Dairy Products China News

Guaranteed Exclusive Analysis

Vol. 10 Issue 1, 2017

Welcome to the January issue of Dairy Products China News.

Goats offer various commercial opportunities – milk, meat, fibre and skin – and China is the principal cashmere exporter worldwide, but it remains some way behind the main goat milk producers and processors, India and then then the EU. Perhaps this picture will evolve at a faster rate in coming years, however. Although world goat day is in Iran this year (May, mark your diaries), China is likely to offer the fastest growing goat milk market in the world in the short-medium term.

The FDA has just slapped down Dairy Goat Philippines for promoting goat milk's role in place of human breastmilk – after all goat milk has proven fatal for American infants in the past. However goat milk infant formula is one of the key bets for growth being made by Chinese infant formula manufacturers to counter the weak market performance.

China's government rightly wants a more concentrated dairy industry and will surely get what it wants. It is evident that entering promising new segments such as goat milk, organics or ambient drinking yoghurt, or diversifying into non-dairy food and beverage or even wholly new sectors, will not save many of China's dairy manufacturers. For foreign competitors, investors and dairy commodity suppliers, the issue of which companies will be your key competitors or customers in even say two or five years' time is becoming increasingly important!

Richard Field
Editor
richard.field@orrani.com

Contents

- Headlines . . . 2
- Market Dynamics . . . 3
  - *Dairy Business in 2016: Moving Upmarket and Diversifying . . . 3*
- Governmental Direction . . . 4
  - *Development Plan for Milk Industry in 2016-2020 . . . 4*
  - *National Alfalfa Industry Development Plan (2016-2020) . . . 5*
- Company Developments . . . 5
  - *Chevalese Dairy Acquires Milk Beverage Manufacturer . . . 5*
  - *Mengniu to Increase Stake in Modern Dairy . . . 7*
  - *End of the Road for Blacklisted Yabais? . . . 8*
  - *New Hope Dairy to Acquire Asahi Dairy Assets . . . 8*
  - *Plant Beverage Manufacturer Yangyuan Zhihui to List . . . 9*
- Raw Milk Supply . . . 10
  - *Milk Price Maintains Growth in January . . . 10*
- New Products, Technology & Packaging . . . 11
  - *Classy Kiss Launches First Functional Yoghurt . . . 11*
- News in Brief . . . 12
  - *Wens: 3,500 Cows Located in Lianzhou Dairy Base . . . 12*
  - *Mengniu Ruled for Packaging Infringement . . . 12*
  - *China Triggers Safeguards on Selected Dairy Products from New Zealand . . . 13*
  - *Guizhou to Invest in Dairy Industry Development . . . 13*
  - *Bright Dairy to Acquire 3 Affiliated Companies . . . 13*
  - *Tianmu Dairy Launches 1st Full Milk Ice Cream . . . 13*
  - *Ground Food Plans Cheese Plant in Jilin . . . 14*
  - *Weigang Dairy Partners with General Mills . . . 14*
  - *Western Animal Husbandry Moves into Chongqing . . . 14*
  - *Substandard Batches of Infant Formula . . . 14*

Publishers

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

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

Headlines

- *In 2016 many Chinese dairy companies experienced slides in profits and even losses, so many have sought to achieve market breakthroughs and new sources of profits*
- *In January, the Chinese government issued its Development Plan for the Milk Industry in 2016-2020, focusing on responses to key industry issues – a real statement of its intent to develop the sector further*
- *On 18 January, the MOA officially issued the National Alfalfa Industry Development Plan (2016-2020), a topic great significance to the dairy farming business in China*
- *On 21 December, 2016, Chevalese Dairy announced its acquisition of a 60% stake in Dongjun Dairy, a move intended to expand its sales channels in Northwest China, reduce its sales costs and create a new source of profit*
- *On 5 January, Mengniu and Modern Dairy jointly announced a deal with advantages for both, but the producer's problems don't look like being solved in the short-term*
- *On 5 January, the local food and drug administration announced a clampdown on the local infant formula manufacturer Yabais, likely ending the company's participation in the market*
- *On 26 December, 2016, Japan's Asahi announced it will transfer Asahi Farm and Asahi Milk to New Hope Dairy. This is expected to enable the latter's expansion in the premium dairy market*
- *On 30 December, 2016, the CSRC previewed the prospectus of plant beverage manufacturer Yangyuan Zhihui as it prepares to list. However there are signs that its failure to innovate may well constrain its future growth*
- *In early January, China's average milk purchase price continued rising, whilst GDT fell. It is expected that the domestic milk price will maintain its growth, based on the declines in production both at home and overseas*
- *On 28 December, 2016, Classy Kiss held a new product launch conference in Guangzhou to launch its first functional yoghurt – "Enjoy One Hour After Meal"*

Major Companies and Sites Mentioned in This Issue

Market Dynamics

Dairy Business in 2016: Moving Upmarket and Diversifying

Summary: In 2016 many Chinese dairy companies experienced slides in profits and even losses, so many have sought to achieve market breakthroughs and new sources of profits.

2016 was another challenging for Chinese dairy companies, with many of them experiencing slides in profits and even losses. Facing increasing market penetration by imports, they had to compete on price, so falling profits were inevitable. In this context, many dairy companies sought to achieve market breakthroughs and new sources of profits.

Moving upmarket
This provided one answer, with goat milk products and organic milk products typical choices:

- In October, Shaanxi Guanshan Dairy Co., Ltd. signed a strategic cooperation agreement with Shaanxi Lvneng Ecological Farming Co., Ltd. which is operating the largest dairy goat farm in Asia, with 40,000 dairy goats
- Also in October, Shaanxi Herds Dairy Co., Ltd.'s 70,000 t/a "intelligent plant", now the largest goat milk formula plant in Asia, officially started business. In December the company launched an improved "Ao Zhi Jian" goat milk infant formula
- In October again, Yili announced its acquisition of a 37% stake in China Shengmu Organic Milk Limited (Shengmu), aiming to expand its share in the organic milk segment. "We will move into the organic infant formula business, a business upgrade expected to help compete with foreign infant formulae," stated Shengmu
- In November, Biostime International Holdings Limited (Biostime, stock code: 01112.hk) launched its organic infant formula, "Healthy Times" with a plan to achieve "RMB100 million" sales

"Goat milk and organic products are key to upgrading in infant formula," commented dairy researcher Zhu Danpeng. "By 2020, sales of goat milk infant formula will have doubled to USD1.4 billion (RMB10 billion) from the current USD 0.7 billion (RMB5 billion), taking 10% of total sales by then." In regards to organic infant formula, Luo Fei, CEO of Biostime expects a CAGR of 20%+ in the next few years.

Diversification
In order to create new sources of profits and enhance their competitiveness, some dairy companies may choose to diversify into other businesses.

For instance, this can mean expanding from only infant formula into healthcare products, which similarly require precise marketing and can sell alongside formula in mother & baby stores. Here brand extension is possible: if consumers recognise an infant formula brand, they may also accept healthcare products under the same brand, permitting new revenue streams to well known dairy companies.

