

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 管理層討論及分析

### BUSINESS REVIEW

With a sustaining growth in the global demand for products from the PRC, the demand of corrugated paper-ware packaging exhibited a corresponding rise. Meanwhile, the Group's GongMing processing plant in Shenzhen, Guangdong installed a corrugated paper board production line in the second half of the year under review. This enabled the Group to record a rise in its turnover and output of approximately 3.6% and 5.8% respectively despite a difficult business environment of escalating raw materials price and interest rate.

With the operation of its wholly-owned foreign enterprise in Dongguan, Guangdong, since March 2004, the Group began developing the domestic corrugated paper-ware market of the PRC. This also fulfilled our international customers' needs in entering or expanding the PRC market. The Group thus established a more long term and stable business relationship with its customers. Together with its effective sales strategy, the Group's market share in the PRC market was expanded, resulting in an increase in its 2005 domestic sales.

In order to provide high-quality and high value-added products and quality on-time services to its customers, the Group makes continuous effort to improve the production process, strengthen the computerized production procedure, and acquires advanced corrugated carton box production facilities. To achieve economy of scale and maximize production efficiency, the Group allocates different types of products to different factories for production, which enables different types of production lines and facilities to attain their highest effectiveness. On the other hand, since the production process of corrugated paper boards is shorter and simpler than that of corrugated carton boxes, the proportion of corrugated paper boards and carton boxes produced by the Group in 2005 remained at approximately 2:1, which enabled the utilisation of production facilities to reach approximately 85%.

### 業務回顧

隨著全球市場對中國出口產品需求持續上升，使包裝瓦楞紙之需求相對增加。加上於回顧期之下半年，本集團在廣東省深圳市之公明加工廠增設了一條瓦楞紙板生產線，使本集團於原材料價格及利息持續上揚之困難營商環境下，其營業額仍可錄得約3.6%增長，生產量亦上升約5.8%。

自二零零四年三月起，本集團透過其在廣東省東莞市的全資外資企業，開始發展中國本土瓦楞紙包裝市場，同時亦滿足了其國際性客戶開拓或擴大中國市場之需求，更因此與客戶建立了更長遠更穩健的業務關係。此外，再加上有效之銷售策略，集團之中國市場佔有率得以擴大，令其內銷營業額於二零零五年有所增長。

為了提供高質量高增值之產品與及優質準時的服務予客戶，本集團不斷積極改善生產流程，強化電腦化生產程序，添置先進高效之瓦楞紙箱生產設施。為使規模效益及生產效率達致最高水平，本集團將不同類型的產品分流到不同廠房進行生產，使不同類型之生產線及設施均可發揮其最佳效能。另一方面，由於瓦楞紙板之製造流程較瓦楞紙箱快捷及簡單，集團於二零零五年製造瓦楞紙板與瓦楞紙箱之比例維持在約2:1，令生產設備使用率最終可高達約85%。

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### FINANCIAL REVIEW

#### *Operating results*

In 2005, turnover of the Group increased approximately 3.6% to HK\$788,555,000 (2004: HK\$760,981,000). The increase was mainly attributable to the new equipment acquired in 2004 which was put into full operation in 2005, and commencement of operation of other new equipment in the second half of 2005. Increase in cost of sales was due to an increase in turnover, while various factors such as the appreciation of Renminbi, the rise of crude oil and raw material prices also exerted pressure on cost of sales. Hence gross profit margin slightly decreased from 19.8% in 2004 to 19.5%.

The continuous rising crude oil price in 2005 resulted in an increase in transportation cost. Nevertheless, as the Group has adopted stringent cost control and internal control measures, distribution costs were maintained at the level of 2004. Administrative expenses increased approximately 7.2% to HK\$37,724,000. The increase in administrative expenses was the result of treating share options as an expense following the adoption of new accounting standards.

Other expenses increased approximately 47.8% from 2004 to HK\$18,601,000. It is mainly due to an increase in depreciation charges for renovation and decoration of new and existing plant, warehouse, employees' dormitories and increase in professional expenses in 2005. As the Group funded the construction and decoration of the new plant of Green Forest (QingXin) Paper Industrial Limited ("Green Forest") by bank loans, finance costs increased by approximately 216.6% to HK\$5,924,000.

The net profit margin of the Group in 2005 was 8.8%. Earnings per share increased to 19 HK cents (2004: 18.3 HK cents). The Directors proposed a final dividend of 4.17 HK cents per share (2004: 4.22 HK cents).

