

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors” in this document which you should read carefully before you decide to invest in the [REDACTED].

OVERVIEW

We are a food ingredients supplier with a focus on the provision of vegetables and fruits to food service operators in Hong Kong and our factory is located in Shatin, New Territories. Founded in 2005, we have over 10 years of experience in conducting business of food processing and supply of vegetables, fruits and other food ingredients. Our customers approach us for processed food ingredients as it allows our customers to prepare dishes with reduced kitchen staff, thus saving them manpower and time needed in food preparation. We also provide fruits procurement, screening and sorting services. In addition, we also source groceries and specialty food ingredients for our customers upon their requests. We place strong emphasis on quality control, and have implemented stringent quality control procedures which are carried out by our Quality Control Department throughout our processing stage and on all processing lines. During the Track Record Period, we supply food ingredients to over 700 customer outlets and we offer more than 1,300 types of food ingredients to our customers.

The table below sets forth our sales by customer types for the Track Record Period:

	Year ended 31 March 2015		Year ended 31 March 2016	
	HK\$'000	%	HK\$'000	%
Restaurants	118,467	77.8	129,748	78.1
Schools	10,860	7.1	11,554	7.0
Bakery and coffee shops	5,879	3.8	6,731	4.0
Hospitals	1,790	1.2	1,510	0.9
Hotels	1,326	0.9	1,509	0.9
Other catering service providers <i>(note)</i>	13,964	9.2	15,178	9.1
Total	<u>152,286</u>	<u>100.0</u>	<u>166,230</u>	<u>100.0</u>

Note: Other catering service providers mainly include food factories of the food service operators.

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The table below sets out our revenue and sales volume by product category for the Track Record Period:

Product type	Year ended 31 March 2015				Year ended 31 March 2016			
	Revenue <i>HK\$'000</i>	Percentage of total sales	Sales volume <i>tonne</i>	Average selling price <i>HK\$ per kg</i>	Revenue <i>HK\$'000</i>	Percentage of total sales	Sales volume <i>tonne</i>	Average selling price <i>HK\$ per kg</i>
		%				%		
Vegetables	126,843	83.3	9,593	13.2	139,610	84.0	9,832	14.2
Fruits	19,509	12.8	1,056	18.5	20,315	12.2	1,009	20.1
Other food ingredients (<i>note</i>)	5,934	3.9	N/A	N/A	6,305	3.8	N/A	N/A
Total	152,286	100.0			166,230	100.0		

Note: Other food ingredients comprise eggs, flour products, dried foods and other groceries.

FOOD PROCESSING

We provide our customers with extensive processing services to customise food ingredients in accordance with their technical specifications. As at the Latest Practicable Date, we have 25 staff responsible for food processing procedures. The specifications given by our customers vary in different food ingredients. Please refer to the section headed “Business – Processing” in this Document for further details.

OUR CUSTOMERS

The revenue of our Group for the two years ended 31 March 2015 and 2016 amounted to approximately HK\$152,286,000 and HK\$166,230,000, respectively and our Group offered food ingredients to approximately 708 and 724 customer outlets, respectively. The five largest customers of our Group in aggregate accounted for approximately 38.7% and 40.0% of our total revenue, respectively and our largest customer accounted for approximately 12.5% and 12.5% of our total revenue, respectively.

PROCUREMENT OF FOOD INGREDIENTS

For the years ended 31 March 2015 and 2016, we procured from 77 and 90 suppliers, respectively.

The table below sets out the background information of the top five suppliers and their respective percentages of purchases of our Group during the Track Record Period:

For the year ended 31 March 2015

Rank	Name of supplier	Principal business	Location	Percentage of our Group's total purchase %
1	Supplier A	Wholesaler of vegetables	Shenzhen City, Guangdong Province, the PRC	54.4
2	Supplier B	Wholesaler of vegetables and fruits	Hong Kong	7.1
3	Supplier C	Wholesaler of vegetables and fruits	Hong Kong	4.9
4	Supplier D	Wholesaler of fruits	Hong Kong	4.1

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Rank	Name of supplier	Principal business	Location	Percentage of our Group's total purchase %
5	Supplier E	Wholesaler of lemons and eggs	Hong Kong	4.0
				<u>74.5</u>