Biostime followed up its September 2015 acquisition of an 83% stake in Swisse for USD1.0 billion (AUD1.4 billion, USD/AUD exchange rate @ 0.7471 on 17 January, sourced on hexun.com) by buying the remaining 17% stake for USD232.3 million (AUD310 million) on 16 December, 2016. This reflected Swisse's strong performance since the first investment: its sales were up by 34.9% to USD184.2 million (RMB1.3 billion) in H1 2016, making up 42.7% of Biostime's turnover.

In March 2017, Biostime will launch "Swisse" products in China. In the future, it will sell health products and nutritionals alongside its infant and baby products.

Meanwhile, some dairy companies diversified dramatically and achieved profit growth. In 2014, Royal Group Co., Ltd. (Royal Group, stock code: 002329, businesses including fresh milk, yoghurt, dairy farming and pasture grass planting) first moved into the media business and achieved satisfactory results. On 24 May, 2016, it announced an investment of USD18.7 million (RMB130 million) for a 30% stake in Beijing Evision Science and Technology Co., Ltd. Also in May it acquired the remaining 40% of Zhejiang Perfect Online Network Technology Co., Ltd. at USD22.4 million (RMB160 million).

Royal Group expected that "Our net profit in 2016 will increase by 80%, vs. 50% in 2015. The integration of the media businesses is a key factor behind this."

Governmental Direction

Development Plan for Milk Industry in 2016-2020

***Summary**: In January, the Chinese government issued its Development Plan for the Milk Industry in 2016-2020, focusing on responses to key industry issues – a real statement of its intent to develop the sector further.*

On 9 January, China's Ministry of Agriculture unveiled its Development Plan for Milk Industry in 2016-2020, which it formulated jointly with China's Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce and the Food and Drug Administration.

The plans involve several key elements:

To strengthen the competitiveness of domestic infant formula businesses
According to the plan, 2020 should see:

- 3-5 largescale infant formula companies (= sales > USD719.4 million (RMB5 billion))
- 80% industry concentration by the top 10 domestic infant formula companies (meaning the top 10 accounting for 80% of domestic infant formula sales)

The plan points out that:

- Infant formula-related laws and regulations and standards should be implemented rigorously, and in particular the *Regulations for Production of Powdered Infant Food* and the *Detailed Measures to Check Infant Formula Production for Licensing (2013 version)* should be revised appropriately in the future based on the formulations and revisions of national food safety standards
- Supervision of the industry should be stepped up, with checks on milk stations and milk transport arrangements and increasing tests of infant formula products
- Completely vertically integrated infant formula manufacturing businesses should be encouraged, and M&A should be promoted
- R&D into infant formulae suitable for Chinese babies should be encouraged, so as to cultivate internationally viable brands

To improve standards, laws and regulations
The current standards for dairy products were mostly formulated in 2010, with less stringent requirements than would now be possible, something which undoubtedly impacts consumer confidence, whilst using milk powder to produce liquid milk is also a threat to the domestic milk industry.

In regards to this, China will make the following changes during 2016-2020:

- Revise the *Regulations for the Administration of Dairy Product Quality and Safety*
- Revise the *Dairy Product Industry Policy*, so as to increase requirements for dairy farms, processing, technology/equipment, environmental control and quality and safety
- Revise the national standard *Raw Milk*, bringing in higher requirements on sanitary conditions and establishing a milk grading system for quality improvement and price adjustment
- Revise standards for liquid milk (such as retort sterilized milk and UHT milk), so as to have stricter regulation of the use of raw milk
- Formulate national standards for testing reconstituted milk, and for liquid milk processing, so as to improve the quality and safety of dairy products

This highlights how serious the central government is to further upgrade the dairy business in China.

To promote dairy farming
By 2020, the dairy sector should achieve:

- 41 million tonnes of milk and 35.5 million tonnes of dairy products
- >=70% self-sufficiency
- Average annual milk yields of 7.5 t/cow, vs. 6 t/cow in 2015
- Output of 5.4 million tonnes of quality alfalfa, vs. 1.8 million tonnes in 2015
- Large farms (>=100 cows) accounting for >=70% of dairy cows vs. 48.3% in 2015

More specifically, the government will:

- Support the rebuild and expansion of farms, especially the construction of milking sheds, manure treatment equipment, milking equipment and feed production areas
- Support the construction of dairy farms owned by dairy processors and guide rational development of largescale farms
- Construct 300 demonstration farms
- Increase/reconstruct the alfalfa planting area by 0.4 million ha (6 million mu), and support cooperation between leading feed growers and dairy co-operatives to achieve more industrialised and commercially viable quality feed production

National Alfalfa Industry Development Plan (2016-2020)

***Summary**: On 18 January, the MOA officially issued the National Alfalfa Industry Development Plan (2016-2020), a topic great significance to the dairy farming business in China.*

On 18 January, China's Ministry of Agriculture (MOA) officially released the *National Alfalfa Industry Development Plan (2016-2020)* (*Plan*), with great significance to the dairy farming business.

The production cost of milk in China is about RMB2.7-3.2/kg, of which feed makes up 60-70%. The use of imported high price forage, especially alfalfa, is a key reason for such a high farming cost. In 2008, China imported only 19,000 tonnes of alfalfa; however, the imports rose due to the increasingly strong demand, to 1.3 million tonnes during January-November 2016, up 19.7% YoY.

Since 2012, the Chinese government initiated the "action for alfalfa business development and milk business revitalisation". However domestic supply of alfalfa is remains deficient: in 2015, the shortage of quality alfalfa was about 1.3 million tonnes, a figure which needs to rise given the development of dairy farming.

By 2020, national milk output is targeted to be 41 million tonnes, according to the *National Milk Industry Development Plan (2016-2020)*, with 6 million milking cows (mainly Holstein). 70% of these cows (= 4.2 million head) should be on large commercial dairy farms by then, fed with quality alfalfa. If each milking cow needs 1.5 tonnes of alfalfa per year, then the demand will reach 6.3 million tonnes. Yet currently domestic quality alfalfa can only meet demand from 1.2 million head.

Various problems are listed in the *Plan*:

- Low content of crude protein, low feeding value and unstable product quality, impacted by poor harvesting/processing and storage/transportation conditions, and a lack of quality test equipment
- Fragmented production with only 50 companies capable of producing 10,000+ tonnes of alfalfa, generally small production scale, low mechanisation level and poor management. In December 2015, commercial alfalfa accounted for only 9.2% of the total planting area of 4.7 million ha (70.7 million mu)

Hence, the *Plan* highlights certain areas for particular development:

- Northeast China and Inner Mongolia Autonomous Region (largescale dairy farming areas): to promote feed-crop rotation, to produce dry alfalfa and to advance combined planting and farming
- Northwest China (traditional alfalfa planting area): to construct bases for the commercial-scale alfalfa planting, and to improve the processing and commercialisation
- North China (good natural conditions and strong market demand): to make full use of the grain-for-feed policy (repurposing land previously used for food crops now by planting feed crops instead) and to increase construction of quality alfalfa production bases
- Southern China: to develop alfalfa silage and wilted silage

In addition, the *Plan* lists the following key tasks:

