

MANAGEMENT'S DISCUSSION AND ANALYSIS

管理層討論及分析

BUSINESS REVIEW

The corrugated cardboard packaging industry saw robust demand growth in the preceding year on the back of a healthy global economy and rising exports and consumption power in China. The Group (“we”) had also been aggressively expanding production facilities for corrugated paper-ware and its raw materials, in order to achieve vertical integration, and allow the Group to successfully control production costs and improve product quality even in an environment of rising raw materials prices and appreciation of the Renminbi. As a result, the Group achieved solid growth in turnover and operating margin in the year under review.

Faced with intensifying competition in the downstream packaging industry, the Group started to expand upstream in 2005, to create a vertically integrated model, improve operating efficiency and enhance margins. The Group’s (“our”) first upstream production line at Green Forest (QingXin) Paper Industrial Limited (“Green Forest”) in Qingxin County, Qingyuan City, Guangdong Province officially started operations in March 2006. This production line, capable of producing 100,000 tonnes of high performance corrugated medium, can meet around 30-40% of the Group’s raw materials requirements. Green Forest’s medium production facilities have been nearly 100% utilized since July 2006, significantly offsetting the impact of volatile raw materials prices and fluctuations in supply on the Group’s operations, whilst lifting overall gross margins at the same time.

We make every effort to improve its production and shipping process, in order to raise our operating efficiency, and bring to customers high value-added quality products and outstanding and timely service. Through buying state of the art production equipment, strengthening our computerized production processes and fine-tuning the distribution of orders, we have been able to optimize our production lines and equipment. As a result, we can leverage this enhanced platform to achieve full vertical integration and capture the enormous growth potential of the Chinese corrugated cardboard packaging industry.

業務回顧

環球經濟持續向上，中國之出口量及消費力不斷上升，使瓦楞包裝紙品需求於回顧年內穩健增長。另一方面，集團積極添置瓦楞紙板及其原材料的生產線，建立縱向整合的營運模式。集團在原材料價格持續上揚及人民幣升值的影響下，仍能成功控制生產成本及提升產品質素。因此，集團於回顧年內的營業額和營運利潤均錄得理想增長。

鑑於下游業務競爭日趨激烈，集團於二零零五年開始拓展上游業務，建立縱向整合的營運模式，力求改善營運效益，提升整體利潤水平。於二零零六年三月，集團於廣東省清遠市清新縣之森葉(清新)紙業有限公司(「森葉紙業」)的第一條上游生產線正式投產。該廠房每年產能達十萬噸優質高強度瓦楞芯紙，可滿足集團約三至四成的原材料需求。於二零零六年七月，森葉紙業之瓦楞芯紙生產設備使用率已近100%，大大抵銷原材料價格及供應不穩對集團的影響，並且令整體毛利大幅上升。

集團積極優化生產程序及運輸流程，以提高營運效率，讓客戶享受高質量、高增值之產品及優質準時的服務。同時，集團透過添置先進高效之生產設施、強化電腦化生產程序及將生產線有效地分流，使不同類型之生產線及設施發揮其最佳效能，使集團可邁向全面的縱向整合，全面掌握中國瓦楞包裝紙品行業的龐大商機。

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FINANCIAL REVIEW

Performance

Turnover of the Group in 2006 recorded an increase of 4% to HK\$820.1 million (2005: HK\$788.6 million). It was mainly attributable to the sales of corrugating medium in the second half of 2006 after commencing the upstream business in March 2006. The success in producing corrugating medium for own use led to significant cost saving which, in turn, led to a surge in gross profit by 18.2% and an improvement in gross profit margin from 19.5% to 22.2%.

With cash inflow from the upstream operation and the placing of shares, the rise in bank interest income from fixed deposits mainly accounted for the increase in other operating income.

The 7.2% increase in distribution costs was chiefly the transportation cost for delivering the corrugating medium from Green Forest in Qingyuan City to the three plants in Dongguan City and Shenzhen City for producing corrugated paper boards and carton boxes.