For the year ended 31 March 2016

Rank	Name of supplier	Principal business	Location	Percentage of our Group's total purchase %
1	Supplier A	Wholesaler of vegetables	Shenzhen City, Guangdong Province, the PRC	56.6
2	Supplier B	Wholesaler of vegetables and fruits	Hong Kong	7.1
3	Supplier C	Wholesaler of vegetables and fruits	Hong Kong	3.6
4	Supplier F	Wholesaler of bean products	Hong Kong	3.5
5	Supplier E	Wholesaler of lemons and eggs	Hong Kong	3.2
				<u>74.0</u>

PROCESSING CAPACITY AND UTILISATION RATE

The aggregate processing capacity and the utilisation rate of our processing factory during the Track Record Period are set out below:

	For the year ended 31 March 2015			For the year ended 31 March 2016		
	Estimated annual processing capacity (tonne)	Processing Volume (tonne)	Utilisation rate	Estimated annual processing capacity (tonne)	Processing volume (tonne)	Utilisation rate
Vegetables						
– Leafy vegetables	3,810	3,547	93.1%	3,821	3,616	94.6%
– Melon and fruit type vegetables	2,496	2,144	85.9%	2,503	2,188	87.4%
– Root and rhizome type vegetables	2,628	2,508	95.4%	2,635	2,528	95.9%
– Herbs, spices, mushrooms and others	1,577	1,393	88.3%	1,581	1,500	94.9%

COMPETITIVE STRENGTHS

We believe that the following competitive strengths allow us to achieve sustainable growth of our business:

- We offer a wide variety of food ingredients to our customers
- We have a well established network of suppliers

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- We have established and maintained a solid customer base
- We have strong and experienced management personnel

BUSINESS STRATEGIES

- Increase transportation capacity by expanding our vehicle fleet
- Increase marketing efforts and enhance sales channels
- Expand processing capacity and upgrade processing facilities
- Strengthen staff recruitment and training

RECENT DEVELOPMENTS

On 1 June 2016, we entered into a legally binding distribution agreement with Aqua Green, for the supply of hydroponically grown vegetables and we are able to provide hydroponically grown vegetables from June 2016 onward. Hydroponically grown vegetables are pesticide free agricultural produce. Having considered the current market price and demand of hydroponically grown vegetables, the Directors are of the view that the supply hydroponically grown vegetables are subject to higher margin than typical processed vegetables and fruits, and the cooperation with Aqua Green would have a positive effect on the Group's gross margin. Set out below are the material terms of the distribution agreement for the hydroponically grown vegetables:

Duration of agreement:

- three years;
- renew upon expired unless any disagreement raised by either or both parties;

Distribution price

- we have the right to negotiate with our clients;

Exclusive distribution right

- we are the exclusive distributor for the hydroponically grown vegetables;

Quantity

- no specific requirement;

Quality

- in accordance with the relevant regulatory standards;
- we have the right to request refund for any defective or substandard hydroponically grown vegetables.

Credit period

- 60 days

In addition, on 9 September 2016, we entered into a non legally-binding memorandum of understanding with Aqua Green in relation to provision of processing and logistical arrangement to the customers identified by the supplier in Hong Kong. Set out below are the material terms of the memorandum of understanding:

Principles of Cooperation

- Aqua Green intends to supply hydroponically grown vegetables to our Group, who will in turn process and deliver the produce to the customers identified by Aqua Green in Hong Kong from time to time;

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- the parties will enter into a specific legally binding agreement (the “Supply Agreement”) pursuant to the memorandum of understanding as soon as practicable and in any event by no later than April 2017, or such later date as the parties may otherwise agree and detailed terms and conditions of the aforesaid arrangements are to be set out in the Supply Agreement to be entered into;

Quantity

- approximately 36,000 kg of hydroponically grown vegetables per month to the extent feasible to our Group, who will in turn process and deliver the produce to the customers identified by Aqua Green in Hong Kong in such manner to be stipulated in the Supply Agreement;

Pricing

- prices will be determined on a basis through mutual negotiations between the parties with reference to prevailing market price and subject to the terms and conditions of the Supply Agreement;

Other detailed terms of transactions

- subject to the terms and conditions of the Supply Agreement.

