Report on Growth and Investment of China’s Dairy Industry
- Surpassing Period of Transitional Pains to Embrace High Quality Growth
(2017-2018)

March 2018
Background of Study

Relying on more than 20 years of accumulation of industry data, continuous tracking of industry changes and in-depth researches, BOABC will provide you with a valuable analysis report on the dairy industry and investment.

BOABC is of the view that China’s dairy industry has gradually walked out of the transitional pain period to hopefully embrace high quality growth. China’s dairy industry has shown the following key features in its growth in 2017:

1. The price level of domestic raw milk remains sluggish against the backdrop of surging price of dairy materials such as raw milk, milk powder, etc. in the international market, so the disadvantage in price has seen some improvement.

From the latter half of 2014 to mid-2016, domestic as well as international raw milk price and dairy material price had seen a constant downfall. Since the latter half of 2016, price level of raw milk and dairy materials in the international market has rebounded. However, China’s raw milk price has remained sluggish till the end of the third quarter of 2017. Dairy farming has seen an even longer period of readjustments. This round of readjustments is conducive to the supply-demand equilibrium of domestic raw milk market over the long run and is conducive to the establishment of a mechanism for the evolution of a rational price level for raw milk.

2. The dairy market has seen more steady growth. Aside from increase in price and sales value, the sales quantity of dairy products has seen a rally, showing a sound growth trend.

At the primary stage of the consumption of dairy products in China, the growth in sales of middle and higher range products can hardly offset the slide of sales of fundamental products. But with the progress of the upgrading of consumption, middle and higher range products will be more and more accepted by consumers and in turn the sales volume of dairy products will see solid growth once again.

Regarding distribution channels, the rapid growth in convenient stores, e-commerce and etc. has played a considerable role in the increase in the sales volume of middle and top range dairy products.

Regarding market development, the dairy enterprises have vigorously and continuously tackled township and rural markets so that township and rural markets
have become a new pillar for the growth of the dairy market.

3. **National and regional key dairy enterprises** have seen rapid increase in revenues and further expansion of their market shares, as strongly supported by their edges in brands, renovation and distribution channels. Weaker enterprises have deteriorating operational status. **Industrial integration** has stepped up its pace.

The Report on Growth and Investment of China’s Dairy Industry (2017-2018) by BOABC will help you:

1. access key data sets for industrial growth;
2. understand key factors impacting industrial growth;
3. keep abreast of the status of supply-demand and future trends;
4. keep abreast of status of growth of key enterprises;
5. keep abreast the situations of industrial competitions;
6. be forward-looking and able to have accurate prediction of the overall trend of industrial growth.

The past two decades have seen BOABC’s dedication to industrial research and consultancy services for agricultural food and beverage industries. We are willing to join hands with you for our future successes!
# CONTENTS

## Background of Study

- Chapter 1 Overview of Global Dairy Industry in 2017
  - 1.1 Production and Sales of Raw Milk in the World
    - 1.1.1 Raw Milk Production: both Dairy Cattle Inventory and Milk Production Rose
    - 1.1.2 Global Raw Milk Price Trend: Recovery of Milk Price, but Momentum not Steady
  - 1.2 Global Dairy Production, Consumption and Trade in 2017
    - 1.2.1 Cheese Production, Consumption and Trade
    - 1.2.2 Butter Production, Consumption and Trade
    - 1.2.3 WMP Production, Consumption and Trade
    - 1.2.4 SMP Production, Consumption and Trade
  - 1.3 Global Dairy Price in 2017: Recovery and Slide in Q4

## Chapter 2 Key Dairy Exporters to China

- 2.1 Overview of New Zealand Dairy Industry
  - 2.1.1 Raw Milk Production and Sales
  - 2.1.2 Dairy Production, Consumption and Trade
  - 2.1.3 Dairy Export to China
- 2.2 Overview of Australia Dairy Industry
  - 2.2.1 Raw Milk Production and Sales
  - 2.2.2 Dairy Production, Consumption and Trade
  - 2.2.3 Dairy Export to China
- 2.3 Overview of USA Dairy Industry
  - 2.3.1 Raw Milk Production and Sales
  - 2.3.2 Dairy Production, Consumption and Trade
  - 2.3.3 Dairy Export to China
- 2.4 Overview of Germany Dairy Industry
  - 2.4.1 Raw Milk Production and Sales
  - 2.4.2 Dairy Production, Consumption and Trade
  - 2.4.3 Dairy Export to China
- 2.5 Overview of France Dairy Industry
  - 2.5.1 Raw Milk Production and Sales
  - 2.5.2 Dairy Production, Consumption and Trade
  - 2.5.3 Dairy Export to China
Chapter 3 Dairy Policy in China ................................. 28
  3.2 The Government Implements “Five Actions” for Prospering the Dairy Industry ....... 28
  3.3 The Government Steadily Promotes Registration of Infant Formulas and Purifies Competition Environment ................................................................. 29

Chapter 4 Dairy Farming in China ........................................ 30
  4.1 Overview of Dairy Farming in China in 2017: Sluggish Milk Price, both Dairy Cattle Inventory and Milk Production Slid................................................................. 30
  4.2 Raw Milk Production in China: Constant Decline of both Dairy Cattle Inventory and Milk Production ...................................................................................... 30
  4.3 Raw Milk Price and Profit in China: Sluggish Milk Price and Falling Profit from Dairy Farming .................................................................................................... 32
  4.4 Dairy Farming Models and Size in China .................................................. 34
    4.4.1 Major Farming Models ........................................................................ 34
    4.4.2 Scale of Dairy Farming in China ........................................................... 36

