptic filling and post-sterilisation are listed out, and standards for dynamic control in the cleaning zone are more demanding than those for powdered baby formulae
- Strict requirements for sterilisation equipment and verification of sterilisation efficacy, and products' final examination

## Beingmate's Capacity Ramp-Up Faces Second Delay

On 31 Oct., Beingmate Co., Ltd. (Beingmate, Stock Code: 002570) announced that it is deferring the completion of its "20,000 t/a milk formula and regional distribution centre project" to 30 April, 2024 from 30 Sept, 2023.

This project was due for start-up last month after the first delay due to operational difficulties and launch of the new national IMF standard. The company attributes this 2<sup>nd</sup> delay to market-wide changes that have challenged construction progress and changes required by the new laws and regulations, but indicates that it foresees no negative influence on its current production and operation.

In a previous statement, Beingmate described this project as a key measure to diversify its production, involving funding of USD22.5 million (RMB161.6 million). If fully operational, capacity is expected to be 10,000 tonnes of goat milk formula, 5,000 tonnes of organic IMF and 5,000 tonnes of milk-based nutritional supplements annually. However, Beingmate's capacity utilisation has remained low level. Data from its half-yearly report shows a total designed capacity of 122,300 t/a for infant formula and related products, but utilisation of only 55.6% – producing 68,000 tonnes a year.

## Junlebao to Buy 30% Stake in More Yogurt

On 8 Nov., Junlebao Dairy Group Co., Ltd. (Junlebao) committed to acquire a 30% stake in Shanghai Boyi Catering Management Co., Ltd., owner of MORE YOGURT, the fastest-expanding freshly-made yoghurt and milkshakes chain. Facing intense competition and increasing product sameness in the freshly-made drinks sector, MORE YOGURT stands out with its offering of healthy yoghurt-based products with unique tastes. The chain has built 1,600+ franchised outlets in China, most in 1<sup>st</sup> and 2<sup>nd</sup>-tier cities.

The agreement also includes Junlebao's construction of a dairy farm in Bashang Grassland, Zhangjiakou in Hebei Province to exclusively supply MORE YOGURT – with yoghurt produced at the Group's local plant and then distributed to MORE YOGURT outlets. This will make Junlebao MORE YOGURT's major supplier of chilled yoghurt and represent a new B2B sales channel for Junlebao to consolidate its position in the yoghurt market, ranking 3<sup>rd</sup> behind Yili and Mengniu.

Meanwhile, Junlebao indicated that it expects to complete its IPO by 2025 and that this investment in the yoghurt chain could help grow its brand value.

## Juneyao Health Sees Growth in Probiotic Foods

Hubei Juneyao Great Health Drinks Co., Ltd. (Juneyao Health, Stock Code: 605388) recently reported substantial growth in revenue, driven by probiotics foods.

### Key data in Q1–Q3 are as follows:

- Revenue: USD188.9 million (RMB1.4 billion), up 104.31% YoY
- Net profit attributable to equity shareholders of the listed company: USD11.5 million (RMB82.5 million), up 4.57% YoY

### In category sales:

- Lactobacillus drinks: USD71.3 million (RMB511.6 million), down 0.86% YoY
- Probiotic drinks: USD3.0 million (RMB21.7 million), down 4.58% YoY
- Probiotic foods: USD16.8 million (RMB120.4 million), compared with USD5.2 million (RMB37.0 million) of the same period last year

A long established brand in LAB drinks, Juneyao Health has been active in integrating its probiotics activities as it diversifies further into this area. Early this year, it completed the acquisition of Biogrowing Co., Ltd., a leading local probiotics supplement manufacturer which it renamed as Juneyao Biogrowing Biotechnology Co., Ltd. At present Juneyao Health is implementing a plan designed to quadruple its probiotics production capacity.

## Panda Dairy Profits Boom

In late Oct., Panda Dairy Corporation (Panda Dairy, Stock Code: SZ. 300898) issued its report for Q1-Q3 2023 with doubled profits:

### Q3:

- Revenue: USD36.5 million (RMB261.9 million), down 1.67% YoY
- Net profit attributable to equity shareholders of the listed company: USD4.8 million (RMB34.6 million), jumping 101.96% from the USD2.4 million (RMB17.1 million) of Q3 2022

### Q1–Q3:

- Revenue: USD98.8 million (RMB709.4 million), up 10.06% YoY
- Net profit attributable to equity shareholders of the listed company: USD11.4 million (RMB81.8 million), up 104.88% YoY from the USD5.6 million (RMB39.9 million) of Q1–Q3 2022

### Contributing growth factors in Q3 include:

- Post-pandemic recovery in foodservice sales and sales of condensed milk and cream as bulk ingredients to food manufacturers, plus increased consumption during the holiday season
- Sales of coconut-based products exceeding expectations
- Effective cost control in retail, with sales costs in Q3 down by 24.35% YoY to USD1.4 million (RMB9.8 million)

## Royal Group Breaks Ground for Central Factory in Fuyang, Anhui Province

On 9 Nov., Royal Group Co., Ltd. (Royal Group, Stock Code: 002329) held a ground-breaking ceremony for its Smart Dairy Products Central Factory in Fuyang City, Anhui Province, designed to become the Group's East China Headquarters.