- To improve the production capacity of quality alfalfa by promoting the planting of new varieties
- To accelerate the construction of quality alfalfa bases: to increase or repurpose by 0.4 million ha (6 million mu)
- To promote combined planting and farming: to build 500 demonstration sites combining high yield/high quality alfalfa production and dairy (cow or other herbivores) farming – each of 300+ cows, each cow to have 0.3 ha feed planting area (incl. 0.15 ha alfalfa and 0.15 ha silage)

According to the *Plan*, by 2020:

- New planting area: 0.2 million ha (3 million mu)
- Repurposed planting area: 0.2 million ha (3 million mu)
- Unit output: 9 t/ha (600 kg/mu)
- Total output: up by 1.8 million tonnes
- Self-sufficiency: around 80%

And:

- 100 largescale (>= 10,000 tonnes) alfalfa companies
- 500 demonstration sites combining high yield/high quality alfalfa production and dairy farming (cow or other herbivores)
- 238 demonstration counties for quality alfalfa

Company Developments

Chevalese Dairy Acquires Milk Beverage Manufacturer

***Summary**: On 21 December, 2016, Chevalese Dairy announced its acquisition of a 60% stake in Dongjun Dairy, a move intended to expand its sales channels in Northwest China, reduce its sales costs and create a new source of profit.*

On 21 December, 2016, Inner Mongolia Chevalese Dairy Group Co., Ltd. (Chevalese Dairy, located in Baotou City, NEEQ: 832786) announced its issue of 3.3 million shares and a cash payment to acquire a 60% stake in Dongjun Dairy (Yucheng) Co., Ltd. (Dongjun Dairy) for USD5.8 million (RMB40 million). Dongjun Dairy is located in Yinchuan City in Ningxia Hui Autonomous Region (just to the south of Inner Mongolia Autonomous Region).

This is an important step in Chevalese Dairy's strategy to expand outside its home region, following its establishment of Shandong Chevalese Dairy Co., Ltd., a JV with Dezhou Victoria Agriculture and Animal Husbandry Co., Ltd., in March 2016.

Chevalese Dairy is well-known in Inner Mongolia Autonomous Region, its brand "Chevalese" found on yoghurt (mainly) as well as on milk formula, ice cream, fresh milk and milk beverages.

Dongjun Dairy, founded in August 2008, produces milk beverages and also plastic packaging/containers. In Q1-3 2016, it made sales of USD9.7 million (RMB67.7 million) and a net profit of USD1.5 million (RMB10.2 million) (both yet to be audited).

To expand sales channels

In early 2015, Chevalese Dairy formulated its "Go Outside" development strategy, and started moving into Ningxia, Shaanxi Province and Gansu Province. However, the process of selling into these regions distant from its plants has incurred significant logistical costs and challenges in terms of product quality – so far the company has made sales of less than USD2.2 million (RMB15 million) from these activities in aggregate.

In contrast, Dongjun Dairy has established stable sales networks and partnerships with clients in Northwest China, covering Ningxia, Inner Mongolia and Xinjiang autonomous regions, and Gansu, Shaanxi and Qinghai provinces. This is very attractive to Chevalese Dairy given its intention to become a national player. The acquisition should enable it to integrate the companies' sales channels and customers to optimise marketing of its milk beverages and fresh dairy products.

To reduce sales costs

Yinchuan City (in Ningxia) is about 600km away from Baotou City (in Inner Mongolia). During its market expansion in Ningxia, Chevalese Dairy has been confronted with problems such as high costs for transportation and cold chain construction, since its key product is fresh yoghurt. The acquisition of Dongjun Dairy offers a solution: Chevalese Dairy plans to build a refrigerated warehouse in Dongjun Dairy's plant and construct fresh yoghurt production lines to reduce its operating costs and ensure product quality.

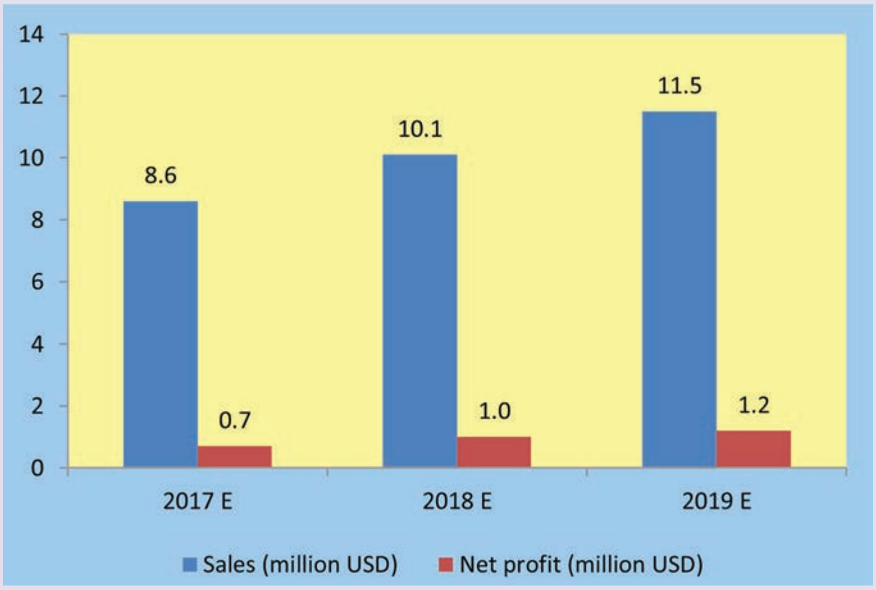
To create a new source of profit

Chevalese Dairy has no UHT milk products, which share the same sales channels as milk beverages. Dongjun Dairy is reported to have proven a successful agent for UHT milk.

Now a production expansion project is planned: up to USD0.9 million (RMB6 million) will be invested to construct new UHT milk production lines in Dongjun Dairy's current plant using milk produced by Chevalese Dairy in Inner Mongolia, targeting a wider product range and sales across 6 provinces/regions such as Ningxia which are expected to improve its profitability. "The sales price of UHT milk is fairly high," stated Chevalese Dairy, "This year will see a rise of USD4.3 million (RMB30 million) in our sales."

Following this acquisition, Chevalese Dairy expected its aggregate sales for the 2017-2019 period to increase by USD30.2 million (RMB210 million) and its net profit to increase by USD2.9 million (RMB20 million).

FIGURE 1: Rises in Sales and Net Profit Expected by Chevalese Dairy, 2017-2019



Source: Inner Mongolia Chevalese Dairy Group Co., Ltd.

Mengniu to Increase Stake in Modern Dairy

***Summary**: On 5 January, Mengniu and Modern Dairy jointly announced a deal with advantages for both, but the producer's problems don't look like being solved in the short-term.*

On 5 January, China Mengniu Dairy Company Limited (Mengniu, stock code: 02319) and China Modern Dairy Holdings Ltd. (Modern Dairy, stock code: 01117) jointly announced that the former will acquire a 16.7% stake in the latter from Success Dairy II Limited (Success Dairy) at a price of USD241.0 million (HKD1.9 billion, USD/HKD exchange rate @ 7.7581 on 3 January, sourced on hexun.com). Following this acquisition, Mengniu will hold a 39.9% stake (37.7% after dilution) in Modern Dairy and will maintain its "unique largest shareholder" position in the company.

