

Dairy Products China News

Guaranteed Exclusive Analysis

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Welcome to the February issue of Dairy Products China News.

China's changing food preferences have increasingly been enabled by foreign travel. Clearly, the population has been travelling internationally much less than in the last few years: Morgan Stanley noted that airlines' seat capacity between China and the US was at only 22% of 2019 levels in the week to Dec 26, for instance. Nevertheless, many are nervous about the US and there are signs that Chinese travelers will visit a wider range of destinations going forward. Certainly on the domestic front this month China's population proved very active: the holiday season spanned eight days from February 10 to February 18, one day more than previous periods, and saw 474 million trips made within mainland China. This figure was up 34% compared to the same holiday in 2023 and 19% higher than in 2019, according to data from the Ministry of Culture and Tourism. But the average tourism-related spending per trip was below pre-pandemic levels, as consumer confidence remains weak.

It should do, in my opinion – the bizarre prospect of a Trump return ("make America geriatric again"??) could free China up from a geopolitical point of view in some ways, but it could also see some major tariff barriers to Chinese exports to the US. At a national level, major growth prospects seem relatively limited and all the signs are that domestic challenges such as the ailing property market will take a good while to remedy: Oxford Economics recently suggested a four-to-six-year timeline for developers to complete unfinished residential properties. It added that increasing supply coming from secondary market transactions, as households, worried about depleting profits from price declines, sell their second or third homes, constitute an additional drag to this process.

Conversely, the very mixed company results we report this month suggest that China remains a very dynamic market despite all the challenges. The country has over a billion internet users and social media users after all, fuelling the constant competition between businesses based on prices and innovation. Deloitte China recently noted that "consumption behaviors of younger generations will be very different...they will create many opportunities, whether from service consumption or other areas such as entertainment, outdoor sports and the pet economy." It is evident that the skillsets and mindsets which allowed many dairy exporters to achieve success in China in the past will need to evolve significantly.

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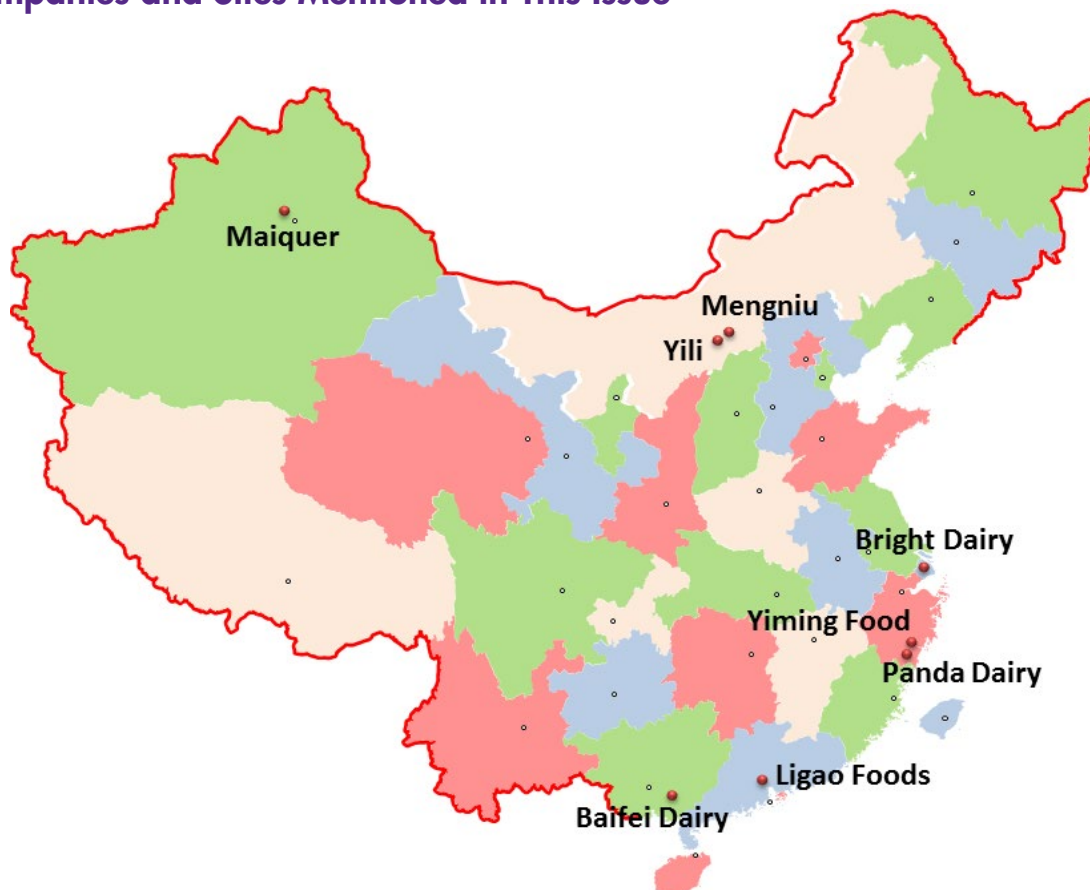
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Headlines

- ▶ Three public bakery/dairy groups have posted rather mixed 2023 earnings forecasts. Ligao Foods with higher revenue but lower profit, Yiming Food with a return to profit, and Maiquer still making a loss.
- ▶ Nestlé, Danone and FrieslandCampina reported full-year results for 2023, all with growth in their IMF businesses in China.
- ▶ Mengniu recently announced further focus on foodservice, Milkana has agreed an investment from Cathay Capital and Baifei Dairy is to build a JV company with Babushkina Krynka of Belarus.
- ▶ The Health Commission of Guangxi Zhuang Autonomous Region has revised the local food safety standards for raw, pasteurised, fermented, sterilised and modified buffalo milk, effective as of 17 May, 2024.
- ▶ In Feb., China published a shortlist of producers applying for government support in expanding their capacity to produce demineralised whey for infant formula.
- ▶ Yili recently proposed to build a 62,000 t/a liquid D90 line in Inner Mongolia and add 1,500 t/a ice cream capacity at its Chengdu operation; meanwhile, its new ice cream plant in Hubei Province delivered its first batch of products.
- ▶ Recent announcements show Bright Dairy expecting its net profit to jump by 157.84% to 185.57% in 2023, whilst Panda Dairy forecasts 89.11%–105.96% growth in profit.
- ▶ Both the buffalo milk business Royal Group and the leading dairy importer Pinlive Foods have put out concerning forecasts for their full year 2023 figures.
- ▶ A2 Milk Company reported strong growth for H1 FY24, with revenue and EBITDA up 16.5% and 21.9% in its China & Other Asia segment.
- ▶ As the Spring Festival holiday this month saw raw milk prices flatlining, companies have increasingly resorted to discounting to boost sales.

Major Companies and Sites Mentioned in This Issue



Market Analysis

Mixed Earnings Forecasts from Ligao Foods, Yiming Food and Maiquer

Summary: Three public bakery/dairy groups have posted rather mixed 2023 earnings forecasts. Ligao Foods with higher revenue but lower profit, Yiming Food with a return to profit, and Maiquer still making a loss.