### 財務回顧

#### *經營業績*

本集團於二零零五年之營業額增長約3.6%至788,555,000港元(二零零四年: 760,981,000港元)，此增長之主因是二零零四年之新增設備在二零零五年已全面運作，及二零零五年之下半年亦有新設備投入運作。銷售成本除了因營業額上升而增加外，人民幣升值、原油價格及原材料成本上升等因素對銷售成本亦構成少許壓力，因此毛利率則較二零零四年的19.8%輕微調低至19.5%。

二零零五年之原油價格持續上升令運輸成本增加，但由於集團一直採取嚴謹的成本控制及內部監控措施，分銷成本得以維持在二零零四年之水平。行政開支增加了約7.2%至37,724,000港元，行政開支增加主要是因採納了新會計準則而將購股權列為開支處理所致。

其他開支比二零零四年增加了約47.8%至18,601,000港元，其主要成因是於二零零五年裝修新舊廠房倉庫宿舍之折舊以及專業費用之增加。由於集團用於興建森葉(清新)紙業有限公司(「森葉紙業」)新廠房及裝修之資金來源是銀行貸款，因此財務成本增加了約216.6%至5,924,000港元。

本集團於二零零五年之純利率為8.8%。每股基本盈利增加至19港仙(二零零四年: 18.3港仙)。董事建議派付末期股息每股4.17港仙(二零零四年: 4.22港仙)。

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 管理層討論及分析

### FINANCIAL REVIEW (Continued)

#### Liquidity, financial and capital resources

Bank balances and cash increased to HK\$156 million (2004: HK\$133.4 million), representing cash inflow of HK\$22.6 million. Net current assets and current ratio (current assets divided by current liabilities) was HK\$135.5 million (2004: HK\$139.6 million) and 1.66 (2004: 1.92) respectively.

During 2005, the Group spent HK\$21.1 million (2004: HK\$9.2 million) on dividend payment. The Group further spent HK\$112 million for new factory construction and facilities of Green Forest for upstream corrugating medium production, and HK\$34 million for new production facilities in existing factories for expansion. The acquisition of property, plant and equipments was wholly financed by the term loans newly raised from banks.

As at 31st December, 2005, the Group did not pledge any assets as security for bank borrowings. The Group's total bank borrowings increased by HK\$135.7 million to HK\$221.9 million. It was attributable to the rise in long-term borrowings of HK\$82.7 million and short-term borrowings of HK\$53 million, mainly for financing acquisition of property, plant and equipments. The ratio of long-term borrowings to short-term borrowings was 53:47(2004: 41:59). The net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) was 19% (2004: -17%, represented net cash position of HK\$47.3 million).

The Group has entered into agreements of interest rate swaps (covering 60% of total term loans) to minimize the adverse effect of increasing interest rates. The Group's financial position remains strong and healthy.

#### Contingent liabilities

A tax audit has been conducted by the Inland Revenue Department in December, 2004. The Inland Revenue Department issued protective assessments for the year of assessment 1999/2000 to certain subsidiaries of the Group during the year. As the tax audit is still in progress, in the opinion of the Directors, the outcome and impact of this matter cannot be determined with reasonable certainty at this stage.

### 財務回顧 (續)

#### 流動資金、財務及資本資源

銀行結餘及現金增加至156,000,000港元(二零零四年: 133,400,000港元), 相當於現金流入22,600,000港元。流動資產淨值及流動比率(流動資產除以流動負債)分別為135,500,000港元(二零零四年: 139,600,000港元)及1.66(二零零四年: 1.92)。

於二零零五年, 本集團派付股息21,100,000港元(二零零四年: 9,200,000港元)。本集團就興建上游瓦楞芯紙生產之森葉紙業新廠房及設施及為擴建現有廠房而興建新生產設施, 分別進一步支出112,000,000港元及34,000,000港元。收購物業、廠房及設備之資金乃全部由新造之銀行有期貨款撥資。