Mengniu's shareholding of 30%+ will trigger the mandatory tender offer, according to the Hong Kong Exchanges and Clearing Ltd., so the company will make offers to all the shareholders of Modern Dairy at HKD1.94/share.

Modern Dairy to avoid payout risk

4 years ago in a period of milk shortage, Modern Dairy cooperated with Success Dairy (an investment business) to construct 2 dairy farms in Shandong Province. Then in July 2015, Modern Dairy bought out Success Dairy's stake in the 2 farms for about USD244.9 million (HKD1.9 billion).

It was agreed at that point that if Success Dairy's stake was valued at less than USD308 million during the 45-day trading period (starting in November 2017) before the end of the 3-year share lock-up period (July 2015-January 2018), Modern Dairy would pay the difference.

However 2016 saw losses in dairy farming businesses and large falls in Modern Dairy's share price. A value of USD308 million would need a share price of HKD5/share in November, but currently it is fluctuating around HKD2/share, so the required level seems distant – clearly, paying out compensation would exert serious pressure on Modern Dairy's capital resources.

If Mengniu succeeds in raising its stake this time, Success Dairy will no longer hold shares in Modern Dairy, so the valuation adjustment mechanism will be removed ahead of time, shielding Modern Dairy from the risk it faces and freeing it up to develop its business this year without this major concern.

Mengniu to stabilise quality milk supply for premium fresh milk products

"The acquisition is aimed at enhancing Mengniu's position in the premium dairy product market and supporting its development of fresh milk products, giving it control over its full supply chain and providing resulting economic benefits," is a claim in the announcement; "Modern Dairy is a leading farming company in China. Its superior farming and quality control methodologies can give us more control over the quality of the milk we purchase, and improve our operating efficiency," stated Mengniu.

The spread of Modern Dairy's production capabilities, with farms in 8 provinces/regions, will help Mengniu develop fresh milk products for several key dairy consumption markets in East/North/Northeast/Southwest/South China.

"This is another 'win-win' step in our partnership," said Lu Minfang, President of Mengniu: "The initial milk source is the basis of dairy products' quality....The acquisition....will lay a fine foundation for us to achieve our 2020 strategic goal: to be one of the world's dairy companies with sales of RMB100 billion".

The cornerstones of the companies' partnership are:

- The 10-year milk supply agreement which they signed in 2008, under which Modern Dairy is required to offer 70%+ of its milk to Mengniu
- Mengniu's investment to become Modern Dairy's largest shareholder in 2013

Will Modern Dairy achieve a turnaround?

Mengniu's increased stake is good news for Modern Dairy, eliminating a considerable degree of risk.

In H1 2016 when the company suffered a huge loss, Gao Lina, President of Modern Dairy attributed this in part to Mengniu's failure to purchase milk as contracted – this acquisition will certainly encourage Mengniu to purchase more milk from Modern Dairy.

"It is favourable for us to have more stable sales channels, permitting sustainable and steady growth," said Gao Lina.

However, many in the industry think it will be hard for Modern Dairy to achieve a turnaround. "Funding (alone) is not an effective way to solve its problems," commented dairy expert Wang Dingmian: "Mengniu is only capable of consuming a certain quantity of milk. However, Modern Dairy produces a lot of milk – its scale means that it needs more customers for its milk."

Dairy analyst Song Liang agrees: "A key reason for its loss is high pricing. In 2016, Mengniu offered prices of RMB4.1-4.2/t compared with an average purchase price of around RMB3.3/t in the market. Such expensive milk can only be used for producing mid-market and premium products. However, this area of its business (with products such as Deluxe Milk) has been threatened by foreign brands, meaning that it purchased less quality milk and Modern Dairy was left with an oversupply situation."

A compounding factor has been that Modern Dairy has struggled in its liquid milk business. In H1 2016, it made sales of USD95.7 million (RMB665.4 million) from this business, down by 17.0% YoY.

In Q1-3 2016, the company recorded a loss of USD44.6 million (RMB310 million). Back in December, Mengniu was forecasting a large loss in 2016, citing Modern Dairy's loss as a reason for this. In the short run, it will be hard for Modern Dairy to achieve a turnaround, and its performance in H1 may continue having a negative impact on that of Mengniu.

End of the Road for Blacklisted Yabais?

Summary: *On 5 January, the local food and drug administration announced a clampdown on the local infant formula manufacturer Yabais, likely ending the company's participation in the market.*

On 5 January, the Guangdong Food and Drug Administration announced a clampdown on the local infant formula manufacturer Yabais (Shenzhen) Dairy Co., Ltd. (Yabais).

The company has been subject to 2 state-level blacklistings:

- In H1 2016, the China Food and Drug Administration (CFDA) tested a "Yabais" Stage 1 formula (batch produced on 17 January, 2016) and found it to be deficient in contents of vitamin A/D/K1/B1/B6, niacin, folic acid, pantothenic acid, iodine and selenium, based on the *National Food Safety Standard – Infant Food*. On top of this, the actual content of taurine was inconsistent with the labelled figure
- From 23-26 August, 2016, the CFDA reviewed Yabais's food safety production system and found substandard production conditions and equipment as well as poor food safety management in part. Yabais definitely didn't help its case by obstructing the check and providing false records (with variances between different versions). When the investigation team raised questions, the company changed its answers and contradicted itself. Then when it was asked to provide documents, it delayed submission, hid and moved documents, and even refused to provide them!

In response the Shenzhen Food and Drug Administration has ordered Yabais to recall the problematic products, invalidated its food production licence (No. SC10544030700119) and food business licence (No. JY14403070037996) and fined it USD0.7 million (RMB4.5 million). Meanwhile, the company Yabais, its legal representative and the person responsible for the issues in question have been blacklisted by the provincial food and drug administration: for 5 years the company is forbidden to apply for food production and business licenses, whilst the person held responsible is prohibited from involvement in food production and sales management.

Yabais, founded in 2003, is a Chinese-foreign JV. It was the only company licensed for infant formula production in Shenzhen, although it started out in the colostrum business and was in reality simply importing formula from Australia.

Currently its official website is not open to the public. "It is a critical period for the company," noted Wang Dingmian; "It is an emergency measure for it to temporarily close the website, [*since the website offers information which may further damage its image*]."

Yabais cannot survive the infant formula registration policy – it has no plants so can't provide certificates for them. It seems to have played its cards spectacularly badly, but likely other companies will suffer a similar fate. Many will reflect that is not much of a loss in such cases.

New Hope Dairy to Acquire Asahi Dairy Assets

Summary: *On 26 December, 2016, Japan's Asahi announced it will transfer Asahi Farm and Asahi Milk to New Hope Dairy. This is expected to enable the latter's expansion in the premium dairy market.*

On 26 December, 2016, Japan's Asahi Breweries Ltd. (Asahi) announced that it will transfer its Shandong Asahi Green Source High-Tech Farm Co., Ltd. (Asahi Farm) and Shandong Asahi Green Source Milk Products Co., Ltd. (Asahi Milk) to New Hope Dairy Holdings Co., Ltd. (New Hope Dairy), expecting to finish this before the Spring Festival (27 January-2 February).

