

## Sanyuan buys scandal-hit Sanlu dairy company at auction

by Xinhua writers Fang Ning, Yue Ruifang, Yang Shouyong

SHIJIAZHUANG, March 4 (Xinhua) -- Beijing-based dairy producer Sanyuan has bought Sanlu Group, the Chinese dairy company at the center of last year's milk contamination scandal.

Sanlu, which has been declared insolvent, was auctioned in north China's Hebei Province on Wednesday at the Intermediate People's Court of Shijiazhuang.



Reporters interview a spokesman of Shijiazhuang Intermediate People's Court after an auction of scandal-hit Sanlu dairy company in Shijiazhuang, capital of north China's Hebei Province, on March 4, 2009. Beijing-based dairy producer Sanyuan won the bid of Sanlu with the price of 616.5 million RMB (about 90 million USD).(Xinhua/Gong Zhihong)

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It was sold to Sanyuan for 616.5 million yuan (90 million U.S. dollars).

Auctioneer Yuan Guoliang said the previous valuation of Sanlu assets of 800 million yuan put for bidding included two Sanlu plants, the Tangshan Sanlu Dairy Plant Ltd. and the Junlebao Dairy Ltd., which were not among the assets on auction Wednesday.



A spokesman of Shijiazhuang Intermediate People's Court is interviewed by media after an auction of scandal-hit Sanlu dairy company in Shijiazhuang, capital of north China's Hebei Province, on March 4, 2009. Beijing-based dairy producer Sanyuan won the bid of Sanlu with the price of 616.5 million RMB (about 90 million USD).  
(Xinhua/Gong Zhihong)

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"The assets of the plants will be for sale at the next auction," Yuan said, adding he did not know the date.

The auction on Wednesday started at 6 million yuan, based on the valuation of Sanlu Group's core assets, including land use rights, buildings, machinery and equipment as well as one of Sanlu's subsidiaries, the Linhe Dairy.

The Beijing Sanyuan Group Co. Ltd., the parent company of the Shanghai-listed Beijing Sanyuan Foods Co. Ltd., made the joint bid with the Hebei Sanyuan Foods Co. Ltd., a subsidiary of the Beijing Sanyuan Foods Co. Ltd.

Sanyuan bid against just one other prospective buyer during the auction, which lasted 15 minutes.

The auction company, the Hebei Jiahai Auction Co. Ltd., declined to name the rival firm represented by board No. 88.

The auction, which was open only to domestic dairy producers, required bidders to meet two criteria: no involvement in the melamine scandal; and a minimum of 1 billion yuan in total revenue from liquid milk and milk powder product sales last year.

Both of China's leading dairy producers, Yili and Mengniu, were unqualified to bid, since the chemical substance melamine was found in their milk products, though in smaller proportions than that detected in Sanlu's products.

Sanlu had been China's leading seller of milk powder for 15 years until the melamine scandal broke in September last year. The group's revenue hit 10 billion yuan in 2007, while Sanyuan's revenue was 1 billion yuan.

Sanyuan's stock was suspended from trading on Wednesday morning at the Shanghai Stock Exchange, as the auction was held. Its share price rose by the daily limit of 10 percent on Tuesday.

Fan Xueshan, a board director of the Sanyuan Group, said Sanyuan would renew labor contracts with 3,070 staff on Sanlu's payroll after the takeover.

"The auction on Wednesday did not relate to Sanlu's debts. Sanlu's existing production and sales team is skilled and competitive," he said.

He said Sanyuan would provide capital and management to revive the production, and consolidate its market share.

"Strict production monitoring measures will be imposed to ensure the safety and quality of the milk products," he said.

Sanlu stopped production on Sept. 12 last year, as the melamine scandal broke. It leased some of its plants to a subsidiary of Beijing Sanyuan Foods Co. Ltd. in December, days after the bankruptcy petition was accepted by the Shijiazhuang court.

The company's melamine-tainted baby milk powder was found to have caused the deaths of at least six children and sickened more than 300,000 other children.

On Dec. 19, Sanlu borrowed 902 million yuan to pay the medical fees of children sickened by baby formula tainted with melamine and to compensate victims, which increased its debt to 1.1 billion yuan.

Sanlu was fined 49.37 million yuan by the Shijiazhuang court after being convicted producing substandard products in January. The same court also imposed a life sentence for Sanlu chairwoman Tian Wenhua, who was convicted of manufacturing and selling fake or substandard products.



Photo taken on March 4, 2009 shows the venue before the auction of scandal-hit Sanlu Group in Shijiazhuang, capital of north China's Hebei Province. Beijing-based dairy producer Sanyuan won the bid of Sanlu with the price of 616.5 million RMB (about 90 million USD). (Xinhua/Gong Zhihong)

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