

2007 Corporate Credit Rating Report on Shandong Sun Paper Industry Joint Stock Co., Ltd.

No. D 【2007】 053 Report (Issuer)

Corporate Credit Rating: A+

Operating net cash flow to total liabilities (%)	17.40	18.07	12.90
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Issuer: Shandong Sun Paper Industry Joint Stock Co., Ltd.

Rating outlook: Stable

Main financial data and indices
(Unit: 100 million yuan)

Item	2006	2005	2004
Total assets	68.27	49.88	43.07
Owners' equity	20.36	9.98	7.69
Main business revenue	51.72	50.38	39.05
Total profits	4.09	4.02	3.16
Operating net cash flow	7.39	6.31	4.02
Debt to asset ratio (%)	62.26	69.98	72.41
Debt to capital ratio (%)	52.09	62.19	64.79
Main business gross margin (%)	16.89	16.22	17.34
Return on total assets	8.84	11.51	10.24
Return on net assets	14.36	28.32	28.26
EBITDA to interest coverage ratio (times)	3.80	3.65	3.20

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Rating Opinions

Shandong Sun Paper Industry Joint Stock Co., Ltd. ("Sun Paper" or "the company") is mainly engaged in production and sales of paper and paperboard. The rating result reflects fast growing demand in the domestic paper market and the company's advantages in production scale, technology, resource, marketing network and external liquidity. In spite of heating market competition and volatile prices of waste newspaper and wood pulp in the US affecting stability of the company's profitability, the company's strong solvency for the short-term financing bonds will not be influenced substantially.

It is expected that the company's sales revenue will retain robust growth and profitability keep rising in the next 1-2 years with newly built projects generating economic benefits. Therefore the rating outlook for the company is stable.

Main advantages/opportunities

- Sun Paper faces favorable development prospect amid steady and sustainable development of national economy and fast growing demand in the domestic paper market;
- Sun Paper converges good resources for paper making development, thus enhancing its overall risk withstanding ability;
- The company is the country's largest high-end coated packaging paper maker with evident scale advantage;
- Sustainable technical innovation helps the company lower production costs, boost product quality and promote development

of new products;

- Collaboration with international paper makers is beneficial to improve the company's technical level, management level and competitive edge in the high-end market;
- The company pushes forward recycling economy and clean production, realizing comprehensive cyclic utilization of waste water and solid wastes.

Main risks/challenges

- Domestic paper making sector faces increasingly tough competition in recent years as a result of fast expansion of domestic paper making capacities;
- Volatile prices of waste newspaper and wood pulp in the US affect stability of the company's profitability to some extent.

Dagong Global Credit Rating Co., Ltd.

Apr. 16th, 2007