In late Jan., 3 listed companies in bakery/dairy published their 2023 Earnings Forecasts – Ligao Foods Co., Ltd. (Ligao Foods, Stock Code: 300973), Zhejiang Yiming Food Co., Ltd. (Yiming Food, Stock Code: 605179) and Maiquer Group Co., Ltd. (Maiquer, Stock Code: 002719).

Ligao Foods's key estimates:

- Revenue: USD489.8 million–USD506.7 million (RMB3.5 billion–RMB3.6 billion), up 19.6%–23.7%
- Net profit attributable to the parent company: USD11.3 million–USD14.8 million (RMB80 million–RMB105 million), down 27.0%–44.4%
- Net profit attributable to parent company after excl. extraordinary gains/losses: USD17.2 million–USD20.7 million (RMB122 million–RMB147 million), in a range from -14.9% to +2.6%.

According to Ligao Foods, the steady growth in total revenue reflected the integration of marketing across its 3 main categories (frozen bakery, cream and baking sauces), increased sales from distributors and higher market penetration, as well as launches of new products during the recovery of the supermarket and foodservice channels in 2023.

Conversely, the fall in profit came down to a few factors:

- The company closed its 2021 Stock Options Incentive Plan in Oct. 2023 and incorporated

the equity-settled share-based payment in Q4 figures, which represented a write-down of USD16.9 million (RMB120 million). Without this item, its net profit attributable to parent company should be USD28.1 million–USD31.7 million (RMB200 million–RMB225 million), with growth between -8.9% to +2.5% YoY

- Higher costs were incurred on marketing and exhibitions and logistics to address recovering market demand
- Higher R&D were also a factor as the company focused on accelerating its product innovation (a product centre and R&D technical service centre were also being built during the period)
- Also, there was an inventory write-down of USD3.9 million (RMB28 million)

Ligao Foods produces baked semi-finished/finished products such as mochi bread, egg tart skin, doughnuts, frozen cake, cream blends, fruit products, and sauces for baking. In H1 2023, frozen bakery made up about 65% of its total revenue while bakery ingredients accounted for 34%.

Yiming Food's key estimates:

- Net profit attributable to parent company: USD3.1 million–USD4.6 million (RMB22 million–RMB33 million) vs. the loss of -USD18.2 million (-RMB129.2 million) in 2022
- Net profit after excl. extraordinary gains/losses: USD2.8 million–USD4.2 million (RMB20 million–RMB30 million) vs. the loss of -USD16.4 million (-RMB116.3 million) in 2022

Yiming Food credited its effective management in supply chain, marketing and company-operated stores and lower marketing costs for its improved overall gross margins; higher sales per store and store numbers helped boost revenue and net profit as a whole.

Yiming Food focuses on fresh milk, chilled yoghurt and modified milk, flavoured fermented milk and bakery products, selling directly to retail (online + offline) and schools and to breakfast shops through distributors. Recently it has been actively expanding the operations of its "INM Fresh Milk Bar" outlets which sell freshly-made dairy products and drinks and bakery.

Maiquer's key estimates:

- Net loss attributable to parent company: -USD13.4 million to -USD17.6 million (-RMB95 million to -RMB125 million), following the loss of the -USD49.4 million (-RMB351.2 million) in 2022
- Net loss after excl. extraordinary gains/losses: -USD14.1 million to -USD19.0 million (-RMB100 million to -RMB135 million), following the loss of the -USD17.9 million (-RMB127.1 million) in 2022

Maiquer said that in 2023 the sales volume of some core products decreased, leading to lower revenue; meanwhile work on optimising its product range, multi-channel channel construction and branding drove up its costs.

Maiquer has 2 core businesses—dairy products (UHT milk, modified milk, milk beverages and fermented dairy products) and bakery foods (Chinese and western-style cakes and pastries), selling through company-operated chain stores and distributors.

2023 Earnings Reports: Nestlé, FrieslandCampina, Danone

Summary: Nestlé, Danone and FrieslandCampina reported full-year results for 2023, all with growth in IMF in China.

Recently, global brands Nestlé, Danone and FrieslandCampina posted their financial reports for 2023, all seeing growth in their IMF businesses in China, despite the market's clear challenges.

Nestlé

Total Group in 2023:

- Full-year sales were down by 1.5% to USD105.5 billion (CHF93.0 billion)
- Organic growth was 7.2%, with price-driven growth at 7.5%; real internal growth was -0.3%. Growth was broad-based across geographies and categories
- The underlying trading operating profit (UTOP) margin was 17.3%, increasing by 20 basis points on a reported basis. The trading operating profit (TOP) margin was 15.6%, increasing by 160 basis points.

Zone Greater China in 2023:

- Full-year sales were down by 5.9% to USD5.7 billion (CHF5.0 billion)
- Organic growth was 4.2%, with price-driven growth at 1.7%; real internal growth was 2.5%. Growth was supported by strong sales developments for out-of-home businesses and E-commerce
- The Zone's UTOP increased by 40 basis points, supported by favourable product mix and disciplined cost control
- The Zone saw market share gains in soluble coffee, pet food and confectionery
- Infant Nutrition saw positive growth, led by NAN hypoallergenic and specialty products. In Q4, it launched an "illumina" GUMP with human milk oligosaccharides (HMOs). Sales of healthy aging products grew at a double-digit rate, supported by the launch of N3 milk, a unique science-based innovation claimed to be as nutritious as milk and low in lactose

Nestlé expects organic sales growth of around 4% and a moderate increase in UTOP for 2024.

Danone

Total Group in 2023:

- Full-year sales were up by 7.0% to USD29.9 billion (EUR27.6 billion), with price-driven growth at 7.4% and volume/mix down 0.4%

- Recurring operating profit reached USD3.8 billion (EUR3.5 billion), with the recurring operating margin at 12.6%, up 40 bps

China, North Asia & Oceania (CNAO) regions in 2023:

- Full-year sales were up by 10.1% to USD3.8 billion (EUR3.5 billion), with 8.6% volume/mix-led growth
- Recurring operating margin went further down by 15 bps to 30.1%, though the contraction eased on a yearly basis
- In Q4, sales increased by 7.4% YoY to USD889.6 million (EUR822 million), led by volume/mix up 4.8% and price up 2.6%; in China, Nutrition and Medical Nutrition maintained the momentum, while functional drink brand Mizone grew at a double-digit rate (after a revamp which included an electrolyte version)

Danone expects like-for-like global sales growth to be 3%–5%, with moderate improvement in recurring operating margin for 2024.

FrieslandCampina

Total Group in 2023:

- Full-year sales were down by 7.1% to USD14.2 billion (EUR13.1 billion), operating profit dropped 84.1% to USD81.2 million (EUR75.0 million), and a net loss of -USD161.2 million (-EUR149 million) was seen compared to a net profit of EUR292 million in 2022
- FrieslandCampina pointed out that it had been forced to sell cheese stocks (produced at high cost) in a market of low prices in the year, and faced weaker demand caused by inflation worldwide

In China:

- Specialised Nutrition sales were up by 8.9% to USD1.3 billion (EUR1.2 billion) and operating profit up 3.5% to USD224.0 billion (EUR207 million), thanks to outstanding growth for Friso Prestige in the ultra-premium segment – both marked their 4th consecutive year of double-digit growth, and Friso currently ranks 4th in the IMF market

FrieslandCampina said it would reinforce investment in upgrading its production facilities and innovations in 2024, without providing any specific revenue and result forecasts for 2024 owing to the uncertain market conditions.