Chapter 5 Dairy Processing Industry .......................................... 38
  5.1 Overview of China Dairy Processing Industry in 2017 ..................................., 38
  5.2 Trend of Scale of Dairy Processing Industry in China ..................................... 38
  5.3 Margin of Dairy Processing Industry in China ............................................ 39

Chapter 6 Dairy Production ....................................................... 42
  6.1 Overview of Dairy Production in China in 2017 ........................................, 42
  6.2 Dairy Production by Region in China ....................................................... 43
    6.2.1 Size of Dairy Production by Region .................................................... 43
    6.2.2 Variation of Dairy Production by Region .......................................... 44
    6.2.3 Regional Layout of Dairy Production ................................................. 46
    6.2.4 Milk Powder Production by Region ................................................... 48

Chapter 7 Dairy Trade ............................................................... 50
  7.1 Dairy Import to China in 2017 .................................................................. 50
  7.2 Import of Liquid Milk .................................................................................. 52
  7.3 Import of Single Cream ............................................................................. 55
  7.4 Import of SMP .......................................................................................... 57
  7.5 Import of WMP ....................................................................................... 59
  7.6 Import of Yoghurt ...................................................................................... 62
  7.7 Import of Whey ......................................................................................... 64
7.8 Import of Butter ........................................................................................................ 67
7.9 Import of Cheese ..................................................................................................... 69
7.10 Import of Infant Formula ....................................................................................... 72
7.11 Dairy Export .......................................................................................................... 73

Chapter 8 Dairy Consumption in China ................................................................. 77
8.1 Overview of Dairy Consumption ........................................................................ 77
  8.1.1 Dairy Consumption Larger than 30 Million Tons ........................................... 77
  8.1.2 Trend of Dairy and Soft Drinks Consumption in China .............................. 78
8.2 Consumption of Pasteurized Milk .................................................................... 80
8.3 Consumption of UHT Milk ................................................................................ 81
8.4 Consumption of Milk Beverage ....................................................................... 82
8.5 Consumption of Yoghurt ................................................................................... 83
8.6 Consumption of Infant Formula ....................................................................... 84
8.7 Consumption of Cheese .................................................................................... 85
  8.7.1 Overview of Cheese Consumption in China .................................................. 85
  8.7.2 Trend of Cheese Consumption in China ......................................................... 86

Chapter 9 Competition of China’s Dairy Market ................................................... 87
  9.1 Competition Environment ................................................................................ 87
    9.1.1 International Dairy Companies Devote Effort to Explore China Market .... 87
    9.1.2 Local National Dairy Companies Consolidate and Raise Market Status ... 87
    9.1.3 Regional Companies Endeavor to Enlarge Market Size ............................ 88
  9.2 Pattern of Dairy Market Competition in China ............................................... 89
  9.3 Key Factors for Success ..................................................................................... 90

Chapter 10 Key Dairy Companies in China ......................................................... 91
  10.1 INNER MONGOLIA YILI INDUSTRIAL GROUP CO., LTD. .................... 91
    10.1.1 Company Profile ...................................................................................... 91
    10.1.2 Operation ................................................................................................. 91
    10.1.3 Development Plan ................................................................................... 93
  10.2 China Mengniu Dairy Company Limited ....................................................... 94
    10.2.1 Company Profile ...................................................................................... 94
    10.2.2 Operation ................................................................................................. 94
    10.2.3 Development Plan ................................................................................... 97
  10.3 BRIGHT DAIRY & FOOD CO., LTD .......................................................... 97
    10.3.1 Company Profile ...................................................................................... 97
Report on Growth and Investment of China’s Dairy Industry

