



## Dragon Gate

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# China Fruits with Huge Growth Potential

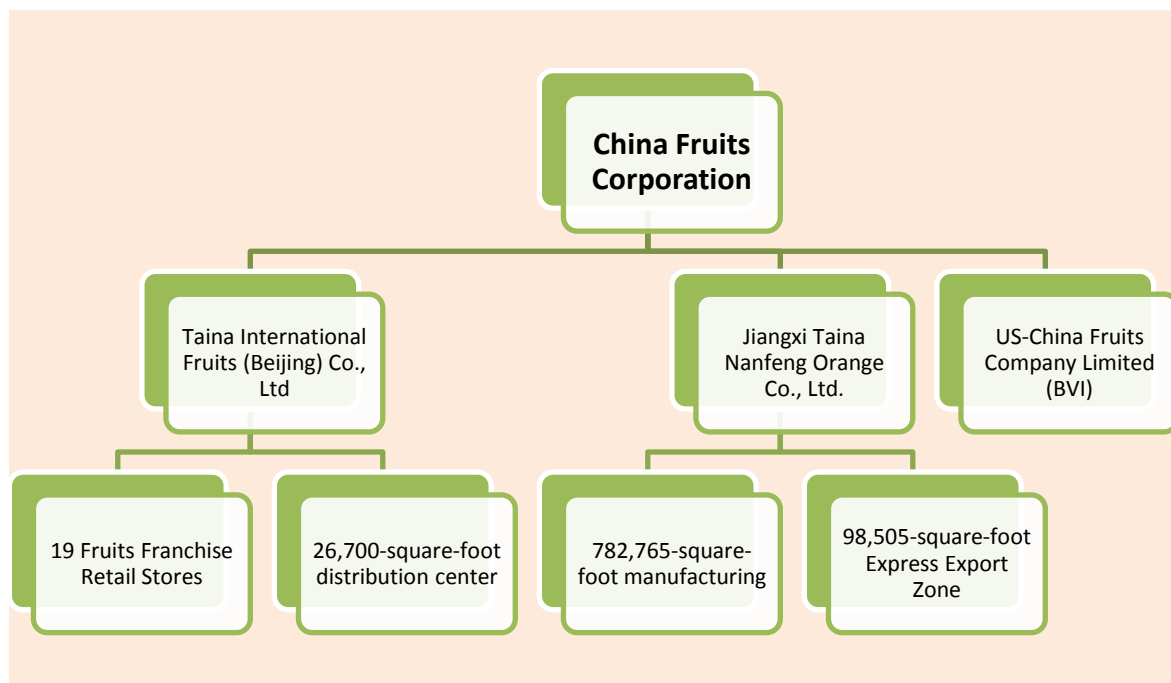
## Summary

- Booming overseas market
- Expanding franchise retail business
- Promising O2O model in the future

## The company

China Fruits Corporation (OTC: CHFR) is a fresh fruit producer, trader and distributor in the People's Republic of China. The Company wholly owns three subsidiaries: Taina International Fruits (Beijing) Co., Ltd., Jiangxi Taina Nanfeng Orange Co., Ltd, and US-China Fruits Company Limited (BVI).

The Company implements modern supply chain management with industry vertical integration. China Fruits has several own and affiliate fruit farms, and is able to deliver fresh fruits to customers with competitive price through this vertically integrated supply chain.