Dairy Companies Announce Strategic Cooperation Deals

Summary: Mengniu recently announced further focus on foodservice, Milkana has agreed an investment from Cathay Capital and Baifei Dairy is to build a JV company with Babushkina Krynka of Belarus.

More strategic cooperation agreements were recently announced in the dairy sector as competition intensifies.

China Mengniu Dairy (Mengniu, Stock Code: 02319.HK)

Recently a strategic cooperation agreement between Mengniu and Beijing Nanchengxiang Catering Co., Ltd. (Nanchengxiang) was signed. Nanchengxiang is an emerging Beijing-based fast-food chain with 200+ restaurants, making around USD211.1 million (RMB1.5 billion) in revenue in 2023. Focusing on breakfast offerings, the deal is that Mengniu will provide its "Mengniu Professional Dairy Products" range to all Nanchengxiang's restaurants – this involves Mengniu pure milk and whipping cream

During 2021 the group launched a "Mengniu Professional Dairy Products" range which now includes pure milk, filtered milk and whipping cream (1L and 10kg), and is supplied to at least 10 foodservice operators located mostly in the country's southern and eastern regions.

Milkana

On 26 Jan., Cathay Capital announced a strategic partnership with Savencia Fromage & Dairy (Savencia) involving an exclusive strategic investment in the cheese brand Milkana.

Savencia (then Bongrain) introduced Milkana to China in 1996 as China's first wholly foreign-owned cheese producer. Milkana led the retail cheese market with a market share of around 20% until it was overtaken by Shanghai Milkground Food Tech Co., Ltd. (Milkground Food, Stock Code: 600882) in 2021.

However, Cathay Capital believes its investment can facilitate the brand's growth through further penetration into local markets, organisational restructuring, improved execution and exploration of new-generation cheese products.

Cathay Capital is the first Chinese private equity fund certified by the Financial Markets Authority (AMF) in France, with a focus on China-European trade. In foodservice, It has invested in other businesses such as the beverage brand Genki Forest and the snack chain YUMMY SNACK, etc.

Guangxi Baifei Dairy (Baifei Dairy)

On 31 Jan., Baifei Dairy's subsidiary Hunan Baifei Dairy Co., Ltd. settled strategic partnership agreement with OJSC Babushkina Krynka, described as the largest dairy processor in Belarus. This involves establishing a JV in the Wangcheng Economic Development Zone, Changsha City, Hunan Province, focused on yoghurt, sour cream, ice cream and cheese. In the early stage, Babushkina Krynka will supply raw materials and technical support and the JV will be the business operator. The expectation is to invest further in capacity rampup and brand development if the market's response is positive.

Baifei Dairy is a leader in buffalo milk in China, selling a range of buffalo dairy products including pure (UHT) milk, fresh milk/yoghurt and school milk.

Babushkina Krynka produces WMP, SMP, cheese, butter, whey powder, ice cream and glazed soft curds ("tvorog"), with a total processing capacity of more than 60,000 tonnes of milk per month. Its Pure Milk 200ml packs started selling in Hunan and Jiangsu provinces in 2017.

Governmental Direction

Guangxi Revises 5 Local Standards for Buffalo Milk and Products

Summary: *The Health Commission of Guangxi Zhuang Autonomous Region has revised the local food safety standards for raw, pasteurised, fermented, sterilised and modified buffalo milk, effective as of 17 May, 2024.*

In mid-Jan., the Health Commission of Guangxi Zhuang Autonomous Region issued 5 revised local food safety standards for buffalo milk products, taking effect on 17 May, 2024: *Raw Buffalo Milk (DBS45/011-2024), Pasteurized Buffalo Milk (DBS45/012-2024), Fermented Buffalo Milk (DBS45/024-2024), Sterilized Buffalo Milk (DBS45/037-2024), and Modified Buffalo Milk (DBS45/046-2024).*

These revisions add calcium content indicators and testing methods, with the last 4 amending application scope, terms and definitions, sensory requirements and requirements for bacterial strains (see below).

Definitions of terminology:

- Pasteurised buffalo milk: the liquid product made with buffalo milk only, processed through pasteurisation
- Fermented buffalo milk: the product made with raw buffalo milk, processed through sterilisation and fermentation, with reduced pH value
- Flavoured fermented buffalo milk: the product made with 80% raw buffalo milk, processed through sterilisation and fermentation, with reduced pH value, with or without the addition of food additives, nutrition enhancers, fruits and vegetable or grains before or after fermentation, including heat-treated products after fermentation
- UHT (Sterilised) buffalo milk: the liquid product made with raw buffalo milk, processed in a continuous heating process at 132°C or above for short-term sterilisation, and through sterile filling or other processes
- Retort sterilised buffalo milk: the liquid product made with raw buffalo milk, preheated or not, sterilised after filling and sealing
- Modified buffalo milk: the liquid products made from 80% or more raw buffalo milk, with the addition of other raw materials, food additives or nutrient enhancers, using pasteurisation, sterilisation or other appropriate processes

Application scope: The standards apply to whole, skimmed and partially skimmed pasteurised/fermented/sterilised/modified buffalo milks.

TABLE I: Physicochemical Indicators of Raw Buffalo Milk

Item	Indicator
Protein, g/100g	≥3.8
Fat, g/100g	≥5.5
MSNF, g/100g	≥9.2
Calcium, mg/100g	≥125
Freezing point*, °C	-0.500 ~ -0.570
Relative density, 20°C/4°C	≥1.024
Impurity, mg/kg	≤4.0
Acidity, °T	10 ~ 18

Source: Raw Buffalo Milk (DBS45/011-2024)

Note: *sample to be taken 3 hours after milking

TABLE 2: Physicochemical Indicators of Other Types of Buffalo Milk

Item	Indicator									
	Pasteurised		Fermented		Flavoured fermented		Sterilised		Modified	
	Whole milk	Skimmed	Whole milk	Skimmed	Whole milk	Skimmed	Whole milk	Skimmed	Whole milk	Skimmed
Fat, g/100g	≥5.5	≤0.5	≥5.5	≤0.5	≥4.4	≤0.5	≥5.5	≤0.5	≥4.4	≤0.5
Protein, g/100g≥	3.8		3.8		3.1		3.8		3.1	
MSNF, g/100g≥	9.2		9.2		/		9.2		/	
Calcium, mg/100g≥	125		125		100		125		100	
Acidity, °T	10 ~ 18		≥70				10 ~ 18		/	

Source: DBS45/012-2024, DBS45/024-2024, DBS45/ 037-2024, DBS45/046-2024

Shortlist of Demineralised Whey Producers in China

Summary: In Feb., China published a shortlist of producers applying for government support in expanding their capacity to produce demineralised whey for infant formula.