So far, New Hope Dairy has not yet disclosed any information about this acquisition, just saying "it is under examination". According to Asahi, New Hope Dairy will be allowed to use the Japanese brands for 2 years, during which period Asahi will provide technical support and knowhow as required.

Background

Asahi Farm was the first Chinese-foreign farming JV in China and Asahi's first step to step into the local agricultural business. Founded in 2006 with a total investment of USD18.7 million (JPY2.2 billion, USD/JPY exchange rate @ 117.4400 on 3 January, sourced on hexun.com), it focuses on the planting of feed crops and dairy farming, with a premium positioned strategy centred on sustainability. Its operation is based on the concept of agricultural recycling: corn stalks as feed for dairy cows and manure as fertiliser for crops, with no pesticides or chemical fertilisers used.

Asahi Milk was founded in 2008 with a total funding of USD7.2 million (JPY840 million). In 2008, it launched its first liquid milk in China – "Weipin" UHT milk – selling in mid-market and premium supermarkets in Beijing, Shanghai and Shandong Province. "Weipin" currently sells for RMB16.8/500 ml on womai.com (which is operated by COFCO Corporation).

Both companies have performed poorly: in 2015 they both made a loss and in 2016 they are unlikely to have done much better.

New Hope Dairy, founded in 2004, is part of New Hope Group (NHG), which for a long period has focused on M&A.

Before 2001, NHG had no involvement in the dairy business, focusing on feed and farming. In 2001, it shifted its focus from the decreasingly profitable feed business to the higher profit dairy business. During 2002-2007 it NHG acquired 11 local dairy companies such as Sichuan Huaxi Dairy Co., Ltd., Yunnan Diequan Dairy Co., Ltd. and Kunming Xuelan Dairy Co., Ltd. and took a share in Chongqing Tianyou Dairy Industry Co., Ltd.. In 2004, New Hope Dairy was established.

Since 2015, New Hope Dairy has taken over the lead in M&A from its parent company and has initiated a 2nd round of acquisitions. In August 2015, it completed takeovers of 3 regional dairy companies – Shuangxi Dairy Co., Ltd., Hunan AVA Dairy Products Co., Ltd. (only its liquid milk business) and Xichang Sanmu Dairy Products Co., Ltd.

The acquisitions of Asahi Farm and Asahi Milk mark the continuation of this strategy. "In the next three to five years, we will build 40 branches and will achieve sales of USD4.3 billion (RMB30 billion)," stated Xi Gang, President of New Hope Dairy.

Recent years have seen it active in mid-market and premium products, with a succession of launches – "24-hour" fresh milk (RMB4.8/200 ml), "City Memory" yoghurt and "Huorun" LAB beverage. Asahi Farm and Asahi Milk, with their combined green/ecological positioning, will fit well with New Hope Dairy's business and should contribute to its expansion.

PICTURE 1:Weipin UHT Milk

Source: womai.com

Plant Beverage Manufacturer Yangyuan Zhihui to List

Summary: On 30 December, 2016, the CSRC previewed the prospectus of plant beverage manufacturer Yangyuan Zhihui as it prepares to list. However there are signs that its failure to innovate may well constrain its future growth.

On 30 December, the China Securities Regulatory Commission (CSRC) previewed the prospectus of Hebei Yangyuan Zhihui Beverage Co., Ltd. (Yangyuan Zhihui) for the first time.

Yangyuan Zhihui intends to issue up to 55 million shares at RMB1/share. The funds are to be invested in a marketing network construction and market exploitation project and a 200,000 t/a plant protein beverage site in Hengshui.

Yangyuan Zhihui, headquartered in Hengshui, is mainly involved in the R&D, production and sales of protein beverages based on walnut kernels – in particular walnut, walnut/peanut and walnut/almond variants. Currently, it owns 3 production sites – in Hengshui (Hebei), Chuzhou (Anhui) and Yingtan (Jiangxi) – and 2 processing sites – Linying (Henan) and Jianyang (Sichuan).

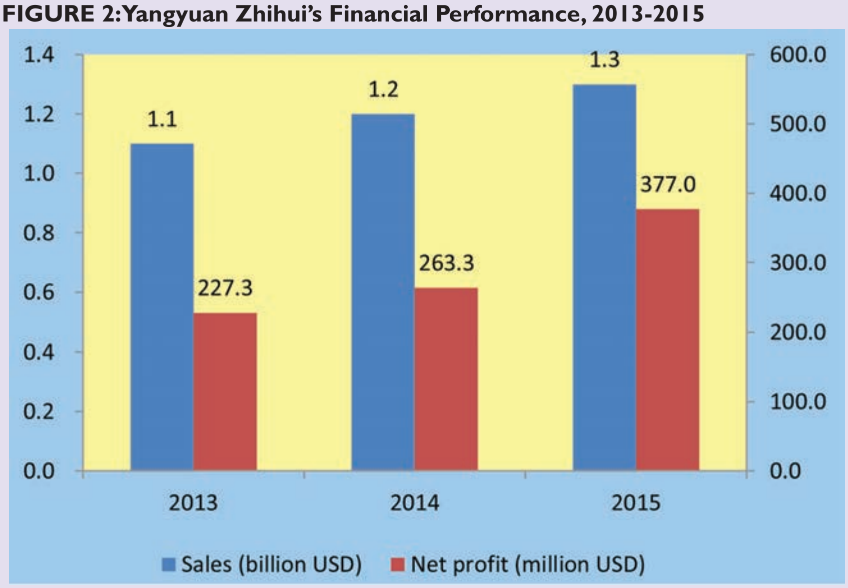
In the last 4 years, Yangyuan Zhihui has maintained consistent growth:

- Sales: USD1.1 billion (RMB7.4 billion) in 2013, USD1.2 billion (RMB8.3 billion) in 2014, USD1.3 billion (RMB9.1 billion) in 2015, and USD579.9 million (RMB4.0 billion) in H1 2016
- Net profit: USD227.3 million (RMB1.6 billion) in 2013, USD263.3 million (RMB1.8 billion) in 2014, USD377.0 million (RMB2.6 billion) in 2015 and USD187.1 million (RMB1.3 billion) in H1 2016

However, the company is much better known for its marketing than for R&D, and has arguably severely under-resourced its new product pipeline in its development to date.

During 2013-2015, its R&D input was only USD0.2 million (RMB1.3 million), USD0.4 million (RMB2.5 million) and

FIGURE 2:Yangyuan Zhihui's Financial Performance, 2013-2015



Source: Hebei Yangyuan Zhihui Beverage Co., Ltd

USD0.8 million (RMB5.4 million) respectively, just 0.017%, 0.030% and 0.060% of sales. H1 2016 saw a rise to USD0.5 million (RMB3.4 million), but still only 0.086% of sales.