10.3.2 Operation ........................................................................................................... 98
10.3.3 Development Plan .......................................................................................... 100
10.4 BEIJING SANYUAN FOODS CO., LTD. .......................................................... 101
  10.4.1 Company Profile ......................................................................................... 101
  10.4.2 Operation ..................................................................................................... 101
  10.4.3 Development Plan ....................................................................................... 103
10.5 Lanzhou Zhuangyuan Pasture Co., Ltd. ............................................................ 104
  10.5.1 Company Profile ......................................................................................... 104
  10.5.2 Operation ..................................................................................................... 104
  10.5.3 Development Plan ....................................................................................... 106
10.6 Xinjiang Tianrun Dairy Co., Ltd. ....................................................................... 107
  10.6.1 Company Profile ......................................................................................... 107
  10.6.2 Operation ..................................................................................................... 107
  10.6.3 Development Plan ....................................................................................... 109
10.7 Xinjiang Western Animal Husbandry Co., Ltd. ................................................. 109
  10.7.1 Company Profile ......................................................................................... 109
  10.7.2 Operation ..................................................................................................... 109
  10.7.3 Development Plan ....................................................................................... 111
10.8 Maiquer Group Co., Ltd. .................................................................................. 112
  10.8.1 Company Profile ......................................................................................... 112
  10.8.2 Operation ..................................................................................................... 112
  10.8.3 Development Plan ....................................................................................... 114
10.9 Guangdong Yantang Dairy Co., Ltd. ................................................................. 115
  10.9.1 Company Profile ......................................................................................... 115
  10.9.2 Operation ..................................................................................................... 115
  10.9.3 Development Plan ....................................................................................... 117
10.10 Royal Group Co., Ltd. ..................................................................................... 117
  10.10.1 Company Profile ....................................................................................... 117
  10.10.2 Operation ..................................................................................................... 118
  10.10.3 Development Plan ...................................................................................... 119
10.11 Shanghai Ground Food Tech Co., Ltd. ............................................................ 119
  10.11.1 Company Profile ....................................................................................... 119
  10.11.2 Operation ..................................................................................................... 120
  10.11.3 Development Plan ...................................................................................... 121
10.12 Henan Kedi Dairy Co., Ltd. ............................................................................ 122
  10.12.1 Company Profile ....................................................................................... 122
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.12</td>
<td>2.2 Operation</td>
<td>122</td>
</tr>
<tr>
<td>10.12</td>
<td>3 Development Plan</td>
<td>124</td>
</tr>
<tr>
<td>10.13</td>
<td>Shijiazhuang Junlebao Dairy Co., Ltd.</td>
<td>125</td>
</tr>
<tr>
<td>10.13.1</td>
<td>Company Profile</td>
<td>125</td>
</tr>
<tr>
<td>10.13.2</td>
<td>Operation</td>
<td>125</td>
</tr>
<tr>
<td>10.13.3</td>
<td>Development Plan</td>
<td>125</td>
</tr>
<tr>
<td>10.14</td>
<td>New Hope Dairy Co., Ltd.</td>
<td>126</td>
</tr>
<tr>
<td>10.14.1</td>
<td>Company Profile</td>
<td>126</td>
</tr>
<tr>
<td>10.14.2</td>
<td>Operation</td>
<td>126</td>
</tr>
<tr>
<td>10.14.3</td>
<td>Development Plan</td>
<td>128</td>
</tr>
<tr>
<td>10.15</td>
<td>Sichuan Jule Food Co., Ltd.</td>
<td>128</td>
</tr>
<tr>
<td>10.15.1</td>
<td>Company Profile</td>
<td>128</td>
</tr>
<tr>
<td>10.15.2</td>
<td>Operation</td>
<td>128</td>
</tr>
<tr>
<td>10.15.3</td>
<td>Development Plan</td>
<td>131</td>
</tr>
<tr>
<td>10.16</td>
<td>Heilongjiang Wondersun Dairy Co., Ltd.</td>
<td>132</td>
</tr>
<tr>
<td>10.16.1</td>
<td>Company Profile</td>
<td>132</td>
</tr>
<tr>
<td>10.16.2</td>
<td>Operation</td>
<td>132</td>
</tr>
<tr>
<td>10.16.3</td>
<td>Development Plan</td>
<td>133</td>
</tr>
<tr>
<td>10.17</td>
<td>Heilongjiang Feihe Dairy Co., Ltd.</td>
<td>133</td>
</tr>
<tr>
<td>10.17.1</td>
<td>Company Profile</td>
<td>133</td>
</tr>
<tr>
<td>10.17.2</td>
<td>Operation</td>
<td>133</td>
</tr>
<tr>
<td>10.17.3</td>
<td>Development Plan</td>
<td>134</td>
</tr>
<tr>
<td>10.18</td>
<td>Ausnutria Dairy Corporation Ltd.</td>
<td>135</td>
</tr>
<tr>
<td>10.18.1</td>
<td>Company Profile</td>
<td>135</td>
</tr>
<tr>
<td>10.18.2</td>
<td>Operation</td>
<td>135</td>
</tr>
<tr>
<td>10.18.3</td>
<td>Development Plan</td>
<td>137</td>
</tr>
<tr>
<td>10.19</td>
<td>China Modern Dairy Holdings Ltd.</td>
<td>137</td>
</tr>
<tr>
<td>10.19.1</td>
<td>Company Profile</td>
<td>137</td>
</tr>
<tr>
<td>10.19.2</td>
<td>Operation</td>
<td>137</td>
</tr>
<tr>
<td>10.19.3</td>
<td>Development Plan</td>
<td>139</td>
</tr>
<tr>
<td>10.20</td>
<td>China Shengmu Organic Milk Limited</td>
<td>140</td>
</tr>
<tr>
<td>10.20.1</td>
<td>Company Profile</td>
<td>140</td>
</tr>
<tr>
<td>10.20.2</td>
<td>Operation</td>
<td>140</td>
</tr>
<tr>
<td>10.20.3</td>
<td>Development Plan</td>
<td>142</td>
</tr>
<tr>
<td>10.21</td>
<td>Inner Mongolia Saikexing Reproductive Biotechnology(Group) Co., Ltd</td>
<td>142</td>
</tr>
<tr>
<td>10.21.1</td>
<td>Company Profile</td>
<td>142</td>
</tr>
</tbody>
</table>
10.21.2 Operation ................................................................. 142
10.21.3 Development Plan .................................................. 144
10.22 Yuanshengtai Dairy Farm Limited ................................... 145
  10.22.1 Company Profile .................................................. 145
  10.22.2 Operation .............................................................. 145
  10.22.3 Development Plan .................................................. 147
10.23 Zhong Ding United Dairy Farming Co., Ltd. ....................... 147
  10.23.1 Company Profile .................................................. 147
  10.23.2 Operation .............................................................. 147
  10.23.3 Development Plan .................................................. 149
10.24 China ZhongDi Dairy Holdings Company Limited ............... 149
  10.24.1 Company Profile .................................................. 149
  10.24.2 Operation .............................................................. 150
  10.24.3 Development Plan .................................................. 151