On 6 Feb., the Ministry of Industry and Information Technology (MIIT) published a shortlist of producers applying for state support in improving their capacity for demineralised whey for infant formula. Despite the weaker IMF market, this reflects China’s longstanding goal of reducing dependence on imports of raw materials and promoting local processors – as well as offering the opportunity to reduce costs, an important aspect in the market situation. This is a step change after the sporadic earlier initiatives to produce demineralised whey locally, where the economics of working from imported sweet whey powder never convinced.

The task is jointly promoted by MIIT, the National Health Commission and the State Administration for Market Regulation (SAMR) and aims to address the longstanding requirement for

demineralised whey products in the formula industry, where for many years the confidence to formulate with WPC/ lactose seemed to be lacking. The listed producers will be given policy supports from local governments where they meet required production levels and quality standards:

- By April 2026, the listed producers should have a production capacity for demineralised whey products of no less than 3,000 t/a (in D90 terms)
- All this production should be used in the production of infant formula
- By Dec. 2026, at least 1,000 tonnes from the listed producers should have been applied in infant formula
- By June 2027, at least 3,000 tonnes from the listed producers should have been applied in infant formula
- Quality standards for demineralised whey are to be as shown in the table below

TABLE 3: Physicochemical Indicators for Demineralised Whey Products (incl. from goat milk)

Item	Unit	Range
Protein	g/100g	≥10.5 (conversion coefficient: 6.38)
Ash content	g/100g	Goat Demineralised Whey Powder D70<3, others≤1.5
Lactose	g/100g	≥73.0
Water	g/100g	≤5.0
pH	/	6.0–7.2
Fat	g/100g	≤2.0
Acidity of lactic acid	g/100g	≤0.12
Insolubility index	mL	≤0.35
Foreign matter	mg/kg	≤16

Source: Ministry of Industry and Information Technology (MIIT)

Note: The insolubility index and the foreign matter level of liquid demineralised whey (including goat demineralised whey) are ≤0.1 mL and ≤0.75 mg/L; other physicochemical indicators are applicable to demineralised whey powder in the content converted from the total solids.

TABLE 4: Shortlist of Demineralised Whey Product Producers

Technical roadmap	No.	Applicants	Participants	Applicant's location
Production of cheese and demineralised whey products from raw cow milk	1	Beijing Sanyuan Foods Co., Ltd.	Beijing Institute of Food Inspection	Beijing
	2	Inner Mongolia Yili Industrial Group Co., Ltd.	1. Inner Mongolia Yiqi Technology Co., Ltd.	Inner Mongolia Autonomous Region
			2. Inner Mongolia National Dairy Technology Innovation Center Co., Ltd.	
			3. Ausnutria Dairy Corp Ltd.	
			4. Inner Mongolia Yijiahao Cheese Co., Ltd.	
			5. China Agricultural University	
	3	Ground Dairy Industry Co., Ltd.	1. Shanghai Milkground Food Tech Co., Ltd.	Jilin Province
			2. Agricultural Product Processing Research Institute, Chinese Academy of Tropical Agricultural Sciences	
			3. Beingmate Co., Ltd.	
Production of demineralised whey products from sweet whey	4	Xindongkang Nutrition Technology Co., Ltd.	1. Zhongte Life Health Technology Group Co., Ltd.	Hebei Province
			2. Mead Johnson Dairy (Tianjin) Co., Ltd.	
Production of demineralised whey products via separation of casein from raw cow milk	5	Heilongjiang Feihe Dairy Co., Ltd.	/	Heilongjiang Province
	6	ATK Biotech Co., Ltd.	1. Mead Johnson Nutritionals (China) Ltd.	Anhui Province
			2. Linxia Liaoyuan Dairy Co., Ltd.	
			3. Shaanxi Herds Dairy Co., Ltd.	
			4. Jiangnan University	
			5. Ocean University of China	
			6. China Agricultural University	
	7	Inner Mongolia Mengniu Dairy (Group) Co., Ltd.	1. Beijing Technology and Business University	Inner Mongolia Autonomous Region
2. Northeast Agricultural University				

Technical roadmap	No.	Applicant unit	Participant unit	Applicant's location
Production of demineralised whey products via separation of casein from raw goat milk	8	Yeeper (Qingdao) Goat Dairy Co., Ltd.	/	Shandong Province
	9	Shaanxi Rudu Jinyang Dairy Co., Ltd.	1. Shaanxi Jinniu Dairy Co., Ltd. 2. Heilongjiang Heyi Dairy Technology Co., Ltd.	Shaanxi Province
Production of cheese and demineralised whey products from raw goat milk	10	Shaanxi Hongxing Meiling Dairy Co., Ltd.	/	Shaanxi Province

Source: Ministry of Industry and Information Technology (MIIT)

Company Dynamics

Yili's Recent Dairy Project Updates

Summary: Yili recently proposed to build a 62,000 t/a liquid D90 line in Inner Mongolia and add 1,500 t/a ice cream capacity at its Chengdu operation; meanwhile, its new ice cream plant in Hubei Province delivered its first batch of products.

Inner Mongolia Yili Industrial Group Co., Ltd. (Yili, Stock Code: 600887) announced 2 production projects recently, adding capacities for liquid demineralised whey and ice cream.

1. "Demineralised whey powder smart production project"

This project's details were publicised on 20 Feb. with the pre-construction environmental impact statement. It is undertaken by Inner Mongolia Jinze Yili Dairy Co., Ltd. (Jinze Yili), which is currently operating a 30,000 t/a IMF line and plans to add 30,000 t/a capacity for base powders for IMF. This liquid demineralised whey line is intended to reduce IMF production costs and better control product quality.

Project details:

- Total investment: USD29.6 million (RMB210.5 million), 4.4% (=USD1.3 million/RMB9.3 million) of which for environmental protection
- Location: Chilechuan Dairy Development Zone of Hohhot City, Inner Mongolia Autonomous Region
- Site area: 4,306 m²
- Construction & designed capacity: a whey desalination plant with a 62,000 t/a line for liquid D90, wastewater treatment system and supporting equipment

- Product quality indicators:
 - Protein (dry basis) ≥ 12.6 g/100g
 - Ash (dry basis) ≥ 1.0 g/100g
 - Lactose (dry basis) ≥ 80 g/100g
- Main raw material consumption: 61,031 t/a liquid whey (sourcing from Yili's cheese production in the same site) and 9,450 t/a sweet whey powder (outsourced)
- Working system: 29 new employees in rotating 24-hour operation for 300 days per year
- Construction period: 22 months

2. "Ice cream plant upgrading and reconstruction project"

This project received approval for construction from the local Ecology and Environment Bureau on 7 Feb. It is undertaken by Chengdu Yili Dairy Co., Ltd. (Chengdu Yili).