The increase in administrative expenses by 13% to HK\$42.6 million (2005: HK\$37.7 million) was primarily attributable to the increase in staff cost. In addition to increasing number of staff for operating the new corrugating medium plant, an average rise of 8% in salaries was resulted from attracting staff in view of labour shortage in the Guangdong Province.

Depreciation charges for the factory premises and dormitories of the corrugating medium plant mainly brought to an increase in other operating expenses by 18.8% to HK\$22.1 million (2005: HK\$18.6 million).

The significant contribution from the new corrugating medium plant in supplying raw materials to the downstream plants can be measured by a surge of 26% in the earnings before interest and tax ("EBIT") to HK\$96.1 million (2005: HK\$76.3 million). The EBIT margin increased from 9.7% to 11.7%.

財務回顧

表現

二零零六年，集團之營業額增長4%至820,100,000港元(二零零五年：788,600,000港元)。此增長主要歸功於上游生產業務於二零零六年三月投產後而帶來下半年之瓦楞芯紙銷售額所致。生產供集團本身使用之瓦楞芯紙，成功節省大量成本，提升毛利18.2%，而毛利率由19.5%升至22.2%。

其他經營收入上升，是由於上游生產業務之現金流入及配售股份，定期存款所得銀行利息收入上升。

分銷成本增加了7.2%，主要為從森葉紙業於清遠之廠房交付瓦楞芯紙至東莞市及深圳市之三間廠房來生產瓦楞紙板及瓦楞紙箱之運輸成本。

行政開支增加13%至42,600,000港元(二零零五年：37,700,000港元)，主要歸因於員工成本上升。除了為經營新瓦楞芯紙廠而增加員工數目外，也因廣東省勞工短缺而將薪金平均增加8%來吸引員工。

其他經營開支增加了18.8%至22,100,000港元(二零零五年：18,600,000港元)，其主要成因是瓦楞芯紙廠廠房場地及宿舍之折舊費用。

新瓦楞芯紙廠於向下游廠房供應原材料作出重大貢獻，未計息稅前利潤上升26%至96,100,000港元(二零零五年：76,300,000港元)。未計息稅前利潤率由9.7%上升至11.7%。

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FINANCIAL REVIEW (Continued)

Performance (Continued)

Bank interests for loans raised in mid 2005 for financing the corrugating medium plant in machinery acquisition and factory construction were capitalized in 2005. With operation commenced in March 2006, bank interests were charged to the income statement leading to increase in finance costs by HK\$2.7 million.

Changes in fair values of derivative financial instruments and structured borrowing were recognized in the income statement for accounting purpose only. They were non-cash in nature and will be reversed to zero at maturity date.

During 2006, the Group had entered into certain forward exchange contracts with banks for periods ranging from 1 to 1.5 years to minimize the exposure to foreign exchange rate risk (1) in acquiring the kraft linerboard production line in RMB, and (2) in purchasing raw materials in USD. The adverse effect of the appreciation of both currencies to the Group was proved to be eliminated in 2006 as lower exchange rates were eventually paid. HK\$5.1 million was recognized in the income statement as change in fair value of derivative financial instruments for accounting purpose.

In the second half of 2006, the Group entered into a contract of structured borrowing with a bank for a period of five years to finance its kraft linerboard plant at a cheaper borrowing cost. The contract was proved to be effective as no interest had been incurred during the year ended 31st December, 2006. HK\$12.4 million was recognized in the income statement as change in fair value of structured borrowing for accounting purpose.

Net profit from operation (net profit for the year before changes in fair value of derivative financial instruments and structured borrowing) was increased by 24% to HK\$85.8 million (2005: HK\$69.2 million). The slight decrease in net profit for the year by 2% to HK\$68.3 million (2005: HK\$69.7 million) was due to the changes in fair values of derivative financial instruments and structured borrowing for accounting purpose.

Net profit margin for the year ended 31st December, 2006 was 8.3%. Basic earnings per share were 17.84 HK cents (2005: 18.95 HK cents). The Directors proposed a final dividend of 4.64 HK cents per share (2005: 4.17 HK cents).