As at the Latest Practicable Date, we have received non-legally binding written confirmations from 1957 Group, an Asian restaurant group and Dragon King Holdings Limited, a Chinese restaurant group, in relation to expand our existing supply scope of processed vegetables and fruits to more of their existing or new outlets. For instance, Dragon King Holdings Limited intends to purchase approximately HK\$128,000 worth of processed vegetables and fruits per month from our Group for each of the 7 restaurants it operates in Hong Kong. We are also under the negotiations with several existing customers and potential new customers, including chain restaurant groups, dining groups and catering groups, expressing intentions for inviting us to expand our existing supply scope or supply processed vegetables and fruit. In addition, we are negotiating with a Japanese food ingredients supplier in relation to process their vegetables and fruits from Japan to customers such as local supermarket chains.

Although we are under negotiations with several potential customers, our Group has not entered into any formal or legally binding agreements with most of our potential customers, including Dragon King Group and 1957 Group, in relation to the new business opportunities due to the limitation on existing processing capacity. There is no assurance that we will be able to successfully secure these new business opportunities upon the completion of our new processing base. Any failure in securing sufficient new orders could have adverse effect on our business, financial condition and results of operations.

Our Directors observed and noted that the market in which our Group operates remained stable after 31 March 2016 as reflected by the confirmed stable operation of our Group during the period from 1 April 2016 to the Latest Practicable Date. According to our unaudited management accounts for the four months ended 31 July 2016, our sales have shown an increase of 7.5% when compared to the relevant period in 2015. Our Directors have confirmed that, subsequent to 31 March 2016 and up to the Latest Practicable Date, there had been no material adverse change in our pricing strategies or mark-up under our cost-plus business model.

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PURCHASES OF VEGETABLES AND FRUITS BY FOOD SERVICE OPERATORS IN HONG KONG

The vegetables and fruits supply services industry is especially fragmented in Hong Kong, with an estimated more than 530 companies involved in the vegetables and fruits supply services industry in 2015. More than 90% of these suppliers are small companies operating with fewer than 10 employees. According to trade sources, given the highly fragmented nature of the industry, it is estimated that the top five companies in the vegetables and fruits supply services industry would hold a combined 10% to 15% value share of the market. Based on Euromonitor’s market estimate, our Group occupied an estimated 5% of the market in terms of revenue in 2015.

According to the Euromonitor Report, growth in the purchases of vegetables and fruits by food service operators in Hong Kong is expected to slow to a CAGR of 3% in value terms over the forecast period. This is due to the persistent slowdown in global economic growth and the resulting repercussions in Hong Kong’s highly interconnected economy, with GDP growth dipping below 1% in the first quarter of 2016. Please refer to the section headed “Industry Overview” in this Document for the further details on the vegetables and fruits supply services industry in Hong Kong.

For the details of our risk relating to the changes in general economic conditions, please refer to the section headed “Risk Factors – Risks relating to our industry – our group is susceptible to changes in general economic conditions” in this document.

[REDACTED]

Our Group’s financial performance for the year ending 31 March 2017 will be affected by the non-recurring expenses incurred in relation to the [REDACTED]. The [REDACTED] to be borne by our Group are estimated to be approximately [REDACTED] (assuming a [REDACTED] of [REDACTED], being the midpoint of the indicative [REDACTED] range of [REDACTED] to [REDACTED] per [REDACTED]), of which (i) approximately [REDACTED] is directly attributable to the issue of [REDACTED] which is to be accounted for as a deduction from equity; (ii) approximately [REDACTED] has been charged to profit or loss of our Group for the year ended 31 March 2016; and approximately [REDACTED] is expected to be charged to profit or loss of our Group for the year ending 31 March 2017. Such cost is a current estimate and for reference only. The final amount to be recognised to the profit or loss of our Group or to be capitalised is subject to adjustment based on audit and the changes in variables and assumptions.