Project details:

- Construction nature: Reconstruction
- Total investment: USD16.9 million (RMB120.0 million), 0.11% (=USD18,297/RMB130,000) of which for environmental protection
- Location: Qionglai City (county-level), Chengdu City, Sichuan Province
- Construction & designed capacity: replace old facilities and upgrade 4 ice cream lines with additional 1,500 t/a capacity
- Construction period: 1 month

TABLE 5: Product Mix of Chengdu Yili Plant after Reconstruction

Category		Capacity, t/a
Liquid dairy	Chilled yoghurt	76,000
	Milk beverages	294,091
	Ambient yoghurt	90,000
	Fresh milk	5,370
Ice cream/milk		84,000
Total		549,461

Source: Chengdu Yili

In Huanggang City in Hubei Province, Yili's new ice cream plant delivered its first batch of products on 16 Feb. It is Yili's 3rd plant in the city, representing an investment of over USD183.0 million (RMB1.3 billion). It has 10 production lines and fully digital systems for high-end ice cream ranges including Gemice and Chocliz; its daily capacity is 350 tonnes, with production value expected

to reach USD140.7 million (RMB1.0 billion) annually. Yili's production operations in Huanggang have covered the group's full range of dairy products, selling in Hubei, Hunan, Guangdong and the neighbouring regions. Huanggang is also Yili's only school milk production site in South China.

Bright Dairy and Panda Enjoy Profits Boom in 2023

Summary: Recent announcements show Bright Dairy expecting its net profit to jump by 157.84% to 185.57% in 2023, whilst Panda Dairy forecasts 89.11%–105.96% growth in profit.

In late Jan., Bright Dairy & Food Co., Ltd. (Bright Dairy, Stock Code: 600597) and Panda Dairy Corporation (Panda Dairy, Stock Code: SZ. 300898) issued earnings forecasts for 2023 showing surging profits due to reduced material costs.

Bright Dairy's forecasts for 2023:

- Net profit attributable to equity shareholders of the listed company: USD130.9 million–USD145.0 million (RMB930.0 million–RMB1.0 billion), up 157.84%–185.57% from the USD50.8 million (RMB360.7 million) in 2022

- Net profit excl. extraordinary gains/losses: USD70.4 million–USD84.4 million (RMB500.0 million–RMB600.0 million), up 196.41%–255.69% from the USD23.7 million (RMB168.7 million) in 2022

Bright Dairy cited two key factors:

- It benefited from USD60.9 million (RMB432.5 million) received from Pudong New Area Government's purchase of 26,289.4 m² of the company's land during the reporting period
- Its main material and distribution costs went down: in Q1-Q3 2023, the company spent only USD2.4 billion (RMB16.8 billion) on distribution, down 3.70% vs. USD2.5 billion (RMB17.5 billion) in the same period in 2022

Panda Dairy's forecasts for 2023:

- Net profit attributable to equity shareholders of the listed company: USD14.2 million–USD15.5 million (RMB101.0 million–RMB110.0 million), up 89.11%–105.96%
- Net profit excl. extraordinary gains/losses: USD11.7 million–USD13.1 million (RMB83.0 million–RMB93.0 million), up 84.81%–107.08%

Panda Dairy, leader in the condensed milk segment, summarised that while its main business made steady growth, the lower raw material prices (mainly referring to white granulated sugar and imported milk powders from Fonterra) brought down its overall operating costs and increased product margins, enabling the surge in its net profit.

On the other hand, to diversify its portfolio, Panda Dairy posted a change

of use of raised funds on the same day as its earnings forecast:

- The original plan included investments of USD34.2 million (RMB242.8 million) in a "30,000 t/a concentrated dairy products (condensed milk, whipping cream and cheese) production project" in Cangnan County (Zhejiang Province) and USD4.9 million (RMB35.0

million) in a "60,000 t/a concentrated dairy products reconstruction and expansion project" in Jiyang County (Shandong Province)

- A new, rescheduled plan now allocates USD5.6 million (RMB40.0 million) from the budget for the first of these projects in Cangnan to develop a "drinks and condiment series project". This is to involve building

8,000 t/a combined capacity for jelly, jam and beancurd jelly – it is expected to turn operational by Jan 2026 and generate net profit of USD1.1 million (RMB8.0 million) annually. Panda Dairy said that this project will enable it to serve the growing foodservice market with products outside its core focus on condensed milk

Royal Group and Pinlive Foods Hint at Worrying 2023 Results

Summary: Both the buffalo milk business Royal Group and the leading dairy importer Pinlive Foods have put out concerning forecasts for their full year 2023 figures.

On 30 Jan., **Royal Group Co., Ltd.** (Royal Group, Stock Code: 002329) released a concerning earnings forecast for 2023:

- Net profit attributable to equity shareholders of the listed company: USD9.9 million–USD12.7 million (RMB70.0 million–RMB90.0 million) vs. USD1.7 million (RMB12.0 million) in 2022
- Net loss excl. extraordinary gains/losses: -USD17.8 million to -USD20.6 million (-RMB126.5 million to -RMB146.5 million)

During the reporting period, its operations in Guangxi, Guizhou, Hunan and Sichuan all achieved double-digit growth, and collaborative new products including buffalo milk products were launched with local tea and coffee chains. Non-dairy activities – solar EPC (Engineering Procurement Construction) operations for businesses and consumers – helped drive the company's overall performance.

But after excluding the gains from selling subsidiaries (Yunnan Royal Lesson Dairy Co., Ltd & Yunnan Royal Lesson Intelligent Dairy Co., Ltd.) in May 2023, its performance, in effect, deteriorated from the consecutive losses over past 3 years, when its net losses after excl. extraordinary items were -USD27.1 million (-RMB192.4 million), -USD73.2 million (-RMB520.2 million), -USD15.0 million (-RMB106.4 million) from 2020 to 2022.

At the same time, the report also makes it clear that Royal Group's water buffalo breeding, farm building and processing projects funded by the sell-offs have made slow progress. This is despite the fact that earlier, on 16 Jan., Royal Group responded to investors' queries saying that its embryo transfer lab experiment had seen notable progress, and that its buffalo embryo R&B centre in Pakistan and 10,000 head farm in Shangsi County were now completed.

Dairy distributor Pinlive Foods Co., Ltd. (Pinlive Foods, Stock Code: 300892) also issued its forecast for 2023 on 30 Jan.:

- Net loss attributable to equity shareholders of the listed company: -USD9.6 million to -USD12.9 million (-RMB68 million to -RMB92 million) vs. a profit of USD1.6 million (RMB11.2 million) in 2022
- Net loss excl. extraordinary gains/losses: -USD10.8 million to -USD14.1 million (-RMB76.5 million to -RMB100.5 million) vs. a profit of USD49,895 (RMB354,500) in 2022

It explained the loss was due to:

- Slow demand in the market which led to a sharp drop in the company's sales
- Higher purchase prices caused by its suppliers in Europe coming under pressure from the ongoing Russia-Ukraine conflict and high inflation driven by energy and food prices
- The decreasing attractiveness of its core "Weidendorf" UHT milk for consumers who are showing growing health awareness and see UHT as providing shelf-life at the cost of less flavour and nutrients, whilst local UHT milk is abundant and increasingly trusted by consumers (China imported 549,400 tonnes of packaged UHT milk, down by 23.9% in 2023, worth USD558 million, a 16.2% drop, with an average price of USD1,016/t, up 10.1%. The national output of dairy products hit 30,546,000 tonnes in 2023, up 3.1% – whilst the data do not split out different products, it is estimated that the combined output of UHT milk, fresh milk and yoghurt was about 93% of the total, some 28,400,000 tonnes)

To address this challenge to what has been its core business, Pinlive Foods set up its first cheese factory in Shanghai – this started operation at the end of 2023 with an annual production capacity of 4,200 tonnes.