Chapter 11 Investments in Dairy Industry in China ..................... 152
  11.1 Features and Projects of Investments in Dairy Industry in 2017 ....................... 152
    11.1.1 Cooling of Investment for Farms, Investors for New Farms Were Mainly Dairy Processing Companies ................................................. 152
    11.1.2 Investment for Infant Formula, A Hot Point .................................................. 153
    11.1.3 More Investment for Cheese Projects .................................................. 154
    11.1.4 Industrial Leaders Still Backbone of Investment .................................. 155
  11.2 Investment Opportunities and Risks ................................ 156

List of Figures

  Figure1-1 Global Raw Milk Price, 2013-2017 ........................................ 3
  Figure1-2 Global Butter Price, 2013-2017 ........................................... 10
  Figure1-3 Global Cheddar Price, 2013-2017 ........................................ 10
  Figure1-4 Global WMP Price, 2013-2017 ........................................ 11
  Figure1-5 Global SMP Price, 2013-2017 ........................................ 11
  Figure2-1 Dairy Cattle Inventory and Milk Production in New Zealand, 2013-2017 ....... 12
  Figure2-2 Raw Milk Price in New Zealand, 2013-2017 ......................... 13
  Figure2-3 Dairy Cattle Inventory and Milk Production in Australia, 2013-2017 ....... 15
  Figure2-4 Raw Milk Price in Australia, 2013-2017 .......................... 16
Figure2-5 Dairy Cattle Inventory and Milk Production in USA,2013-2017..............................18
Figure2-6 Raw Milk Price in USA,2013-2017.................................................................19
Figure2-7 Dairy Cattle Inventory and Milk Production in Germany,2013-2017 ..............22
Figure2-8 Raw Milk Price in Germany,2013-2017 ..........................................................22
Figure2-9 Dairy Cattle Inventory and Milk Production in France,2013-2017..................25
Figure2-10 Raw Milk Price in France,2013-2017 .............................................................25
Figure4-1 Monthly Index of Milk Production of Raw Milk Collection Stations ..........31
(if January 2015 is 100) ..................................................................................................31
Figure4-2 Dairy Cattle Inventory and Milk Production in China,1997-2017....................31
Figure4-3 Average Cow Productivity,1997-2017...........................................................32
Figure4-4 Average Monthly Raw Milk Price in the Main Farming Regions, 2015-2017 ....32
Figure4-5 Monthly Raw Milk Price in Some Main Farming Regions, 2015-2017 ..........33
Figure4-6 Cost and Price of Raw Milk in Pilot Farms, 2010-2017 ..................................33
Figure4-7 Profit Margin of Raw Milk in Pilot Farms, 2010-2017 ....................................34
Figure4-8 Inventory Share of Different Size Farms,2002-2017 ........................................37
Figure5-1 Production, Revenue and Asset of China Dairy Processing Industry,2006-2017 39
Figure5-2Total Profit and Sales Margin of China Dairy Processing Industry,2006-2017 ......40
Figure5-3 Deficit of Loss-generating Companies, Total Profit of Profit-generating Companies, and Gross Profit of the Industry,2014-2017 .................................................................41
Figure6-1 China Dairy Production,2006-2017.................................................................42
Figure6-2 Production of Liquid Dairy Products in China,2006-2017 ..............................42
Figure6-3 China Milk Powder Production,2010-2017 ....................................................43
Figure6-4 Monthly Dairy Production,2013-2017 ............................................................43
Figure7-1 Dairy Import Structure by Variety in 2017 ......................................................51
Figure7-2 Dairy Import Quantity and Value,2003-2017 ...................................................51
Figure7-3 Average Import Price,2003-2017 .................................................................52
Figure7-4 Liquid Milk Import Quantity and Value,2003-2017 .........................................53
Figure7-5 Average Import Price for Liquid Milk,2003-2017 ..........................................53
Figure7-6 Import Origins of Liquid Milk in 2017 .............................................................54
Figure7-7 Single Cream Import Quantity and Value,2003-2017 ......................................55
Figure7-8 Average Import Price for Single Cream,2003-2017 ........................................56
Figure7-9 Import Origins of Single Cream in 2017 .........................................................56
Figure7-10 SMP Import Quantity and Value,2003-2017 ..................................................57
Figure7-11 Average Import Price for SMP,2003-2017 ....................................................58
Figure 7-12 Import Origins of SMP in 2017 ................................................................. 58
Figure 7-13 WMP Import Quantity and Value, 2003-2017 ........................................... 60
Figure 7-14 Average Import Price for WMP, 2003-2017 ............................................. 60
Figure 7-15 Import Origins of WMP in 2017 ............................................................... 61
Figure 7-16 Yoghurt Import Quantity and Value, 2003-2017 ...................................... 62
Figure 7-17 Average Import Price for Yoghurt, 2003-2017 ......................................... 63
Figure 7-18 Import Origins of Yoghurt in 2017 ......................................................... 63
Figure 7-19 Whey Import Quantity and Value, 2003-2017 ......................................... 65
Figure 7-20 Average Import Price for Whey, 2003-2017 ............................................. 65
Figure 7-21 Import Origins of Whey in 2017 .............................................................. 66
Figure 7-22 Butter Import Quantity and Value, 2003-2017 ......................................... 67
Figure 7-23 Average Import Price for Butter, 2003-2017 ............................................ 68
Figure 7-24 Import Origins of Butter in 2017 .............................................................. 68
Figure 7-25 Cheese Import Quantity and Value, 2003-2017 ....................................... 70
Figure 7-26 Average Import Price for Cheese, 2003-2017 ......................................... 70
Figure 7-27 Import Origins of Cheese in 2017 ............................................................ 71
Figure 7-28 Infant Formula Import Quantity and Value, 2013-2017 ............................ 72
Figure 7-29 Dairy Export, 2001-2017 ........................................................................ 74
Figure 8-1 China Dairy Consumption, 2013-2017 ...................................................... 77
Figure 8-2 Structure of China Dairy Consumption, 2017 ............................................. 78
