

**QI-HANG CO (T) LIMITED
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IRINGA REGION TANZANIA**

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**BUSINESS OF MANUFACTURING OF PULP PAPER AND PAPER BOARD
(VENEER MATEREIALS) PLANNING OF WOOD SAW MILL AND LOGGING.**

CETIFICATE OF INCORPORATION OF A COMPANY

SECTION 15

NO. 150 – 535 - 670

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SUMMARY

1.1 Introduction

QI-HANG CO (T) LIMITED Is a limited company by shares that has been legally registered under the company Act. 2002 on 10th, day of February 2021. The company is situated at Lugolofu Village, nearby Mgololo paper Mill Company, at Makungu Ward in Mufindi District, Iringa Region Tanzania. The Company has also registered with Tax Payer Identification No. 150-535-670, VAT VRN 40-04-30-66-Q and Business license B03464182. The company has proposed share capital amounting for the sum of Tanzanian shilling nine hundred thousand (900,000,000/=) of which five hundred and five million shillings (505,000,000/=) is issued share capital as up to the year 2021. The company has factory which is built and installed electricity, plant machines equipment, office buildings with furniture and office equipment. There are also well built stores and small houses for workers. The company is being operated to manufacture pulp paper and paper board materials in accordance with the Memorandum of Understanding and Article of Associations of 10th, of February year 2021. The Company's financial regulation and Human resource guide have been being adopted and adhered too.

1.2 Objectives of which the company is being established are as follows;-

1. To manufacture pulp paper and paper board (Veneer products)
2. To conduct sawmilling and planning of wood processing
3. To ensure smooth operations of logging
4. To do businesses of wood processing, logging, veneer product and other wood product whenever deemed necessary

1.3 Main Activities

1. To buy logs with 244 cm height and cut into pieces of logs of about 122 cm height that is in line with the required size of veneer materials and processing to manufacture pulp paper and paper board products (Veneer products).
2. To conduct drying of veneer materials, sizing into bundles of which one bundle comprises of 1,450 veneer paper, 1 cubic meter comprises 550 veneer and one packed bundle of 1,450 veneer are usually processed from 48 logs. One log of at least 122 cm long produces 35 to 40 Veneer materials, small log of at least 122 cm long produces 5 to 7 veneer products such that it makes the average of 30 veneer materials per log.
3. To pack, marking, in loading into containers and dispatch to buyers in accordance with orders.
4. To conduct all duties which are in connection with company and Factory management by using financial and human resources
5. To keep looking for markets of veneer product in and outside the country (selling of veneer product)

1.4 Targeted market

Fortunately enough, there is an existing market opportunities in and outside the country and the company make use of these opportunities to grab the market.

1.2 Company Services

The company main activity is Manufacture and sale of veneer paper as inputs to both local and foreign companies. Mainly export to China.

1.3 Veneer paper Project

QI HANG CO. (T) LIMITED aim at buying logs in bulky, producing veneer paper, packing them in bundles of 1420 veneer papers and selling them in Tanzania and China for further processing. Targeted market area and estimated sales amount is as shown below;

MARKET AREA	NUMBER OF BUNDLES	BUNDLES PER TRUCK	TOTAL TRUCK	TRANSPORT COST/UNIT	TOTAL COST
CHINA	5619.71831	18	312.2065728	1400000	437,089,202
Shinyanga	295.7746479	18	16.43192488	250000	4,107,981
TOTAL	5915.492958		328.6384977	1650000	441,197,183

1.4 Financial Consideration

The project will totally depend on the initial capital injection from QI HANG CO. (T) LIMITED of which Directors have invested for the sum of TZS 505,000,000 in this project.

1.5 Objectives

QI HANG CO. (T) LIMITED has the following objectives as far as the project is concerned.

- To penetrate in the market of Veneer paper distribution in China.
- To produce the best veneer paper manufacture in Tanzania hence having comparative advantage.
- To timely supply of Veneer paper to prospective buyers hence creating goodwill.
- Maintain excellent customer relations with government and home and foreign buyers of Veneer paper.
- To expand production level to improve profit margin through cost reduction.

1.6 Key success factors

The company foresees Increasing demand of veneer paper in Tanzania because a number of industries dealing with furniture's and other paper products have been established in

Tanzania. Also the company foresees steady demand of veneer paper in China due to presence of new companies producing veneer papers. In order to achieve a defendable position in this environment, QI HANG CO. (T) LIMITED will depend on the following;

- Creation of good loyalty to Local buyers by giving them priority in terms of supply and price.
- Maintaining quality control measures to compete with other suppliers in China.
- Recruitment of competent and hardworking management team to ensure timely production and supply of paperboards to buyers.
- Developing good relationship with Government authority hence facilitating export process.

1.7 Company Ownership

QI HANG CO. (T) LIMITED is a limited liability company incorporated in 2021 with total 50,500 shares, on which each shares worthy for sum of TZS10,000/= making total capital of TZS 505,000,000/=.