This move may be a step in the right direction, but to navigate a new category that has been growing fast in the recent years will very much depend on how the company is able to differentiate itself and build up its channel network.

a2 Milk Company Posts Strong Growth for H1 FY24

Summary: A2 Milk Company reported strong growth for H1 FY24, with revenue and EBITDA up 16.5% and 21.9% in its China & Other Asia segment.

On 19 Feb., A2 Milk Company posted its results for H1 FY24 (6 months ended 31 December 2023), with strong figures primarily driven by double-digit growth in its China & Other Asia segment:

- Revenue: USD499.5 million (NZD812.1 million), up 3.7% YoY
- EBITDA: USD69.6 million (NZD113.2 million), up 5.0% YoY

China & Other Asia Segment achieved 16.5% growth in sales to USD338.0 million (NZD549.5 million) and 21.9% growth in EBITDA to USD83.6 million (NZD135.9 million):

- China label IMF sales accounted for 36.8% of total segment sales, reaching USD183.9 million (NZD299.0 million), up 10.4%; these were boosted by the successful launch of the upgraded a2 至初®

range which is formulated in line with China's new GB standard, and with this transition being implemented ahead of plan

- Sales to China of English label IMF (through cross-border e-commerce/CBEC, offline-to-online /O2O platforms and "Daigou" channels) marked 19.9% growth to USD129.5 million (NZD210.5 million); the company highlighted that CBEC and O2O platforms in particular performed well
- According to Kantar data, a2's IMF market share in China as of 31 Dec., 2023 was 6.4%, after China Feihe (17.8%), Aptamil (12.9%), Yili (8.2%), and Friso (6.8%). Its China label products and English label products achieved market shares of 4.1% and 20.6% in their respective categories, with shares of 21.4% in the CBEC channel and 20.5% in the combined O2O and Daigou channels

- Sales of other nutritional products (plain and fortified powdered milk products and liquid milk products) were up 58.2% to USD24.6 million (NZD39.9 million), buoyed by new highs in local brand awareness and strong sales in adult formula and UHT milk

Guidance for FY24

Prompted by these positive interim results, a2 Milk Company adjusted its FY24 revenue growth guidance upward from low to low-to-mid single-digit percent growth, while the EBITDA margin is expected to be in line with FY23 data.

In product development, it plans to launch 2 new English label IMF products: a premium IMF (a2 Gentle Gold™) for the Australia, Southeast Asia and China markets in H2 FY24, and an ultra-premium series designed to launch in FY25; in addition, 2 fortified formulae for adults and the elderly ("a2™ Immune" and "a2™ Move") are scheduled for introduction to the market in H2 FY24.

Raw Milk Price

Dairy Discounting Heats Up during the Holiday

Summary: As the Spring Festival holiday this month saw raw milk prices flatlining, companies have increasingly resorted to discounting to boost sales.

This month, China has been celebrating the Spring Festival. The raw milk price remained unchanged in the first two weeks of the month at an average of USD510.9 (RMB3,630) per tonne, down by 10.6% YoY.

Feed market:

- The national price of corn averaged USD368.8/t

(RMB2,620/t), down 0.4% from the first week of the month and down 13.2% YoY; the average in major production regions (Heilongjiang, Jilin and Liaoning) was down 0.8% to USD332.2/t (RMB2,360/t); and the price in the main demand area, Guangdong, fell by 0.7% to USD392.7/t (RMB2,790/t) from the first week

- The national price of soybean meal averaged USD553.1/t (RMB3,930/t), down 1.0% from the first week of the month and down 20.4% YoY

Dairying

Although lower feed prices have reduced some costs, this has taken time to be reflected in the sales numbers, whilst oversupply and falling milk prices continue to haunt many in the industry.

A survey from the National Dairy Industry and Technology System has estimated that 70%+ of dairy producers made a loss in 2023, citing the results for the full year expected by several listed dairying operations:

- China Modern Dairy Holdings Ltd. (Stock Code: 01117.HK): a 66%–72% of drop in profit to USD22.5 million–USD28.1 million (RMB160 million–RMB200 million), with gross margins in raw milk falling by 3 percentage points
- AustAsia Group Ltd. (Stock Code: 02425.HK): a loss of -USD63.3 million to -USD70.4 million (-RMB450 million to -RMB500 million) vs. a profit of USD22.2 million (RMB158 million) in 2022; its selling price for its milk was down by 8.2% YoY due to weak market demand

- Xinjiang Western Animal Husbandry Co., Ltd. (Stock Code: 300106): a loss of -USD7.0 million to -USD9.1 million (-RMB50 million to -RMB65 million), and a net loss after excl. extraordinary gains/losses of -USD10.2 million to -USD12.3 million (-RMB72.5 million to -RMB87.5 million)