Figure 8-3 Consumption of Pasteurized Milk in China, 2013-2017 ............................ 81
Figure 8-4 Consumption of UHT Milk in China, 2013-2017 ...................................... 82
Figure 8-5 Consumption of Milk Beverage in China, 2013-2017 ............................... 83
Figure 8-6 Consumption of Yoghurt in China, 2013-2017 ......................................... 84
Figure 8-7 Consumption of Infant Formula in China, 2013-2017 ............................... 85
Figure 8-8 Consumption of Cheese in China, 2013-2017 ........................................... 86
Figure 10-1 Yili Asset and Asset-liability Ratio, 2011-2017 ........................................... 92
Figure 10-2 Yili Revenue and Net Profit, 2011-2017 .................................................. 93
Figure 10-3 Yili Gross Margin and Net Profit Margin, 2011-2017 ............................... 93
Figure 10-4 Mengniu Asset and Asset-liability Ratio, 2011-2017 ............................... 96
Figure 10-5 Mengniu Revenue and Net Profit, 2011-2017 ......................................... 96
Figure 10-6 Mengniu Gross Margin and Net Profit Margin, 2011-2017 ....................... 97
Figure 10-7 Guangming Asset and Asset-liability Ratio, 2011-2017 ........................... 99
Figure 10-8 Guangming Revenue and Net Profit, 2011-2017 ..................................... 100
Figure 10-9 Guangming Gross Margin and Net Profit Margin, 2011-2017 ........................................... 100
Figure 10-10 Sanyuan Asset and Asset-liability Ratio, 2011-2017 ..................................................... 102
Figure 10-11 Sanyuan Revenue and Net Profit, 2011-2017 ............................................................... 103
Figure 10-12 Sanyuan Gross Margin and Net Profit Margin, 2011-2017 ........................................... 103
Figure 10-13 Zhuangyuan Asset and Asset-liability Ratio, 2014-2017 ................................................ 105
Figure 10-14 Zhuangyuan Revenue and Net Profit, 2014-2017 ....................................................... 105
Figure 10-15 Zhuangyuan Gross Margin and Net Profit Margin, 2014-2017 .................................... 106
Figure 10-16 Tianrun Asset and Asset-liability Ratio, 2014-2017 ....................................................... 108
Figure 10-17 Tianrun Revenue and Net Profit, 2014-2017 ............................................................... 108
Figure 10-18 Tianrun Gross Margin and Net Profit Margin, 2014-2017 ............................................ 109
Figure 10-19 Western Animal Husbandry Asset and Asset-liability Ratio, 2011-2017 ...................... 110
Figure 10-20 Western Animal Husbandry Revenue and Net Profit, 2011-2017 ............................. 111
Figure 10-21 Western Animal Husbandry Gross Margin and Net Profit Margin, 2011-2017 .......... 111
Figure 10-22 Maiquer Asset and Asset-liability Ratio, 2011-2017 ..................................................... 113
Figure 10-23 Maiquer Revenue and Net Profit, 2011-2017 ............................................................... 113
Figure 10-24 Maiquer Gross Margin and Net Profit Margin, 2011-2017 .......................................... 114
Figure 10-25 Yantang Asset and Asset-liability Ratio, 2011-2017 ..................................................... 116
Figure 10-26 Yantang Revenue and Net Profit, 2011-2017 ............................................................... 116
Figure 10-27 Yantang Gross Margin and Net Profit Margin, 2011-2017 ........................................... 117
Figure 10-28 Royal Dairy Business Revenue and Gross Margin, 2011-2017 ..................................... 119
Figure 10-29 Kedi Asset and Asset-liability Ratio, 2011-2017 ............................................................ 123
Figure 10-30 Kedi Revenue and Net Profit, 2011-2017 .................................................................... 123
Figure 10-31 Kedi Gross Margin and Net Profit Margin, 2011-2017 ................................................. 124
Figure 10-32 New Hope Dairy Asset and Asset-liability Ratio, 2014-2017 ........................................ 127
Figure 10-33 New Hope Dairy Revenue and Net Profit, 2014-2017 ................................................. 127
Figure 10-34 New Hope Dairy Gross Margin and Net Profit Margin, 2014-2017 ............................ 128
Figure 10-35 Jule Asset and Asset-liability Ratio, 2014-2017 ............................................................ 130
Figure 10-36 Jule Revenue and Net Profit, 2014-2017 .................................................................... 130
Figure 10-37 Jule Gross Margin and Net Profit Margin, 2014-2017 ................................................. 131
Figure 10-38 Ausnutria Asset and Asset-liability Ratio, 2011-2017 .................................................... 136
Figure 10-39 Ausnutria Revenue and Net Profit, 2011-2017 ............................................................. 136
Figure 10-40 Ausnutria Gross Margin and Net Profit Margin, 2011-2017 ........................................ 137
Figure 10-41 Modern Dairy Asset and Asset-liability Ratio, 2014-2017 ............................................ 138
Figure 10-42 Modern Dairy Revenue and Net Profit, 2014-2017 ..................................................... 139
Figure10-43 Modern Dairy Gross Margin and Net Profit Margin,2014-2017.........................139
Figure10-44 Shengmu Asset and Asset-liability Ratio,2013-2017........................................141
Figure10-45 Shengmu Revenue and Net Profit,2013-2017...............................................141
Figure10-46 Shengmu Gross Margin and Net Profit Margin,2013-2017...............................142
Figure10-47 Saikexing Asset and Asset-liability Ratio,2013-2017........................................143
Figure10-48 Saikexing Revenue and Net Profit,2013-2017...............................................144
Figure10-49 Saikexing Gross Margin and Net Profit Margin,2013-2017...............................144
Figure10-50 Yuanshengtai Asset and Asset-liability Ratio,2013-2017.................................146
Figure10-51 Yuanshengtai Revenue and Net Profit,2013-2017 ........................................146
Figure10-52 Yuanshengtai Gross Margin and Net Profit Margin,2013-2017...........................147
Figure10-53 Zhongding Asset and Asset-liability Ratio,2014-2017........................................148
Figure10-54 Zhongding Revenue and Net Profit,2014-2017...............................................148
Figure10-55 Zhongding Gross Margin and Net Profit Margin,2014-2017............................149
Figure10-56 ZhongDi Asset and Asset-liability Ratio,2013-2017.........................................150
Figure10-57 ZhongDi Revenue and Net Profit,2013-2017.................................................151
Figure10-58 ZhongDi Gross Margin and Net Profit Margin,2013-2017.................................151