1.8 Management Structure

QI-HANG CO (T) LIMITED has a very strong management of competent persons who engage in day to day of managing company activities in accordance with the company human resource policy, financial policy and Memorandum of understanding and article of association. A shareholder meeting is highest organ, followed by Directors meeting and Management meeting.

1.9 Competitive edge

In this industry of production of veneer paper products , the primary way to compete is through cost leadership hence offering fair price than competitors, better project management or providing services in a way that other providers are not able to provide such best quality veneer paper products, its timely supply and building good customer relationship.

QI-HANG CO (T) LIMITED has a unique competitive edge as compared to most of its competitors with a number of key comparative advantages as follows;

- Cost leadership through use competent human resources and financial resources
- Knowledge on perceived veneer paper products demand through its network of inside and outside of the country, hence supplying veneer paper products that meet users' perceived demand.
- Presence of good network with buyers of veneer products who are in and outside Tanzania than any other distributors of veneer products.
- Knowledge on competitors' strategies and practice hence being able to outplay them in veneer paper distribution market.

1.10 Marketing strategy

QI-HANG CO (T) Limited plan to market its best quality veneer paper in various ways. The first marketing strategy will be through personal selling to buyers within and outside the country just by visiting, outsourcing buyers by using website, internet communications and commercial events whenever deemed necessary, will also use print advertising media to market veneer paper products to other customers who linked with media coverage.

1.11 Sales Strategy

After attaining customers through its marketing strategy, customers will seek and be provided with detailed quotation in which on acceptance customer can make order to QI-HANG CO (T) LIMITED and quotations will state quantity, time of supply, price and terms of payments for every consignments of veneer products.

1.12 Sales forecast

QI-HANG CO (T) LIMITED Sales forecast is based on conservative estimates and we are expecting sales to be low at start up and slowly growing up with 10% annual growth rate. The selling price is expected to be TZS 260,000 per bundle providing the markup of 54%. The Sales volume forecast is based on 54% markup on cost of bundles to be sold during the year. See Projected Statement of Comprehensive income for the project in page 7.

1.13 Purchase forecast of logs by QI-HANG CO (T) LIMITED

The quantity of logs to be purchased for the year will depend on estimated demand to be met for the year. Our assumptions on purchase cost are as indicated below;

- Targeted veneer paper production per day and night shift to be 28,000,
- Number of veneer paper packed per bundle is 1,450
- Number of bundles of veneer paper produced per day is 19.31
- Number of logs processed per bundle is 47
- Number logs per day 907.57
- Number of logs processed per year is 280,000
- Tractor trailer full of logs brought by seller of logs brings at least 60 logs per trip, sold to QI-HANG CO (T) LIMITED by the sum of Tanzanian shillings one hundred fifty thousand only (150,000), cost of one log is 2,500

Therefore Total purchase cost is TZS 700,000,000 per year.

1.14 TECHNOLOGY

The company will use modern technology, all machines will be imported from China

2. MANAGEMENT SUMMARY

2.1 Personnel Plan

The management of the project will comprise of four staff as follows.

S/N	POSITION	PAYMENT TYPE	AMOUNT TZS	PERIOD
1	Managing director	Gross pay	1000,000 p.m	Per Month
2	Cashier	Gross pay	1000,000 p.m	Per Month
3	Finance and Administration Manager	Gross pay	600000 p.m	Per Month
4	Human Resource Manager	Gross pay	600000 p.m	Per Month
TOTAL STAFF COST			<u>3,200,000</u>	

The project will employ not less than 45 local employees at the beginning of the project.

2.2 Distribution plan

The distribution process will rely on the following distribution channel

1. Mufindi – Customers
2. Mufindi – Dar es Salaam – China - Customers

The summary of distribution channel, estimated sales and transportation cost is given in a table below;

MARKET AREA	NUMBER OF BUNDLES	BUNDLES PER TRUCK	TOTAL TRUCK	TRANSPORT COST/UNIT	TOTAL COST
China	5619.71831	18	312.2065728	1400000	437,089,202
Tanzania	295.7746479	18	16.43192488	250000	4,107,981
TOTAL	5915.492958		328.6384977	1650000	441,197,183

2.3 Storage plan

Processed veneer paper at the first place, are packed in small bundles and lifted by plant machines folk lifts, sent them to special place for drying. Drying areas are made by sticks, to enable every one sheet of veneer stands uprights so as to avoid contaminations of wastes and humidity. This method makes veneer paper to get dried quickly and to maintain the highest quality. Usually it takes one to two days to get dried. After having dried have to undergo sizing, packing, marking, labeling and dispatch.

3. FINANCIAL PLAN

The following sections set out financial projections for the Pulp Paper project/veneers for the first three years of operation. The projection represents estimates of revenues, expenses and growth due to different factors.