財務回顧(續)

表現(續)

集團於二零零五年中為瓦楞芯紙廠購買機器及興建廠房，融資貸款之銀行利息已於二零零五年撥充資本。自二零零六年三月投產後，融資貸款之銀行利息於收益表扣除，導致財務成本增加2,700,000港元。

衍生金融工具及結構借貸公平值之變動已於收益表確認。該等項目為非現金性質，僅供會計處理之用，及於到期日將回撥為零。

於二零零六年，本集團與銀行訂立由1年至1.5年不等之遠期外匯合約，來避免及減低以下兩項之匯率風險：(1)以人民幣收購牛咭生產線，及(2)以美元購買原材料。該兩種貨幣升值對本集團之不利影響於二零零六年證實可以抵銷，原因為集團以較低之合約匯率來支付以上所涉及的款項。5,100,000港元於收益表確認為衍生金融工具公平值之變動，作會計處理之用。

於二零零六年下半年，集團與銀行訂立結構借貸合約，為期五年，以較低之借貸成本為牛咭生產廠房融資。該合約證實為有效，截至二零零六年十二月三十一日止年度並無利息支出。12,400,000港元於收益表確認為結構借貸公平值之變動，作會計處理之用。

經營純利(以本年度未計衍生金融工具及結構借貸公平值之變動前純利計算)增加24%至85,800,000港元(二零零五年：69,200,000港元)。本年度純利輕微減少2%至68,300,000港元(二零零五年：69,700,000港元)，原因為作會計處理之用之衍生金融工具及結構借貸公平值之變動。

截至二零零六年十二月三十一日止年度之純利率為8.3%。每股基本盈利為17.84港仙(二零零五年：18.95港仙)。董事建議派付末期股息每股4.64港仙(二零零五年：4.17港仙)。

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FINANCIAL REVIEW (Continued)

Liquidity, financial and capital resources

The Group received net proceeds of HK\$77.7 million from the placing of shares in November 2006, resulting in an increment of bank balances and cash to HK\$231.6 million (2005: HK\$156 million). At 31st December, 2006, net current assets and current ratio (current assets divided by current liabilities) of the Group were HK\$257.7 million (2005: HK\$135.5 million) and 2.42 (2005: 1.66) respectively.

In 2006, the Group had capital expenditures amounting to HK\$47.8 million which were mainly the remaining construction cost for the corrugating medium plant incurred in the first quarter of 2006. In addition, the Group paid deposits of HK\$35.1 million for acquisition of machinery and land for kraft linerboard plant. The Group further spent HK\$15.9 million for improving production facilities in existing factories.

With cash inflow from the operation of corrugating medium plant, less working capital in the form of trust receipt loans was required leading to reduction in trust receipt loans by HK\$43.8 million. Increase in the Group's total bank borrowings (including bank borrowings and structured borrowings) by HK\$72.2 million comprised short term and long term bank borrowings' increases by HK\$13.6 million and HK\$58.6 million respectively. New bank borrowings were mainly raised for financing the investment in kraft linerboard plant. A lower net gearing ratio (measured by total bank borrowings net of cash to equity attributable to shareholders) of 4% (2005: 19%) was achieved in 2006 as the placing of shares improved the cash level of the group. The Group's financial position was strong and distinctive as compared to last year.

Contingent liabilities

A tax audit had been conducted by the Inland Revenue Department in December 2004. The Inland Revenue Department issued protective assessments for the years of assessment 1998/1999 to 2003/2004 to certain subsidiaries of the Group. As the tax audit was still in progress, in the opinion of the Directors, the outcome and impact of this matter could not be determined with reasonable certainty at this stage.