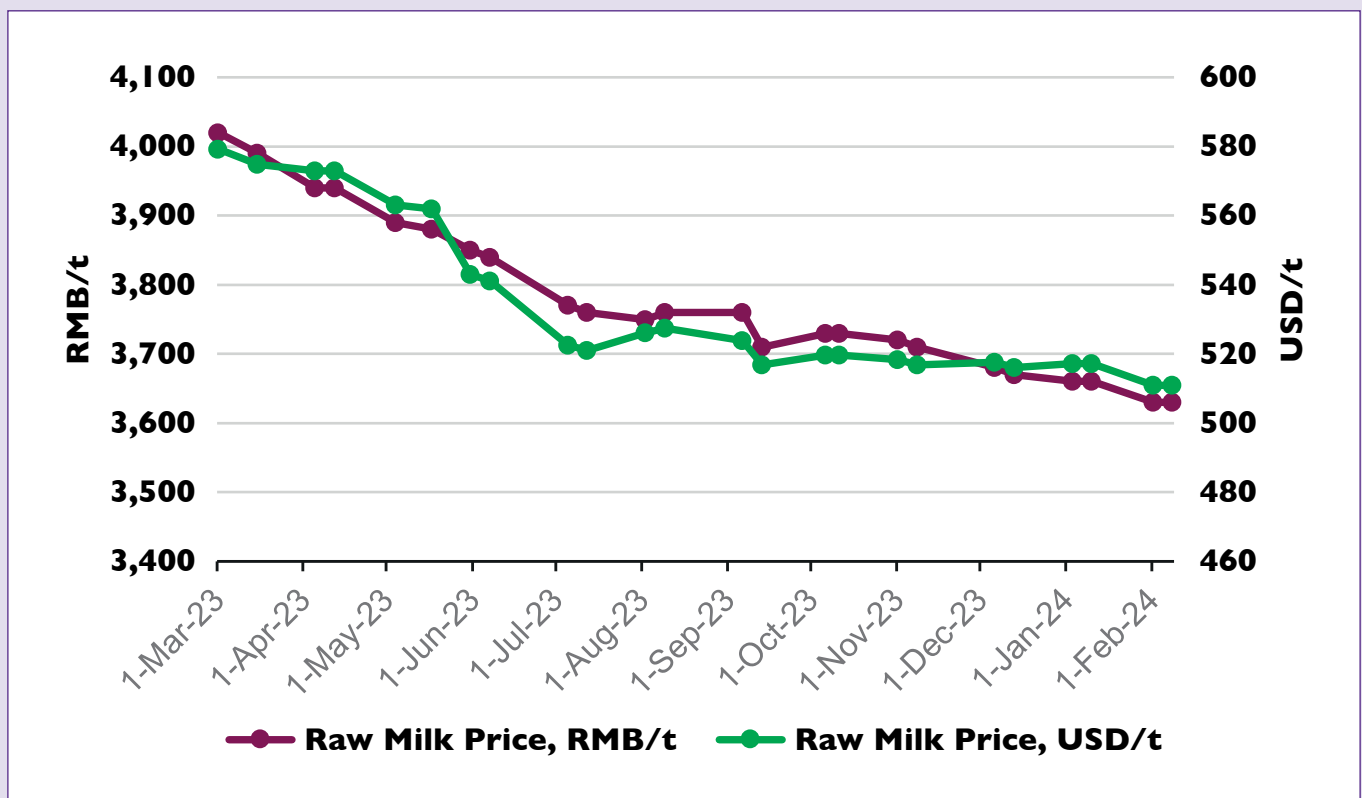
Dairy Consumption

Discount campaigns have become more regular in the dairy market, especially for mid-market and premium ranges. During period before and after the New Year and

Spring Festival, gift sets of these types of liquid dairy products were promoted with 10%–30% discounts for many brands, such as UHT milk and yoghurt from Yili and Mengniu. Firms have been looking to gain margins from their reduced cost and drive sales of premium lines for their overall performance.

Given China's current disparity between supply and demand of raw milk, the trend of price wars on the premium dairy shelves is expected to persist through the year.

FIGURE I: Trends in China's Raw Milk Price, March 2023–Feb. 2024



Source: Ministry of Agriculture and Rural Affairs (MARA)

News in Brief

Dairy Imports in January 2024

Note: the import data for January will be released in March, when we will combine the data for January and February, as in previous years.

China Feihe Ramps Up Whipping Cream Capacity

China Feihe Ltd (China Feihe, Stock Code: HK.06186) has been accelerating its diversification outside the contracting IMF market. Recently its subsidiary Heilongjiang Feihe Dairy Co., Ltd. completed a new line for whipping cream, expected to start up next month.

Project details:

- Construction nature: Expansion
- Investment: USD7.0 million (RMB50.0 million)
- Location: Kedong County, Qiqihar City, Heilongjiang Province
- Construction content: Add a production line in the existing liquid dairy workshop
- Capacity: Whipping cream 1L – 9,000 t/a
- Construction duration: 6 months

At the same site, a 12.6 t/a lactoferrin production project based on an investment of USD11.3 million (RMB80.0 million) is under construction. These 2 projects aim to generate over USD42.2 million (RMB300.0 million) of production value combined.

Separately, but with a similar purpose, last month, China Feihe launched its "FIR MUS Ranch" range of lollies, ice cream and "Nuomici ice cream" (a dessert comprising a ball of ice cream wrapped with glutinous rice flour). The WMP and cream used in these ice products are also used for the company's IMF products. The company says it will roll these out nationwide markets as its capacity builds up.

PICTURE 1: China Feihe's FIR MUS Ranch Ice Products



Source: China Feihe

Adapt A Cow Withdraws IPO Application

On 6 Feb., Shanghai Stock Exchange (SSE) terminated its review of the IPO application from Adopt A Cow Holding Group Co., Ltd (Adopt A Cow). The company later stated that it withdrew voluntarily based on its current position, development strategy and the market environment.

Adopt A Cow's prospectus of July 2022 received feedback from the China Securities Regulatory Commission (CSRC) in Jan. 2023 raising 48 questions about its business model, milk source, production model and sales costs. In the following month the company resubmitted the document without responding to all the questions.

However, it is possible that the termination of the IPO may have only a minor impact on the firm, which has made significant progress to date:

- In Oct. 2022, it started construction of a 15,000-head dairy farm in Shandong Province, starting milking in Jan 2024
- In Sept. 2023, its production site in Hebei Province opened up, with 4 lines providing a total 150,000 t/a capacity for fresh/UHT milk
- By the end of Jan. 2024, its largest dairy farm so far began to operate in Wujiahu, Jilin Province with the first 600+ head; this site is scheduled to ramp up to 25,000 cattle once in full operation.

At present, Adopt A Cow is supplied from 9 dairy farms (either its own or cooperating) across China and 2 processing plants.

The Biggest Dairy Farm in Central China Enters Operation

On 30 Jan., the Yunshang Muge 10,000 Dairy Cattle Smart Industrial Park started operation in Nanzhang County, Hubei Province, after introducing its first dairy batch of 2,000 Holsteins, imported from Australia. It is the biggest dairy farm in Central China to date, operated by Yunshang Muge (Xiangyang) International Agricultural Science and Technology Co., Ltd. (Yunshang Muge).

The construction plan for the park involves 2 phases:

- The 1st phase, based on an investment of USD61.9 million (RMB440 million), has 14 cattle sheds and a milking parlour over an area of 634,192 m²; it is due to receive a 2nd batch of 2,000 Holsteins shortly. Construction of the whole facility and equipment installation, as well as the full herd of 10,000 head (6,500 adult milking cows, 2,500 heifers and 1,000 calves) are due to be complete by this May, providing milking capacity of 58,500 t/a
- The 2nd phase plan involves investing USD70.4 million (RMB500 million) in building a dairy plant to supply milk under contract to Mengniu; this agreement was signed in Jan. 2023, and the construction date and other details remain to be determined

China's First Association Standard for Raw Sheep Milk Open for Comments

On 8 Feb., the Dairy Association of China posted a draft Association Standard for Raw Sheep Milk for public feedback up to 10 March, 2024.

This has been drafted by Northwest Agriculture and Forestry University, Inner Mongolia Leke Biotechnology Co., Ltd., Gansu Yuansheng Agriculture and Animal Husbandry Technology Co., Ltd. (Gansu Yuansheng), and Shanxi Fourteen Sheep Seed Industry Co., Ltd. (Fourteen Sheep).

Gansu Yuansheng, one of the drafters, is one of China's leading sheep breeding businesses. It was established in 2006 and has 2 dairy sheep farms in operation and 1 coming into use by May 2024; the company has around 40,000 head producing 12 t/d of milk at present.