This factory is located in Yingdong Food Industrial Park of Fuyang City, covering an area of around 210,000 m<sup>2</sup> with an investment budget of USD334.4 million (RMB2.4 billion). The designed capacity is 250,000 t/a of dairy products – 65% ambient and chilled water buffalo milk products and 35% milk beverages, ice cream/lollies and cheese, etc (using buffalo and cow milk). The construction involves 2 phases, the 1<sup>st</sup> including building the main factory and a supporting facility for packaging production, and a wastewater treatment area of around 126,000 m<sup>2</sup>. The factory will supply the Anhui market and support the Group's business in the Yangtze River Delta region.

In Q1–Q3 2023, Royal Group achieved USD357.7 million (RMB2.6 billion) in revenue and USD24.4 million (RMB174.9 million) in net profit attributable to equity shareholders of the listed company.

## Qinlong Dairy's Goat Milk Production Expansion Plan

On 20 Nov., the local department of ecology and environment accepted and publicised the environmental impact statement of Shaanxi Qinlong Dairy Group Co., Ltd. (Qinlong Dairy)'s goat milk production expansion project.

### Project overview:

- Construction nature: Expansion and retrofitting
- Total investment: USD41.6 million (RMB298.8 million), 0.08% (=USD36,222/RMB260,000) of which for environmental protection
- Location: Yanliang District, Xi'an City, Shaanxi Province
- Site area: 18,648 m<sup>2</sup>
- Construction content: Add new production lines for cheese and whey powder, upgrade the existing production line for goat milk formulae for special medical purpose, install whole-process equipment for drying, concentrating, mixing, cleaning and others
- Designed capacity:
  - Goat milk formula for special medical purpose – 6,000 t/a
  - Goat milk cheese – 6,000 t/a
  - Functional goat milk formula – 2,000 t/a
  - Whole goat milk powder – 2,000 t/a
  - Goat whey powder – 1,000 t/a
- Main raw material consumption: 35,000 t/a of raw goat milk and 2,500 t/a whey powder for the production of goat milk formula for special medical purpose; and 66,000 t/a raw goat milk for the production of cheese and whey powder – all these main materials are to be outsourced
- Working system: 149 new workers for 330 days per year
- Construction period: Dec. 2023 to Dec. 2024

Qinlong Dairy was founded in 1998 and operates primarily in infant goat milk formula and whole and modified goat milk powders. It has 3 production bases and 5 smart production lines using dry-wet mixing processes, totalling 100,000 t/a of designed capacity.

## Chevalese Dairy Plans to Add Capacity

On 7 Nov., Inner Mongolia Chevalese Dairy Group Co.,Ltd. (Chevalese Dairy, Stock Code: 832786) posted a notice that it is to add 500t/d milk processing capacity in its existing liquid dairy plant, including setting up a workshop of 20,500 m<sup>2</sup>, automatic high-rise warehouse and other equipment with an internally-funded investment of up to USD41.8 million (RMB300 million). The project is operated by its wholly-owned subsidiary Baotou Chevalese Dairy Group Co., Ltd. (Baotou Chevalese).

Chevalese Dairy's business centres on organic raw milk, dairy products and milk beverages, and Baotou Chevalese mainly produces UHT/fresh milk, chilled yoghurt, milk beverages, milk powders and powdered milk tea. Chevalese Dairy has 15 production lines for liquid dairy and 8 lines for milk powders, with a total milk processing capacity of 1,120 tonnes per day.

In Q1–Q3 2023, Chevalese Dairy's revenue of USD108.7 million (RMB780 million) was up 38.98% YoY, and its net profit attributable to equity shareholders of the listed company of USD10.3 million (RMB74.11 million), was up 14.20% YoY. Increased output and sales of organic raw milk, improved sales of dairy products and cattle, and OEM business growth were all factors enabling these results.

# PRIORITY ORDER FORM

## Choose Type of Subscription

Single user PDF:	<input type="checkbox"/> 1 year US\$2,915	<input type="checkbox"/> 2 years US\$4,960	<input type="checkbox"/> 3 years US\$6,560
Enterprise-wide license:	<input type="checkbox"/> 1 year US\$7,290	<input type="checkbox"/> 2 years US\$12,395	<input type="checkbox"/> 3 years US\$16,405

Note: All subscriptions are invoiced in full on commencement of each subscription period

## Your Details

Name:	<input type="text"/>		
Position:	<input type="text"/>		
Company:	<input type="text"/>		
Address:	<input type="text"/>		
Tel No:	<input type="text"/>	E-Mail:	<input type="text"/>
Fax:	<input type="text"/>	Vat No. (EU only):	<input type="text"/>
Signature:	<input type="text"/>	Date:	<input type="text"/>

## To Order, Please Send Confirmation To:

Richard Field, Director, Orrani Consulting  
E-mail: [richard.field@orrani.com](mailto:richard.field@orrani.com)  
Fax: +44-1225-430240