財務回顧(續)

流動資金、財務及資本資源

集團於二零零六年十一月配售股份，所得款項淨額為77,700,000港元，令銀行結餘及現金增加至231,600,000港元(二零零五年：156,000,000港元)。於二零零六年十二月三十一日，集團之流動資產淨值及流動比率(流動資產除以流動負債)分別為257,700,000港元(二零零五年：135,500,000港元)及2.42(二零零五年：1.66)。

於二零零六年，集團之資本開支為47,800,000港元，主要為二零零六年第一季瓦楞紙廠房餘下之建築成本。此外，集團就收購牛咭生產廠房之機器及土地已支付按金為35,100,000港元。集團進一步支付15,900,000港元以改善現有廠房之生產設施。

由於瓦楞紙廠房投產所得之現金流入，減低以信託收據貸款之需要，導致信託收據貸款減少43,800,000港元。集團之總銀行借貸(包括銀行借貸及結構借貸)增加72,200,000港元，包括短期及長期銀行借貸分別增加13,600,000港元及58,600,000港元。新做銀行借貸，主要為投資於牛咭生產廠房融資。二零零六年淨資本負債比率(按總銀行借貸減現金除以股東應佔權益計算)降低至4%(二零零五年：19%)，原因為配售股份改善集團之現金水平。集團之財務狀況較去年穩健及明確。

或然負債

稅務局於二零零四年十二月進行了稅務稽查。稅務局就截至一九九八年/一九九九年至二零零三年/二零零四年之課稅年度向集團若干附屬公司發出保障性評稅。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

The corrugated cardboard packaging industry continues to expand on the back of China's emergence as the world's manufacturing centre. To tap into the attractive growth opportunities available, the Group is aiming to expand market share through further integration and improvements in marketing and sales, in order to enhance our execution capabilities and deliver solid growth in our business.

Given that the Group's expansion from downstream box manufacturing to upstream paper manufacturing has been satisfactory even in its first year of operation in 2006, we are fully confident that we can continue to expand our operations. We focus on the second phase of the development of Green Forest, namely construction of a new kraft linerboard plant with 200,000 tonnes of annual capacity. The Group formally signed agreements to acquire the key manufacturing components for the kraft linerboard production line at the end of May 2006, and foundation work for the plant was completed in March 2007. We expect to start installation of the production line in June and formally begin operations in early 2008. By that time, the Group's total capacity in cardboard will rise to 300,000 tonnes. This new line will not only reduce the Group's dependence on external raw materials and hence lower our costs, but will also allow the Group to customize raw materials for different customers, reduce wastage and enhance product quality.

The Group will continue to optimize its production equipment, enhance capacity and produce a more diversified range of cardboard products. We also plan to expand downstream to complement the development of our upstream business and move towards a fully integrated business model. In addition, the Group will further enhance our enterprise resource planning system in order to improve operating efficiency, enhance margins and competitiveness, and deliver satisfactory returns to our shareholders.

展望

中國逐步成為世界工業生產中心，擴展了瓦楞包裝紙品市場的發展空間。為配合龐大的市場增長潛力，集團將以擴大市場份額為目標，整合業務及改進營銷政策，務求鞏固集團的營運實力，以達致業務持續穩步增長。

於二零零六年，集團初次從下游的瓦楞紙板紙箱生產業務發展至上游的瓦楞芯紙生產業務，就已取得理想成績。故此，集團具有十足的信心繼續擴充業務，重點興建產能二十萬噸牛咭生產廠房位於森葉紙業。集團於二零零六年五月底正式簽訂購入牛咭生產線的主要組件，剛於二零零七年三月完成鞏固地基工程，於六月便開始安裝生產線的組件，預期於二零零八年初投產，使集團每年的紙張產能提高至三十萬噸。此計劃完成後，將進一步減低集團對外採購原材料的依賴，有效降低生產成本，此外，集團更可按客戶需求生產最合適的原材料，減少損耗和提升產品質素。

集團將繼續透過優化先進的生產設備，提高產能及生產更多元化的瓦楞紙產品，並持續拓展下游業務以配合上游業務發展，全面邁向縱向整合的營運模式。此外，集團將繼續改善企業資源規劃之管理系統，務求使集團的營運效益提升，改善邊際利潤及競爭力，為集團股東帶來更豐厚的回報。