MATERIAL ADVERSE CHANGE

The impact of the [REDACTED] on the profit or loss accounts has posted a material adverse change in the financial or trading position or prospect of our Group since 31 March 2016 (being the date of the latest audited combined financial statements were made up). Our Directors consider that our Group’s financial performance for the year ending 31 March 2017 would be significantly adversely affected by the recognition of [REDACTED]. In addition, our Group intends to acquire additional premises and equipment for establishment of a new processing base in early 2017. Accordingly, there will be an expected increase in depreciation expenses and other operational expenses for the year ending 31 March 2017. The final amount of these expenses to be recognised to the profit or loss of our Group is subject to adjustment based on audit and the changes in variables and assumptions. As a result of these expenses, our Group’s net profit for the year ending 31 March 2017 may decline as compared with the prior financial year. Prospective investors should be aware of the impact of the [REDACTED] on the financial performance of our Group for the year ending 31 March 2017.

Save as disclosed above, our Directors have confirmed that, up to the date of this document, there had been no material adverse change in the financial or trading positions or prospect of our Company or its subsidiaries since 31 March 2016 (being the date of which

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our Group’s latest audited combined financial statements were made up as set out in the Accountant’s Report in Appendix I to this document) and there had been no event since 31 March 2016 which would materially affect the information shown in the Accountant’s Report in Appendix I to this document.

RISK FACTORS

There are risks associated with any investment. Some of the relatively material risks relating to our Group include:

- Our business and reputation may be affected by product tampering, food safety issues, food-borne illnesses, health threats, product liability claims, litigation, complains, and adverse publicity
- We rely on independent suppliers for our packaging materials and any safety issues with these packaging materials could adversely affect our reputation, business operations and financial performance
- Increases in the cost of food ingredients may materially affect our business operations
- The products we sell are perishable and fragile
- Our Group has a history of net current liabilities during the Track Record Period

A detailed discussion of the risk factors is set forth in the section headed “Risk Factors” in this document, and investors should read the entire section before deciding to invest in the [REDACTED].

NON-COMPLIANCE

During the Track Record Period and as at the Latest Practicable Date, we had no material non-compliance of applicable laws and regulations in Hong Kong that would affect our Group’s operation and financial position.

SELECTED COMBINED STATEMENTS OF COMPREHENSIVE INCOME AND COMBINED STATEMENTS OF FINANCIAL POSITION ITEMS

	Year ended 31 March	
	2015	2016
	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue	152,286	166,230
Gross profit	20,404	25,765
Profit and total comprehensive income for the year attributable to owner of our Company	8,753	11,073
	As at 31 March	
	2015	2016
	<i>HK\$’000</i>	<i>HK\$’000</i>
Current assets	48,939	54,787
Current liabilities	56,496	50,444
Total assets	67,371	72,687
Total liabilities	57,151	51,294
Net current (liabilities)/assets	(7,557)	4,343
Net assets	10,220	21,393

We recorded a net current liabilities position as at 31 March 2015, primarily due to the large amount of capital expenditure invested in the setting up of our existing processing base in Shatin as reported under our non-current assets was funded by bank borrowings with a

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repayment on demand clause which were reported under our current liabilities. As at 31 March 2016, our Group reported a net current assets position and such improvement was mainly attributable to the earnings generated from our business operation.

SELECTED COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 March	
	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities before working capital changes	<u>12,455</u>	<u>15,591</u>
Net cash generated from operating activities	11,002	3,486
Net cash used in investing activities	(7,673)	(8,146)
Net cash generated from/(used in) financing activities	<u>8,055</u>	<u>(2,915)</u>
Net increase/(decrease) in cash and cash equivalents	11,384	(7,575)
Cash and cash equivalents at beginning of the year	<u>5,670</u>	<u>17,054</u>
Cash and cash equivalents at end of the year	<u>17,054</u>	<u>9,479</u>

The decrease in cash flow from operating activities for the year ended 31 March 2016, as compared to that in the prior year, was mainly attributable to (i) the portion of [REDACTED] charged to profit or loss of our Group for the year ended 31 March 2016 of approximately HK\$2,481,000; and (ii) the increase in trade receivables due to the strong fourth quarter sales for the year ended 31 March 2016 and decrease in trade payables due to an early installment payment made in relation to purchases from our largest supplier in March 2016. Please refer to the section headed “Financial Information” in this document for details.