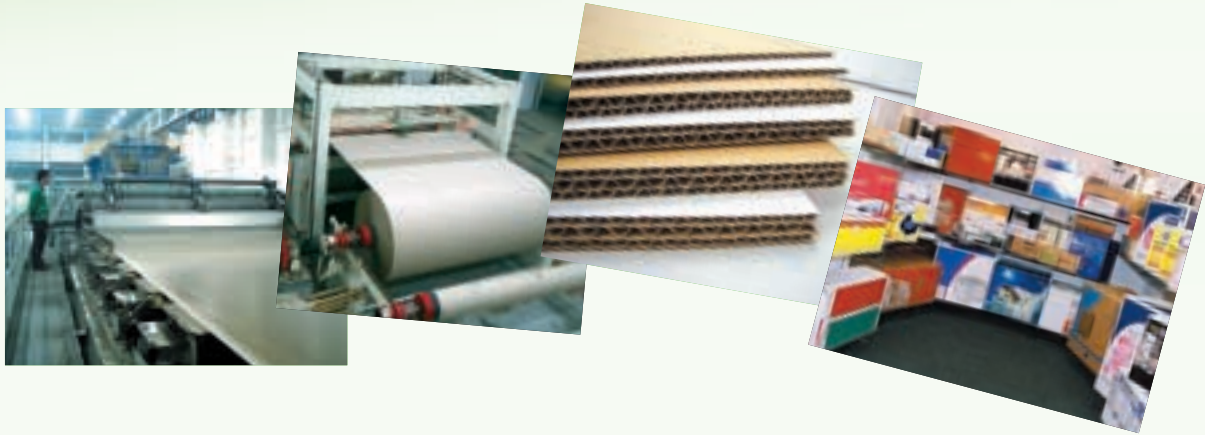
於二零零五年十二月三十一日, 本集團並無將任何資產抵押作銀行借貸之抵押品。本集團之總借貸增加135,700,000港元至221,900,000港元。增加是由於主要為收購物業、廠房及設備而融資之長期借貸增加82,700,000港元及短期借貸增加53,000,000港元所致。長期借貸對短期借貸之比率為53:47(二零零四年: 41:59)。淨資本負債比率(按總銀行借貸減現金除以股東應佔權益計算)為19%(二零零四年: -17%, 即淨現金狀況為47,300,000港元)。

本集團已訂立利率掉期協議(覆蓋有期貨款總額之60%), 以盡量減低利率上升之不利影響。本集團之財務狀況保持穩健。

#### 或然負債

稅務局於二零零四年十二月進行了稅務稽查。年內稅務局就截至一九九九年至二零零零年之課稅年度向本集團若干附屬公司發出評估保護。由於仍在進行稅務稽查程序, 董事認為現階段未能合理確定此事宜之結果及影響。

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### PROSPECTS

Looking ahead, the PRC's economy will continue to grow and the PRC remains as the world's industrial production base. With sustained growth in the corrugated paper-ware packaging market, the Group aims at increasing its market share, and ensures a stable growth through formulating long term and effective marketing policies. The Group will continue in acquiring new technology and equipment to enhance the production process in various aspects and increase its competitiveness, through which the Group will be well prepared to grasp the business opportunity arising in the PRC and abroad.

To achieve a vertical integration of our operation model, the Group has planned at an early stage to produce one of the main raw materials for corrugated paper boards and carton boxes – corrugating medium, and we have already established our first corrugating medium production plant, Green Forest. The plant was constructed in Taihe Industrial District, Qingxin County, Qingyuan City, Guangdong Province and commenced commercial production in February, 2006. It occupies a site area of about 700,000 sq. m. and its main product is high performance corrugating medium. With an annual production capacity of 100,000 tonnes, it will satisfy up to 30-40% of the Group's demand for raw materials.

In addition, the Group has also planned to construct (1) a new production line for another main raw material – kraft linerboard and (2) the Group's fourth plant for corrugated paper boards and carton boxes at the Green Forest site. The plant for kraft linerboard was founded in March, 2006 and is expected to be completed by the end of 2007. The completion of this production line will further reduce the Group's reliance on imported raw materials and would lower production cost and enhance product quality. The Group's fourth plant for corrugated paper boards and carton boxes is expected to be completed by mid-2007, paving the way for the Group to achieve the aim of increasing its market share.

### 展望

展望未來，中國經濟繼續增長，繼續為世界工業生產中心。在瓦楞包裝紙品市場持續發展的情況下，合豐將以擴大市場份額為目標，製訂長遠而有效的營銷政策，務求達致業務持續穩步增長。本集團將繼續積極引進新生產技術及設備，以多方面改善生產流程來提高競爭能力，為抓緊中國以至海外的業務商機作好準備。

為了達致縱向整合的營運模式，集團早已計劃生產瓦楞紙板紙箱之主要原材料之一的瓦楞芯紙，而森葉紙業便是合豐首家瓦楞芯紙製造廠。該廠房興建於廣東省清遠市清新縣太和工業區，並於二零零六年二月開始投產，佔地約七十萬平方米，以生產高強度瓦楞芯紙為主，年產能達十萬噸，將可滿足集團每年百分之三十至四十的原材料需求。

此外，集團亦已開始籌劃於森葉紙業工地興建(1)另一主要原材料生產線—牛咭，及(2)合豐第四家瓦楞紙板紙箱廠。牛咭廠房剛於二零零六年三月奠基，預期於二零零七年底落成。生產線落成後將有助進一步減低集團對進口原材料的依賴，有效降低生產成本和提升產品質素。而合豐第四家瓦楞紙板紙箱廠預計將於二零零七年中落成，進一步邁進集團擴大市場份額的目標。