PROFORMA STATEMENT OF PROFIT AND LOSS FOR THE PROJECT

Details	Year 1 TZS	Year 2 TZS	Year 3 TZS
Sales	1,538,028,169	1,691,830,986	1,861,014,085
Less: Cost of Sales			
Opening stock	-	2,333,333	2,566,667
Add: Purchase Cost	700,000,000	770,000,000	847,000,000
Less: Closing stock	2,333,333	2,566,667	2,823,333
Total cost of sales	697,666,667	769,766,667	846,743,333
Gross Profit	838,028,169	921,830,986	1,014,014,085
Gross Margin	54%	54%	54%
Operating expenses			
Fuel	21,000,000	23,100,000	25,410,000
Salaries	38,400,000	41,088,000	43,964,160
Repairs and Maintenance	51,000,000	54,570,000	58,389,900
Machinery repairs	41,517,600	31,467,288	33,868,391
Depreciation	103,794,000	78,668,220	84,670,979
Distribution cost	441,197,183	485,316,901	533,848,592
Wages	120,000,000	120,000,000	120,000,000
Total Operating expenses	816,908,783	834,210,409	900,152,022
Profit before tax (PBT)	21,119,386	87,620,577	113,862,063
Tax estimate	6,335,816	26,286,173	34,158,619
Net Profit for the year	14,783,570	61,334,404	79,703,444
Net profit margin	1%	4%	4%

PROFORMA STATEMENT OF FINANCIAL POSITION FOR THE PROJECT

Details	Year 1 TZS	Year 2 TZS	Year 3 TZS
FIXED ASSETS			
Plant & Machinery	300,000,000	225,000,000	243,750,000
Computer Equipments	756,000	476,280	300,056
Furniture & Fittings	1,050,000	661,500	416,745
Buildings	57,000,000	54,000,000	51,000,000
Total Assets	358,806,000	280,137,780	295,466,801
CURRENT ASSETS			
Cash	164,980,053	324,699,700	396,689,902
Inventories	2,333,333	2,566,667	2,823,333
Total Current Assets	167,313,386	327,266,367	399,513,235
TOTAL ASSETS	526,119,386	607,404,147	694,980,037
EQUITY AND LIABILITIES			
EQUITY			
Accumulated capital	505,000,000	519,783,570	581,117,974
Retained Earnings	14,783,570	61,334,404	79,703,444
Total Equity	519,783,570	581,117,974	660,821,418
CURRENT LIABILITIES			
Account payable	6,335,816	26,286,173	34,158,619
Total Current Liabilities	6,335,816	26,286,173	34,158,619
TOTAL EQUITY AND LIABILITIES	526,119,386	607,404,147	694,980,037

PROJECTED CASH FLOW STATEMENT FOR THE PROJECT

Details	Year 1	Year 2	Year 3
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	21,119,386	87,620,577	113,862,063
W/Capital Adjustments			
(Increase)/ Decrease in Inventories	(2,333,333)	(233,333)	(256,667)
Add: Non Cash items	103,794,000	78,668,220	84,670,979
Cash inflow from operating activities	122,580,053	166,055,463	198,276,375
Less tax paid		(6,335,816)	(26,286,173)
Net inflow from operating activities	122,580,053	159,719,647	171,990,202
CASH FLOW FROM FINANCING ACTIVITIES			
Capital injection	505,000,000	-	-
Net inflow from financing activities	505,000,000	-	-
CASH FLOW FROM INVESTMENT ACTIVITIES			
Purchase of fixed assets	(462,600,000)		(100,000,000)
Net Cash inflow from investment activities	(462,600,000)	-	(100,000,000)
Total net cash inflow for the year	164,980,053	159,719,647	71,990,202
Add: Opening balance cash & Cash equivalent	-	164,980,053	324,699,700
Total cash and cash equivalent at close	164,980,053	324,699,700	396,689,902

4. VIABILITY OF THE PROJECT

The project has lower average Net profit margin of 1%. However, the project is viable as it results to positive NPV as illustrated below. Therefore QI HANG CO. (T) LIMITED should implement the project.

Net Present Value Analysis

DETAILS	YEARS			
	NOW	2021	2022	2023
CAPITAL	505,000,000	505,000,000	519,783,570	581,117,974
NET PROFIT		14,783,570	61,334,404	79,703,444
TOTAL EQUITY	505,000,000	519,783,570	581,117,974	660,821,418
DISCOUNT FACTORS	1	0.92	0.84	0.77
PV	505,000,000	476,865,661	489,115,372	510,275,382
% gain		-6%	3%	4%
NPV	5,275,382.05			

5. INVESTMENT BREAKDOWN IN USD

ARTICULAR	AMOUNTS USD
Land and Buildings	25,000
Plant & Machines	130,500
Motor Vehicles	55,000
Furniture & Fixtures	460
Pre Expenses	100,000
Working Capital	200,000
TOTAL	510,960