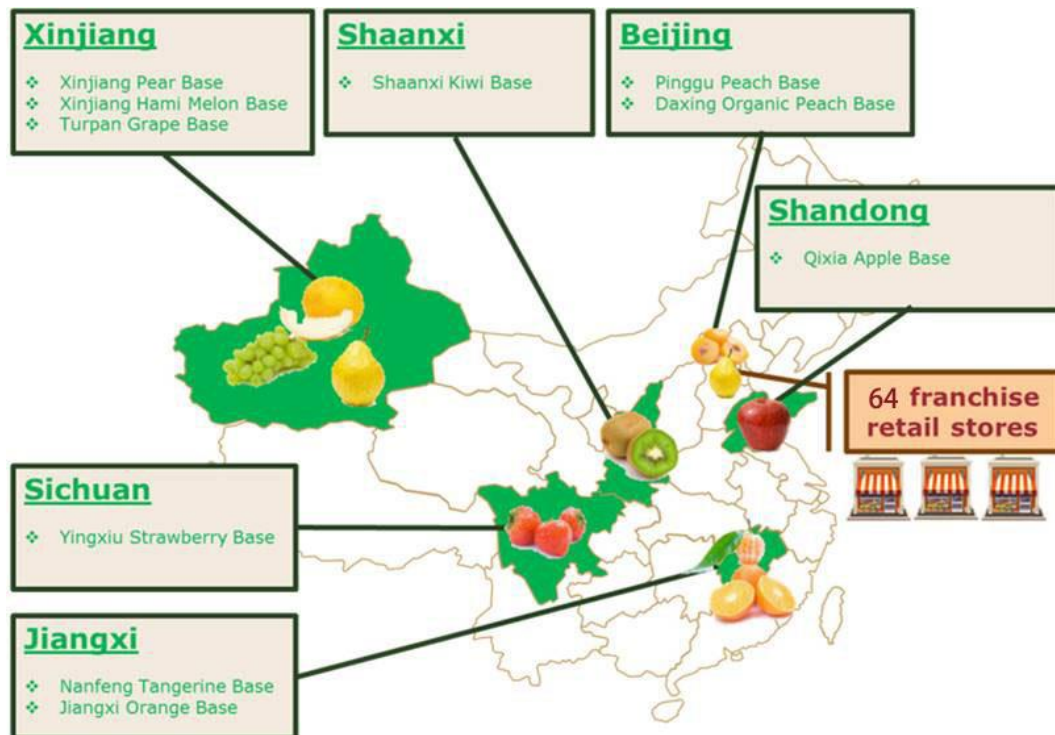
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### Business Geography

China Fruits currently has 10 own or affiliate fruit farm bases in six provinces. And the Company operates and manages 64 franchise retail stores with direct supply from these affiliate fruit farm bases.

Also, China Fruits exports fresh fruits through its Express Export Zone (EEZ) in Jiangxi province and Xinfadi Wholesale Market in Beijing. The major overseas markets are Thailand, Dubai, and Indonesia.



### Growth

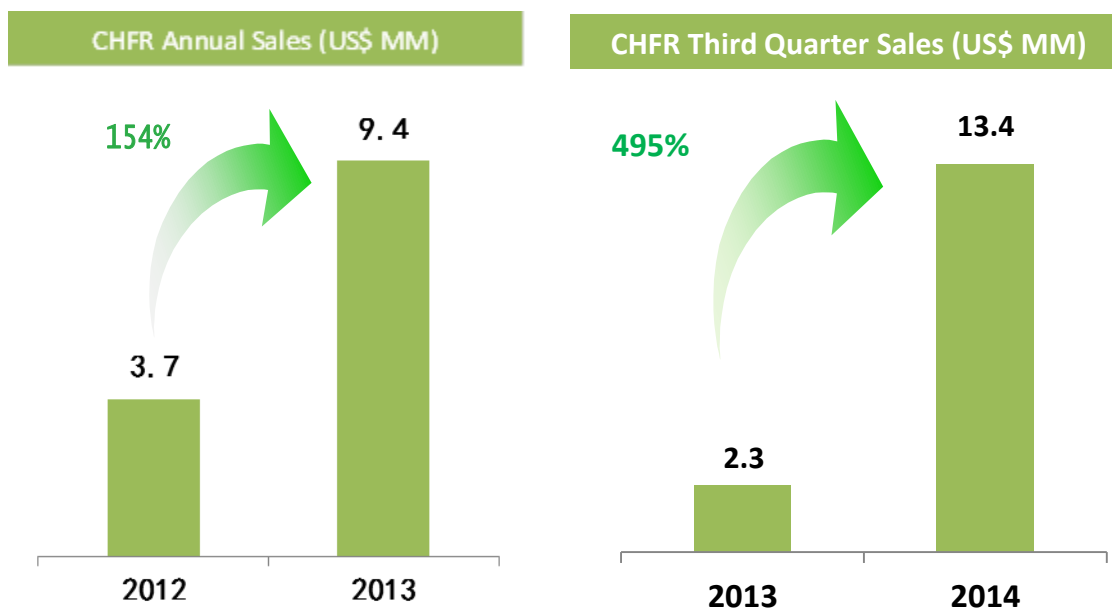
The company experiences a very fast growth during 2013 with a CAGR OVER 150%, attributed by increasing traffic of its franchise retail stores and successful overseas market cultivation. And it