In contrast, it was relatively free-spending in marketing. From 2013 to H1 2016, its marketing expenses amounted to USD37.4 million (RMB260 million), USD46.0 million (RMB320 million), USD54.7 million (RMB380 million) and USD40.3 million (RMB280 million) – 3.5%, 3.9%, 4.1% and 7.0% of sales respectively.

Its key competitor, Hebei Chengde Lolo Co., Ltd. (Lolo) also dedicated relatively little to R&D, but still more than Yangyuan Zhihui – USD1.3 million (RMB8.7 million) in 2013, USD2.1 million (RMB14.4 million) in 2014 and USD2.8 million (RMB19.4 million) in 2015 – 0.33%, 0.53% and 0.72% of sales respectively.

The "Six Walnuts" protein beverage has been the key product in Yangyuan Zhihui's 20+ year history – its sales accounted for 93.42%, 94.9% and 95.41% of its turnover during 2013-2015. This reflects the bias outlined above in how it allocates its resources.

Currently the level of competition in walnut protein beverages is very fierce, with a number of well-known branded manufacturers such as Lolo, Yili, Mengniu, Beijing Sanyuan and Wahaha present – if Yangyuan Zhihui remains dependent on a single key product and fails to develop an innovation pipeline, its future will be in serious jeopardy. It could well be an acquisition target for some dairy companies looking to diversify perhaps.

Zhu Danpeng, a researcher in food and beverage industry, commented that "In their early development, enterprises should focus on marketing to build the brand, but after this phase they should focus on R&D – the resulting wider product mix and the stronger brand will drive growth. This is the way for sustainable development."

Raw Milk Supply

Milk Price Maintains Growth in January

***Summary**: In early January, China's average milk purchase price continued rising, whilst GDT fell. It is expected that the domestic milk price will maintain its growth, based on the declines in production both at home and overseas.*

By 4 January, the average purchase price of raw milk was RMB3.54/kg in China, up by 1.1% MoM and down by 0.8% YoY.

In contrast, the first GDT event this year recorded the largest decline in the past three months, overall down by 3.9%. The WMP price decreased the most, by 7.7%, followed by lactose, rennet casein and AMF. This came despite the positive market sentiment evident before Christmas, but was arguably predictable, at least in hindsight! "The fall is inevitable," stated dairy analyst Song Liang: "Factors for the previous price rises included price growth expected by the market and the subsequent stocking-up, and strong demand from the Middle East and Southeast Asia. However, the rises at that time in reality were too sharp to meet the market expectation. Now the market demand is still sluggish." However, he expected growth in both the domestic and international milk prices: "In the long run, 2017 and 2018 will see increases in international price." Dairy expert Wang Dingmian similarly predicted that the domestic milk price will rise to RMB3.7/kg and even to RMB3.9-4/kg on some largescale dairy farms.

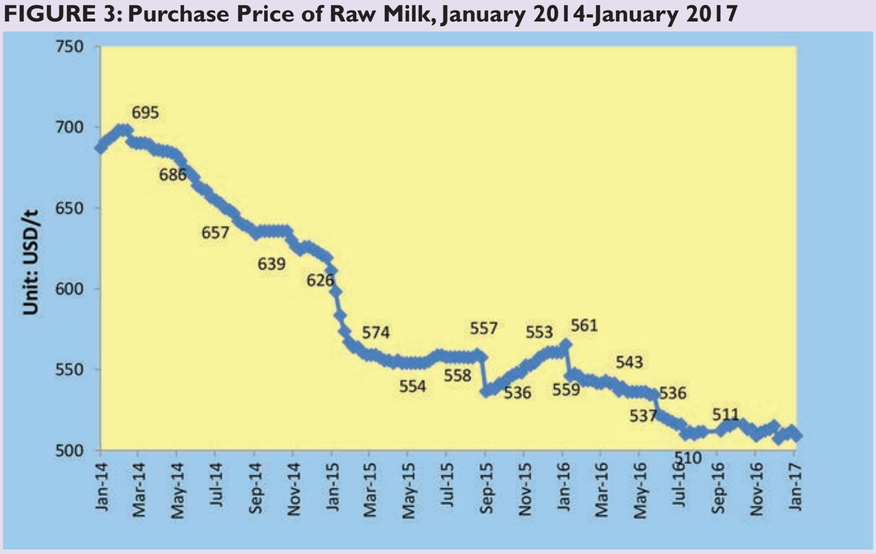
Such positive predictions are based on the adjusted international milk output, where the picture of widespread growth has certainly changed:

- EU: slower growth overall, +1.2% during January-October 2016
- US: +1.8% YoY during January-October 2016
- Australia: –5.6% YoY during January-October 2016
- New Zealand: –1.5% YoY during January-November 2016

In China:

- Heilongjiang Province: –4.3% YoY to 5.5 million tonnes in full-year 2016
- Inner Mongolia Autonomous Region: –20.3% YoY to 5.4 million tonnes by the end of November 2016 (December figure yet to be disclosed, but the full-year figure is unlikely to be up)

FIGURE 3: Purchase Price of Raw Milk, January 2014-January 2017



Source: Ministry of Agriculture

So in 2016 the combined milk output of the leading 2 milk producing regions will decrease by 1.6 million tonnes, a shortfall which the other regions are unlikely to make up, meaning that the national full-year milk output is certain to decline.

The Q1 reference prices for local milk purchase released by Hebei Province also provide encouragement:

- Large commercial dairy farm: RMB3.93/kg
- Co-operative dairy farm: RMB3.41/kg

Both are up by RMB0.05/kg over Q4 2016.

Now dairy farms are expecting profitable business and are increasing investments in purchasing cows. "Now the purchase cost is fairly low," said one dairy farmer, "We expect a good production level in 2017."

New Products, Technology & Packaging

Classy Kiss Launches First Functional Yoghurt

Summary: *On 28 December, 2016, Classy Kiss held a new product launch conference in Guangzhou to launch its first functional yoghurt – "Enjoy One Hour After Meal".*

On 28 December, 2016, Classy Kiss held a new product launch conference in Guangzhou to launch its first functional yoghurt "Enjoy One Hour After Meal", a premium healthy product.

Classy Kiss is a premium fresh yoghurt brand developed by Green's Bioengineering (Shenzhen) Co., Ltd., a dairy company which was founded in 1999.

Focus on healthy consumption

The faster pace of life in China's cities is an important topic for consumers nowadays – 82% of consumers in the $1^{st}/2^{nd}$-tier cities consider health issues when they choose food, according to the report *Insight into 2016 China Food & Beverage Trends and Consumers* from Ipsos. This is encouraging food and beverage manufacturers to upgrade their ranges accordingly.

UHT yoghurt has continued to grow very rapidly in 2016, and the fresh yoghurt segment has also expanded, although at a much lower pace: the category overall is offers strong development potential in China. "Now yoghurt is the fastest growing of all dairy product categories," pointed out Wang Weijia, General Manager of Classy Kiss, "The sales in the $1^{st}/2^{nd}$-tier cities are growing at 10-20% annually and 30-40% in the $3^{rd}/4^{th}$-tier cities."

This functional yoghurt launch from Classy Kiss aims to tap into this area of growth.