List of Tables

Table1-1 Global Dairy Cattle Inventory, Milk Production and Growth,2011-2017...............1
Table1-2 Dairy Cattle Inventory of Some Countries/regions,2013-2017...............................1
Table1-3 Raw Milk Production of Some Countries/regions,2013-2017..............................2
Table1-4 Global Cheese Production, Consumption and Trade,2013-2017............................4
Table1-5 Global Butter Production, Consumption and Trade,2013-2017..............................5
Table1-6 Global WMP Production, Consumption and Trade,2013-2017..............................7
Table1-7 Global SMP Production, Consumption and Trade,2013-2017...............................8
Table2-1 Dairy Production and Export of New Zealand,2013-2017.....................................14
Table2-2 Dairy Export from New Zealand to China,2013-2017..........................................14
Table2-3 Dairy Production of Australia,2013-2017.............................................................17
Table2-4 Dairy Consumption of Australia,2013-2017........................................................17
Table2-5 Dairy Export of Australia,2013-2017....................................................................17
Table2-6 Dairy Export from Australia to China,2013-2017..................................................18
Table2-7 Dairy Production of USA,2013-2017..................................................................20
Table2-8 Dairy Consumption of USA,2013-2017...............................................................20

Independent • Objective • Forward-looking
Table 2-9 Dairy Export of USA, 2013-2017 .............................. 20
Table 2-10 Dairy Export from USA to China, 2013-2017 .................. 21
Table 2-11 Dairy Production of Germany, 2013-2017 ...................... 23
Table 2-12 Dairy Export of Germany, 2013-2017 ......................... 24
Table 2-13 Dairy Import of Germany, 2013-2017 ......................... 24
Table 2-14 Dairy Export from Germany to China, 2013-2017 .......... 24
Table 2-15 Dairy Production of France, 2013-2017 ....................... 27
Table 2-16 Dairy Export of France, 2013-2017 ............................ 27
Table 2-17 Dairy Export from France to China, 2013-2017 .............. 27
Table 5-1 Economic Indicators of Dairy Processing Industry, 2017 ...... 38
Table 5-2 Trend of the Scale of Dairy Processing Industry, 2006-2017 .. 39
Table 5-3 Growth of Production, Revenue and Asset ..................... 39
Table 6-1 Size of Dairy Production by Region in 2017 ................... 44
Table 6-2 Rank of Dairy Production Growth ............................. 44
Table 6-3 Dairy Production and Growth by Region in 2017 .............. 45
Table 6-4 Dairy Production and Share by Region in 2017 .............. 47
Table 6-5 Liquid Dairy Products Production and Share by Region in 2017 48
Table 6-6 Powder Production and Share by Region in 2017 .......... 49
Table 7-1 Dairy Import by Variety in 2017 .............................. 50
Table 7-2 Import Quantity, Value and Price of Liquid Milk to China in 2017 ........................ 53
Table 7-3 Liquid Milk Import by Region in 2017 ......................... 54
Table 7-4 Import Quantity, Value and Price of Single Cream in 2017 ........................ 55
Table 7-5 Single Cream Import by Region in 2017 ...................... 56
Table 7-6 Import Quantity, Value and Price of SMP to China in 2017 ........................ 57
Table 7-7 SMP Import by Region in 2017 .............................. 58
Table 7-8 Import Quantity, Value and Price of WMP to China in 2017 ........................ 59
Table 7-9 WMP Import by Region in 2017 .............................. 61
Table 7-10 Import Quantity, Value and Price of Yoghurt to China in 2017 ........................ 62
Table 7-11 Yoghurt Import by Region in 2017 ............................ 63
Table 7-12 Import Quantity, Value and Price of Whey to China in 2017 ........................ 64
Table 7-13 Whey Import by Region in 2017 .............................. 66
Table 7-14 Import Quantity, Value and Price of Butter to China in 2017 ........................ 67
Table 7-15 Butter Import by Region in 2017 .............................. 68
Table 7-16 Import Quantity, Value and Price of Cheese to China in 2017 ........................ 69
Table 7-17 Cheese Import by Region in 2017 ................................................................. 71