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could be predicted that the Company's sales will continue increasing at a fast growth rate in FY 14, since its sales increased by 495% for the nine months ended on September 30 compared with the same period in 2013.

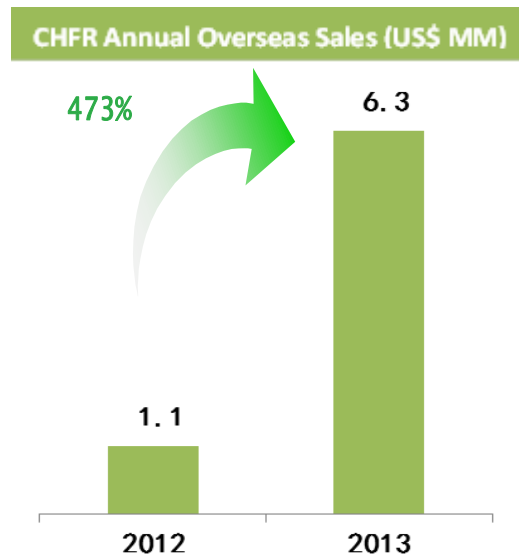


In 2010, the Company began to develop its overseas market, and has achieved great progress. The CAGR over past three years is 139%. The Company achieved explosive growth last year. The annual overseas sales increased by 473%. According to China Fruits 3<sup>rd</sup> quarter 10Q, revenues from overseas market in the 3<sup>rd</sup> quarter of 2014 were approximately \$6.7 million, nearly equaling 50% of total revenues.



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Another potential sales driven point is its fast expanding scale of franchise retail store. Based on financial data in past 10-K, I calculated that the average annual sales of each franchise store is around \$0.4 million. It implies that the revenue from franchise retail stores is going to be about \$24 million based on the company have 64 stores at the end of 2014. (Assuming annual sales per store remains constant and the company opens its stores at a same speed during the whole year.).

In addition, China Fruits began to step into Chinese Fruit E-commerce business. It planned to open flagship store in China's leading B2C platform – Tmall.com. According to AliResearch, in 2014, Chinese agriculture E-commerce market will reach to \$16 billion. Although China Fruits is a new player in that business sector, it has unique comparable advantage, because its expanding franchise store serve as perfect bases for its O2O business.

### Risks

- **Competition**



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China Fruits faces fierce competition with domestic fruit shop chain players and fruit vendors. One of the major competitors is Pagoda, which owns about 700 fruit franchise retail stores in China. In terms of fruit e-commerce business sector, Fruitday.com, a leading fruit e-commerce player, just got an investment from ClearVue Partners.

- **Negative cash flow from operation**

Cash flows from operating activities is negative, implicating the company doesn't show its profitability. The company is still in the fast developing phase, and the management is now strengthening its cost control procedure.

- **OTC risk**

Since China Fruit is now listed in OTC, its stocks are thinly traded. The illiquidity with high price volatility increases investors' risk.

### Conclusion

Despite the fact that China Fruits Corporation has some industry and company specific risk, the company are still worth of paying close attention, as it shows great growth potential. With booming e-commerce business in China, the promising O2O business model in the future could help the company further expand its market share.