Key features of "Enjoy One Hour After Meal"

The product is marketed above all as containing "Classy Kiss" bifidobacterium C-I, a strain developed by Classy Kiss and Chr. Hansen after a 5-year collaboration. "This strain provides stronger gastric acid resistance than others on the market," stated Classy Kiss: "Each bottle of 'Enjoy One Hour After Meal' contains 10 billion bifidobacteria C-I."

"It is the market's first functional yoghurt to be named after the best time to drink," stated Wang Weijia: "We stress this as during this period, the pH value of the intestines and stomach is at its highest. If people drink this yoghurt at this point, it optimises the proportion of the bifidobacterium C-I reaching the intestines alive. When their quantity and activity levels are guaranteed, this will benefit absorption and intestinal health. We intend to encourage consumers to form a healthy habit of consuming these one hour after meals."

The product is made from high quality milk (approved for Hong Kong) without any additional ingredients. The 250ml plastic bottle is on sale at about RMB12.8 – 13 in South China and RMB13.8 in East China.

There are several functional yoghurts on the market already, notable examples being:

PICTURE 2: 'Enjoy One Hour After Meal' Functional Yoghurt by Classy Kiss

Source: Classykiss.cn

- "Guan Yi Ru" by Mengniu, marketed as containing BB-12 bifidobacterium for improved intestinal health and immunity (RMB 7.9 per 250g bottle; *source:jd.com*)
- "Changqing" by Yili, marketed as containing A+BB probiotics, claimed to significantly improve intestinal health (RMB 6.5~7.5 per 250g bottle; *source:jd.com*)

Classy Kiss clearly sees room for more: "It takes a long time to build brand recognition. We are not afraid of competition and we are confident, based on our market position," continued Wang Weijia; "We are dedicated to yoghurt only. In 2016, we realised the growth expected early that year, and achieved a double-digit growth." According to ACNielsen, by November 2016, Classy Kiss led sales of fresh yoghurt in Guangdong Province with a brand share of 24.8%.

This year the company plans a push into East China. "In late 2015 we officially entered the region, and we have set up distribution in 10 provinces/ municipalities/regions nationwide so far," noted Wang Weijia. In 2017, the company is to set up a new plant in Suzhou City, Jiangsu Province, East China, giving it a base to develop its activities there – this is expected to start up towards the end of the year, and is to be larger than its plant in Shenzhen.

News in Brief

Wens: 3,500 Cows Located in Lianzhou Dairy Base

On 22 December, 2016, Lianzhou Wens Dairy Co., Ltd. (LZWD) – a fully-owned subsidiary of Guangdong Wens Foodstuff Group Co., Ltd. (Wens, stock code: 300498) – announced the completion of its recent dairy farm project.

This project started in January 2015 and finished in December 2016; it currently has 3,500 Australian cows on a site of 46.7 ha (700 mu) which has the potential to take 5,000 cows. The farm is expected to operate at full herd/capacity from late this year, producing 25,000 tonnes of milk annually.

Wens now operates 4 dairy farms:

- Guangdong Province
  - – Dinghu (Zhaoqing City)
  - – Yingde (Qingyuan City)
  - – Lianzhou (Qingyuan City)
- Zhongshan
  - – (Hezhou City, Guangxi Zhuang Autonomous Region)

Its finished dairy products include fresh milk, yoghurt and UHT milk, but their market presence is low profile. "We are now selling about 60% of our output through direct relationships with a variety of trade customers," said Chen Jinshan, Vice General Manager of Wens' Marketing Department: "At present we are building our own retail stores for our products. In the future, we will market through direct customer relationships as well as through supermarkets, convenience stores and chain stores."

Mengniu Ruled for Packaging Infringement

On 26 December, 2016, the People's Court of Haidian Dist., Beijing required China Mengniu Dairy Company Limited (Mengniu, stock code: 02319) to stop infringing the product packaging right of Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, stock code: 600887) and pay compensation of USD0.3 million (RMB2.2 million). This followed its judgement that Mengniu's "Future Star" juice flavoured yoghurt infringed upon Yili's "QQ Star" juice flavoured yoghurt.

Both brands were developed specifically for kids. "They are similar in product category, target consumers and business model, so they are rivals," stated the court.

The court determined that Mengniu maliciously attacked Yili by launching "Future Star" in the same style as Yili's existing "QQ Star" product, which was well known for its unique packaging, in accordance with the *Law of the People's Republic of China for Countering Unfair Competition*.

The copying was not subtle: "QQ Star" was launched by Yili in 2012 in banana and strawberry flavours and in character packs based on the Disney image. Mengniu counter-launched "Future Star" in April 2015, also in banana and strawberry flavours and in character packs based on similar cartoon images.

PICTURE 3: Yili's QQ Star Juice Flavoured Yoghurt (Strawberry)

Source: Tmall.com

PICTURE 4: Mengniu's Future Star Juice Flavoured Yoghurt (Strawberry)

Source: Tmall.com

China Triggers Safeguards on Selected Dairy Products from New Zealand

On 4 January, China's General Administration of Customs announced the special safeguards had been triggered on 2 areas of dairy imports from New Zealand:

- By 4 January: imports of 5,669 tonnes of cheese (Tariff No. 04061000/04063000/04069000) were applied for, vs. the special safeguard mechanism trigger level of 5,585 tonnes
- By 4 January: imports of 2,062 tonnes of partially concentrated milk and butter (Tariff No. 04012000/04014000/04015000) were filed for, vs. the special safeguard mechanism trigger level of 2,017 tonnes

This meant the tariff on these items reverted to MFN tariff rates on 5 January, in line with the *China-New Zealand Free Trade Agreement*.

Guizhou to Invest in Dairy Industry Development

On 23 December, 2016, Guizhou Province's Department of Agriculture released the Implementation Proposal for Guizhou's Milk Industry to Achieve Fission Development (*note: a vivid term meaning "takeoff"*). The province intends to invest USD248.9 million (RMB1.7 billion) during 2017-2019 to provide:

- 10 new dairy cow farms and 14 new dairy goat farms
- A provincial herd of 50,000 dairy cows and 30,000 dairy goats, combining to produce 200,000 tonnes of milk
- A total area of 13,333+ ha (200,000 mu) for production of silage maize for large farms (600,000+ tonnes)

The provincial government will offer subsidies to assist businesses in areas such as replanting of production land (from grains to feeds or grass and trees), dairy cow purchases, production expansion and reconstruction, construction of cold chains etc.

Guizhou will target Qingzhen County-level City, Xiuwen County, Kaiyang County, Wuchuan Gelaozu Miaozu Autonomous County and Dushan County for dairy farm construction and aims to help local products account for 60%+ of local dairy consumption by 2019.

Bright Dairy to Acquire 3 Affiliated Companies

On 26 December, 2016, Bright Dairy & Food Co., Ltd. (Bright Dairy, stock code: 600597) announced its planned arrangement with Shanghai Maling Aquarius Co., Ltd., a subsidiary of its controlling shareholder Bright Food (Group) Co., Ltd., to acquire 100% of the latter's 3 fully-owned subsidiaries Shanghai Dingniu Feed Co., Ltd. (Dingniu Feed), Shanghai Dairy Cow Research Institute Co., Ltd. (SHDCRI) and Shanghai Dairy Product Training and Research Centre Co., Ltd. (SHDPTRC).