SUMMARY OF FINANCIAL RATIOS

	Year ended or as at	
	31 March	
	2015	2016
Profitability ratios		
Return on assets	13.0%	15.2%
Return on equity	85.6%	51.8%
Liquidity ratios		
Current ratio	0.9	1.1
Quick ratio	0.9	1.1
Capital adequacy ratios		
Gearing ratio (<i>note</i>)	205.2%	89.0%
Interest coverage	28.0	24.4

Note:

Gearing ratio is calculated based on the total debt at the end of the period divided by total equity at the end of the respective period. Total debt represents bank and other borrowings, and amounts due to related parties not incurred in the ordinary course of business.

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DIVIDEND AND DISTRIBUTION RESERVES

Our Company does not have any predetermined dividend payout ratio. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend on the future operations and earnings, capital requirements and surplus, general financial condition and other factors that our Directors deem relevant. Investors should note that historical dividend distributions are not indicative of our Company’s future dividend distribution policy. On 12 May 2016, C.Y. Food declared a dividend in the sum of HK\$17,000,000 to Mr. Liu, the only existing shareholder at that time. The dividend will be settled by way of offsetting the amount due from Mr. Liu of approximately HK\$15,965,000, and with the remaining balance of approximately HK\$1,035,000 to be settled by cash before [REDACTED].

SHAREHOLDER INFORMATION

Immediately following the completion of the [REDACTED], Mr. Liu and Classic Line, which is beneficially and wholly-owned by Mr. Liu, will hold [REDACTED] Shares (representing [REDACTED]% of the enlarged issued share capital of our Company) and they are our Controlling Shareholders.

REASONS FOR THE [REDACTED]

Despite the considerable expenses for the [REDACTED], our Directors decide to proceed with this form of equity financing for the purpose of our business expansion instead of the debt financing because our Directors are in the views that to maintain low level of borrowings would benefit to our Group and Shareholders as a whole. Given that the uncertain interest rate movement going forward (which may expose to increasing borrowing costs in the future via debt financing), our Directors believe that our Group’s financial performance and liquidity may be negatively affected due to the principal and interest payments, if we proceed with debt financing to fund our business expansion.

According to Euromonitor Report, the overall vegetables and fruits supply services industry is comparatively fragmented in Hong Kong with more than five hundreds of vegetables and fruits supply service providers. Our Directors believe that the [REDACTED] will allow us to stand out from other suppliers, and can further enhance the profile and recognition of our Group and products and hence further strengthen our existing and potential suppliers’ and customers’ confidence in us, enable us to attract and retain quality personnel in this competitive market, and enhance our internal corporate governance. In addition, the [REDACTED] and the [REDACTED] could enhance our capital base and provide our Company with additional avenues to raise capital to strengthen our financial position and enable us to implement our business objectives set out in this section. Furthermore, a public [REDACTED] status on GEM will allow us to access to capital market for future corporate finance exercises, which will assist in our future business development and strengthen our competitiveness.

[REDACTED]

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[REDACTED]

[REDACTED]

Based on the [REDACTED] of [REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range of [REDACTED] to [REDACTED] per [REDACTED], we will receive [REDACTED] of [REDACTED]. All expenses (including underwriting fees) in connection with the [REDACTED] to our Group are estimated to be approximately [REDACTED]. Consequently, we should receive [REDACTED], after deducting all related expenses (including underwriting fees), of approximately [REDACTED] from the [REDACTED]. Our Directors intend to apply such [REDACTED] as follows:

	Total <i>(HK\$'000)</i>	Approximate percentage <i>(%)</i>
Acquisition of new processing base, facilities and equipment	[REDACTED]	[REDACTED]
Further strengthening our manpower	[REDACTED]	[REDACTED]
Expansion of logistic team	[REDACTED]	[REDACTED]
Enhancement of sales channels	[REDACTED]	[REDACTED]
General working capital	[REDACTED]	[REDACTED]
	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Please refer to the section headed “Business Objectives and Future Plans” in this document for details.