Table 7-18 Import Origins of Infant Formula in 2017 ...................................................... 72
Table 7-19 Infant Formula Import by Region in 2017 ...................................................... 73
Table 7-20 Dairy Export by Variety in 2017 ................................................................. 74
Table 7-21 Liquid Milk Export by Destination in 2017 .................................................... 75
Table 7-22 SMP Export by Destination in 2017 ............................................................. 75
Table 7-23 WMP Export by Destination in 2017 ............................................................ 75
Table 7-24 Sweet WMP Export by Destination in 2017 .................................................. 75
Table 7-25 Infant Formula Export Quantity and Value, 2015-2017 ................................... 76
Table 7-26 Infant Formula Export by Destination in 2017 ............................................... 76
Table 10-1 Income of Shanghai Ground, 2015-2017 .................................................... 121
Table 10-2 Net Profit of Shanghai Ground, 2015-2017 .................................................. 121
Table 10-3 Modern Dairy Highlights, 2013-2017 .......................................................... 138
Table 10-4 Shengmu Highlights, 2014-2017 ................................................................. 140
Table 10-5 Saikexing Highlights, 2015-2017 ................................................................. 143
Table 10-6 Yuanshengtai Highlights, 2014-2017 ........................................................... 145
Table 10-7 Zhongding Highlights, 2014-2017 ............................................................... 148
Table 10-8 ZhongDi Highlights, 2014-2017 ................................................................. 150
Chapter 1 Overview of Global Dairy Industry in 2017

1.1 Production and Sales of Raw Milk in the World

1.1.1 Raw Milk Production: both Dairy Cattle Inventory and Milk Production Rose

The growth of both dairy cattle inventory and milk production rallied thanks to the recovery of price for both raw milk and international dairy products.

(1) Dairy Cattle Inventory

The global dairy cattle quantity stood at 287 million in the end of 2017, about 3 million more than in the end of 2016 or up 0.9%.

(2) Milk Production

The global milk production was about 685 million tons in 2017, 9 million tons more than in 2016, or up 1.4%.

Table1-1 Global Dairy Cattle Inventory, Milk Production and Growth, 2011-2017

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</thead>
<tbody>
<tr>
<td>Dairy Cattle Inventory(million heads)</td>
<td>264</td>
<td>268</td>
<td>269</td>
<td>272</td>
<td>282</td>
<td>284</td>
<td>287</td>
</tr>
<tr>
<td>YoY Growth</td>
<td>0.21%</td>
<td>1.21%</td>
<td>0.56%</td>
<td>1.19%</td>
<td>3.75%</td>
<td>0.66%</td>
<td>0.91%</td>
</tr>
<tr>
<td>Raw Milk Production(million tons)</td>
<td>624</td>
<td>637</td>
<td>642</td>
<td>661</td>
<td>674</td>
<td>676</td>
<td>685</td>
</tr>
<tr>
<td>YoY Growth</td>
<td>2.66%</td>
<td>2.10%</td>
<td>0.77%</td>
<td>2.94%</td>
<td>2.02%</td>
<td>0.20%</td>
<td>1.40%</td>
</tr>
</tbody>
</table>

Table1-2 Dairy Cattle Inventory of Some Countries/regions, 2013-2017

1.1.2 Global Raw Milk Price Trend: Recovery of Milk Price, but Momentum not Steady

1.2 Global Dairy Production, Consumption and Trade in 2017

1.2.1 Cheese Production, Consumption and Trade

(1) Cheese Production

The global cheese production kept around 20 million tons in 2017, up 0.6% YoY.

The EU and USA, the two key cheese producing regions, produced 9.86 and 5.55 million tons cheese respectively, accounting for 49% and 27% of the global total, both up 0.6% YoY.
(2) Cheese Consumption  
Cheese consumption was steady with an upward turn in the EU, USA, Brazil and Argentina, whereas consumption in Russia dwindled slightly.

(3) Cheese Trade  
The global cheese trade was around 2.4 million tons in 2017, up 3% YoY.
Among the major exporters, the EU exported 8,000 tons, USA 340,000 tons, up 4% and 18% YoY respectively; export from New Zealand fell slightly; export from Belarus fell to 187,000 tons, down 10% YoY.
Among the major importers, Japan, Korea, China and Australia saw steady growth of import; Russia imported the same amount as in 2016; after several years of fast growth, import to USA dropped in 2017.