The acquisitions are meant to make Bright Dairy a more integrated business with improve supply chain resources and reduced risks and costs.

Background

Dingniu Feed is dedicated to the planting, processing and sale of feed for dairy cows, and the sale of imported agricultural machinery.

SHDCRI is mainly involved in technical consulting/service/transfer/contracting and development in the dairying, animal husbandry and veterinary fields.

SHDPTRC is mainly engaged in the trial research and production of dairy products, along with related training.

Of the 3 targets, only one makes profit. From January-September 2016 (figures yet to be audited):

- Dingniu Feed: sales of USD158.9 million (RMB1.1 billion), net profit of USD3.7 million (RMB25.6 million)
- SHDCRI: sales of USD0.8 million (RMB5.6 million), no profit
- SHDPTRC: sales of USD22,000 (RMB1.6 million), no profit

Tianmu Dairy Launches 1st Full Milk Ice Cream

On 27 December, 2016, Inner Mongolia Tianmu Dairy Co., Ltd. (Tianmu Dairy) launched "Youzhi 100", what it claims to be the first fully milk-based ice cream in China, at a meeting in Hohhot entitled "Healthy & Fresh Life".

"No milk powder or water ingredient is used in the product," claimed Wang Jianfei, Chief Engineer of Tianmu Dairy: "We are also the first company in the domestic ice cream business to adopt fresh milk concentration technology."

Tianmu Dairy is mainly focused on ice cream. In 2015, it launched a succession of ice creams using fresh milk (but containing other ingredients such as milk powder), such as "Jinzuan" and "Yinzuan". In 2016 it relaunched improved versions of the 2 products as "Platinum Times" and "Mike Daddy".

Ground Food Plans Cheese Plant in Jilin

On 27 December, 2016, the China-Singapore Jilin Food Zone officially announced its signing of an agreement to establish a 40,000 t/a cheese processing project with Ground Food Tech Co., Ltd. (Ground Food, stock code: 600882).

The company is going to invest USD92.1 million (RMB640 million) in constructing a plant in the zone in Jilin Province, with plans to produce 10,000 t/a of natural cheese and about 30,000 t/a of processed cheese. The construction is expected to start in May this year and complete in May 2018. Once operational, the plant is expected to generate annual revenues of around USD201.4 million (RMB1.4 billion).

Ground Food produces a range of dairy products – fresh milk, fermented milk, sterilised milk, modified milk, milk beverages and cheese. The food zone in Jilin City is particularly targeted at facilitating the countries' cooperation in processed food, healthcare food, infant food, functional food and food additives.

Weigang Dairy Partners with General Mills

On 14 January, General Mills China and Nanjing Weigang Dairy Co., Ltd. (Weigang Dairy) signed a strategic cooperation agreement in Nanjing aimed at resource sharing in fields of:

- Supply of milk: Weigang Dairy will supply quality milk to General Mills
- R&D: to share resources in development of new dairy products, improving R&D efficiency and reducing costs accordingly
- Logistics: Weigang Dairy will provide specific production/cold storage facilities for General Mills
- Sales channels: to collaborate in order to reduce costs, improve efficiency and increase sales

Weigang Dairy, founded in 1928, mainly produces UHT milk and yoghurt, fresh milk and yoghurt, and milk beverages. "In recent years, we have constructed 4 large-scale modern dairy industrial parks in Nanjing (in Jiangsu Province), Taizhou (in Jiangsu), Xuzhou (in Jiangsu) and Wuhu (in Anhui Province) respectively, and have added 6,000+ points of sale across Jiangsu, Anhui, Shandong, Fujian, Zhejiang, Henan, Hainan and Shanghai," said the company on its official website.

Western Animal Husbandry Moves into Chongqing

On 29 December, 2016, Xinjiang Western Animal Husbandry Co., Ltd. (Western Animal Husbandry, stock code: 300106) and Chongqing Yu Baijia Supermarket Chain Co., Ltd. (Yu Baijia) held a joint meeting which confirmed that Western Animal Husbandry has authorised Yu Baijia to be the general agent for its dairy products in Chongqing (the population of which was 30.2 million in 2015).

Yu Baijia is a key subsidiary of Chongqing Grain Group. In addition its stores, it is running 800+ distribution centres, providing a sales network which covers all the main districts in the municipality. This should help Western Animal Husbandry expand its local business rapidly.

Reportedly, Western Animal Husbandry will begin by launching its UHT milk in Chongqing's main districts, then expand this business to the counties and the surrounding cities of Yunnan, Guizhou and Sichuan provinces (where Yu Baijia has its supermarkets). The company also indicates that it is intending to construct a plant in Chongqing to process milk from Xinjiang Uygur Autonomous Region (highly doubtful – this is about 3,000km away!) into fresh milk and yoghurt for local sale. In the future, the companies plan deeper cooperation involving some form of equity restructuring, to build their joint business activities in Southwest China.

5 Substandard Batches of Infant Formula

On 13 January, the China Food and Drug Administration (CFDA) issued the *Announcement about Substandard Infant Formulae (Batch: 20161205)*. It shows that December 2016 tests of 237 batches of infant formulae against 59 indices (protein, fats, carbohydrates etc.) identified 232 products as acceptable and 5 as substandard:

- 1 batch of infant formulae (Stage 1) from Health Associates (Xiamen) Biotechnology Co., Ltd.
  - the test for enterobacter sakazakii showed "yes/yes/no" vs. the "no" in all 3 tests required by the national standard
- 2 batches from Heshui Guxiang Milk Co., Ltd.
  - 1 batch of "Baolehui" infant formulae (Stage 2) and 2 batches of "Baolehui" infant formulae (Stage 3): the linoleic acid content was 0.10g/100kJ, 0.10g/100kJ and 0.11g/100kJ – this was in line with national standard of >=0.07g/100kJ, but was inconsistent with its labelling of >=0.15g/100kJ
  - 1 batch of "Jinbeicong" infant formulae (Stage 3): linoleic acid content of 0.10g/100kJ was in line with national standard of >=0.07g/100kJ but was inconsistent with its labelling of >=0.16g/100kJ

The local food and drug administrations (Fujian and Gansu provinces) have ordered the manufacturers to recall the substandard products and to make rectifications, and have required the sellers to pull the products from the shelves. Before 28 February, reports on the resulting investigations and punishments will be submitted to the CFDA and made public.

PRIORITY ORDER FORM

Choose Type of Subscription

Single user PDF:	☐ 1 year US$2,915	☐ 2 years US$4,960	☐ 3 years US$6,560
Enterprise-wide license:	☐ 1 year US$7,290	☐ 2 years US$12,395	☐ 3 years US$16,405

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

Your Details

Name:

Position:

Company:

Address:

Tel No:

E-Mail:

Fax:

Vat No. (EU only):

Signature:

Date:

To Order, Please Send Confirmation To:

Richard Field, Director, Orrani Consulting
E-mail: **richard.field@orrani.com**
Fax: +44-1225-430240