Fourteen Sheep, founded in 2016, operates China's only national-level breeding farm for dairy sheep, and cooperates closely with Northwest Agriculture and Forestry University, with a joint plan to develop indigenous breeds of dairy sheep by 2030.

To date China has no native dairy sheep breeds, so local production of sheep dairy products depends on imported breeds. This standard aims to provide a firmer basis on which to develop this sector.

TABLE 6: Physicochemical Indicators of Raw Sheep Milk

Item	Range
Freezing point*, °C	-0.53 ~ -0.70
Relative density, 20°C/4°C	1.037
Protein, g/100g	≥5.2
Fat, g/100g	≥6.0
Non-fat milk solids, g/100g	≥10.5
Foreign matter, mg/100g	≤4.0
Acidity, °T	16 ~ 22

Source: Draft Association Standard for Raw Sheep Milk

Note: *sample to be taken 3 hours after milking

Auntea Jenny Files for Hong Kong IPO

On 14 Feb., Auntea Jenny (Shanghai) Industrial Co. Ltd. (Auntea Jenny) submitted a listing application to the Hong Kong Exchanges, following ChaPanda, Goodme and MIXUE – 3 other key players in the freshly-made tea drinks market pursuing IPOs in recent years. According to Auntea Jenny, it has 7,297 locations across China as of 30 Sept., 2023, ranking 4th by store number in the sector after those 3 groups (1. MIXUE; 2. Goodme; 3. ChaPanda).

About 49% of Auntea Jenny's stores are located in lower-tier cities. The chain has been focused on product diversification with its menu expanding to include milkshakes, ice cream, coffee drinks, packaged foods like cookies, baked products and chips, alongside with its main lines of milk tea and fruit tea. However, it is much less profitable than its rivals with similar pricing and store numbers (see table below). This makes fundraising critical if it is to continue store expansion and product innovation in order to stay in such a position in this ever-competitive market.

TABLE 7: Recent Revenue and Net Profit Comparison, USD million

Brand	Revenue		Net profit	
	2022	Q1-Q3 2023	2022	Q1-Q3 2023
Auntea Jenny	309.5	356.8	21.0	45.6
Goodme	784.1	784.1	52.4	141.0
ChaPanda	595.6	/	135.8	/

Source: Financial reports

Milkground Food Expects Drop in 2023 Net Profit

Reported on 30 Jan, Milkground Food has indicated that it expects a sharp drop in net profit for 2023, whilst staying in the black:

- Net profit attributable to equity shareholders of the listed company: USD6.8 million–USD10.1 million (RMB48 million–RMB72 million), down by 46.83%–64.55%
- Net profit attributable to equity shareholders of the listed company excl. extraordinary gains/losses: USD675,590–USD985,236 (RMB4.8 million–RMB7.0 million), down 89.54%–92.83%

The company ascribed these declines to:

- Lower overall sales in 2023, due to weak demand
- Higher material costs hurting its gross margins from cheese, due to volatility in trading and exchange rates
- A combination of decreased foreign exchange gains and increased net interest costs vs. 2022, contributing to less net profit attributable to the parent company

It also expects the slowdown in the kids' cheese stick market to persist; it countered this during 2023 by:

- Selling smaller pack in snack chains and to lower-tier markets
- Expand its range of cheese snacks for all age groups with launches of the "Cheese Hours" series and "0-Sucrose Cheese Cube", and of a natural Mascarpone for home cooking

Weigang Dairy to Add 90,000 t/a Fresh Milk Capacity

On 5 Feb., Nanjing Weigang Dairy Co., Ltd. (Weigang Dairy) posted an environmental impact statement for the 2nd-phase construction project in its smart dairy plant in Jiangning District, Nanjing, adding 90,000 t/a fresh milk capacity.

The Nanjing plant currently produces chilled yoghurt (259,200 t/a), UHT milk (32,400 t/a) and fresh milk (32,400 t/a), based on an investment of USD415.2 million (RMB2.9 billion). The 90,000 t/a ramp-up will take 4 months and involves a spend of USD7.0 million (RMB50.0 million).

Founded in 2004, Weigang Dairy mainly focuses on Jiangsu and Anhui provinces and the neighbouring markets. It has 7 plants in Xining (Qinghai Province), Shangluo (Shaanxi Province), Nanjing, Huai'an and Xuzhou (Jiangsu Province) and Rizhao and Jinan (Shandong Province), with 500,000+t/a dairy capacity in total. According to its strategic goals, by 2028 Weigang Dairy should triple its current scale to over 1.5 million t/a production capacity.

12,000 Australian Cattle Arrive

On 31 Jan, Halo Farming (Tianjin) Co., Ltd. and Beijing Zhuoyue Fuming Import & Export Co., Ltd. (Zhuoyue Fuming) imported 12,000 dairy cattle from Australian Rural Exports Pty. Ltd. through Tianjin Port. These included Holsteins heifers and pregnant cows, Angus, Jerseys, Simmental, F1 Wagyu and purebred Wagyu, to be used to improve domestic cattle breeds.

Nowadays, Chinese dairy producers are competing for higher quality breeds, as more dairy farms are being built across the country. Data from the National Bureau of Statistics show that in 2023, China imported 148,000 live cattle, 58% fewer than in 2022 due to a slowdown in new farm construction; from last year's figure, 89,000 were from Australia, down by 32%, representing 60% of the imported total. Regardless of the decreased number, the quality level of the imported breeds has improved: in the case of Zhuoyue Fuming, the proportion of core dairy breeds (Australian Holsteins and purebred Wagyu) increased last year vs. preceding years.

BeFood Launches China's First "Butter Milk"

Shanghai Biru Foods Co., Ltd. (BeFood) has launched China's first "Butter Milk" for use in bakery and in new style tea drinks and coffee.

The product's ingredient list shows cow's milk, light cream, clarified butter, mono- and diglycerides of fatty acids, microcrystalline cellulose, white granulated sugar and salt, with zero hydrogenated vegetable oils, non-dairy creamer or trans-fatty acids. Its fat content is 12%. With added butter and whipping cream to improve the taste and smoothness, it is whippable and ideal for bakery products. It is an alternative to non-dairy creamer as the milk base or cream topping for tea drinks and coffee. Its ambient shelf-life of 90 days makes it

fit for diverse applications and allows significant storage/logistics time.

PICTURE 2: BeFood's New Launch "Butter Milk"



Source: BeFood

BeFood was co-founded in 2014 by a team of experts from the Czech Republic and China, focusing on the production and development of dairy products. Its product portfolio includes "MILBOK" (an eisbock milk, also known as freeze distilled milk, i.e. a condensed milk made by low temperature filtration technology that physically purifies milk by removing part of its water content, an idea deriving from Eisbock, a type of strong beer from Germany), "IT'S MILK" (fresh milk), "SuperMilk" (fresh milk with higher protein level of 4.2g per 100ml, 7% NRV), and "BeYogurt" (sugar-free yoghurt). The company has partnered with many foodservice businesses including local coffee brands like Seesaw Coffee, ENGINE and O.P.S Cafe, and the leading tea drinks chain such as HEYTEA and LELECHA.

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