Chapter 2 Key Dairy Exporters to China

2.1 Overview of New Zealand Dairy Industry

2.1.1 Raw Milk Production and Sales
(1) Number of farms dropped, size of farms enlarged and dairy cattle productivity rose.  
From 2000-2015 the quantity of farms shrank from 14,000 to 12,000, the average dairy cattle inventory of a farm rose from 250 to 420, dairy cattle yield rose from 3.8 to 4.3 tons, and the total dairy cattle inventory moved up from 3.5 to 5 million.
(2) Milk production rose in spite of dairy cattle inventory slide.  
The dairy cattle quantity fell continually from 2015 to 2017, to 4.95 million in the end of 2017. After the slide for two consecutive years 2015 and 2016, milk production winded up the falling trend in 2017 and rose to 21.5 million tons, up 1.6% YoY, thanks to recovery of milk price and favorable climate conditions.

Chapter 3 Dairy Policy in China

The Government accords much attention to sustainable healthy development of the dairy industry and creates a positive policy environment for such development.
It should be noted the Government promulgated a number of environmental protection
policies in recent years to improve pollution prevention and control over animal farming, farms in farming-ban zones were requested to close down or relocate, which caused an impact on dairy farming.

Chapter 4 Dairy Farming in China

4.1 Overview of Dairy Farming in China in 2017: Sluggish Milk Price, both Dairy Cattle Inventory and Milk Production Slid

Raw milk price in China in 2017 was the same as in 2016; dairy farming continued the sluggishness and sustained the slide from 2016.

(1) Raw milk production
The dairy cattle quantity is estimated to be around 13.5 million, down 5% from 2016; the yield of an adult cow is about 6,800kg; milk production around 35.45 million tons, down 1.6% from 2016.

(2) Milk price and dairy farming profit

Chapter 5 Dairy Processing Industry

5.1 Overview of China Dairy Processing Industry in 2017
There were 611 dairy processing companies above a certain scale (annual sales more than 20 million yuan) in the end of 2017; Their total asset was about 297 billion yuan.

(1) The growth of sales revenue trended higher. The growth of revenue was 1.7% in 2015 and 5.8% in 2016. In 2017 the sales revenue of the dairy industry was 359 billion, 6.8% up YoY.

(2) Companies running losses generated a considerable deficit, which dragged down the margin of the whole industry.

Chapter 6 Dairy Production

6.1 Overview of Dairy Production in China in 2017

Dairy production totaled 29.35 million tons in 2017, up 4.2% YoY, of which liquid dairy
products 26.92 million tons, up 4.5% YoY; powder production was 1.21 million tons, up 1% YoY.

**Figure 6-1 China Dairy Production, 2006-2017**

Chapter 7 Dairy Trade

7.1 Dairy Import to China in 2017

Dairy import sustained the growing trend in 2017. The yearly import (not including infant formula) stood at 2.17 million tons, value 4.8 billion USD, up 11% and 43% respectively; the average import price was 2,219 USD/ton, up 29% YoY.

Chapter 8 Dairy Consumption in China

8.1 Overview of Dairy Consumption

8.1.1 Dairy Consumption Larger than Million Tons

In 2017, Dairy consumption in China surpassed million tons, up about 4.5% YoY.

(1) The consumption of different kinds of dairy products all witnessed growth.
Chapter 9 Competition of China’s Dairy Market

9.1 Competition Environment

Competitors are classified into three groups: international dairy companies, local national dairy companies and regional dairy companies. The dairy market can hardly regain double-digit growth. Since processing companies have similar portfolios of key products, same prior markets and similar key channels, the competition of the market intensifies.

Chapter 10 Key Dairy Companies in China

10.1 INNER MONGOLIA YILI INDUSTRIAL GROUP CO., LTD.

10.1.1 Company Profile

Yili has the highest revenue and is the most capable. It is No. 1 in Asia and one in the Top 10 in the world. It plans to become one in the Top 5 in 2020 in the world. Its goal is to “become the most reliable healthy food supplier around the globe”. It is estimated its revenue was around 70 billion yuan in 2017, firmly taking the first rank in the dairy industry.

10.1.2 Operation

1. Production

Main products: liquid milk, yoghurt, milk beverage, infant formula, ice cream.

Yili has nearly 80 companies with its share participation, and a national production layout was formulated. It collected 5 million tons raw milk in 2017 and produced about 7.5 million tons dairy products.

2. Operational model and strategy

(1) There are four business units, i.e., liquid milk, yoghurt, infant formula, ice cream, under the strategic and professional management of the headquarters. Each business unit operates production, supply and sales of its own business.
Figure 10-1 Yili Asset and Asset-liability Ratio, 2011-2017

Figure 10-2 Yili Revenue and Net Profit, 2011-2017

Figure 10-3 Yili Gross Margin and Net Profit Margin, 2011-2017
10.1.3 Development Plan

(1) Its goal is to materialize 100 billion yuan sales in 2020 and become one in the Top 5 dairy companies in the world.

(2) It paces up global layout and looks for acquisition targets in the whole world.

(3) It tries to develop healthy food other than dairy and shall be the most reliable healthy food supplier around the globe.