



[For Immediate Release]

**Xinhua Far East Downgrades the Issuer Rating of
Inner Mongolia Eerduosi Cashmere Products Co Ltd to BB+**

HONG KONG, December 21, 2006 – Xinhua Far East China Ratings (“Xinhua Far East”) today concluded its review on Inner Mongolia Eerduosi Cashmere Products Co Ltd (“Erdos” or “the Company”, SH A 600295; SH B 900936) by downgrading its issuer credit rating to BB+ from BBB-. Its rating outlook is changed to stable from negative.

The downgrade was prompted by the Company's very high debt levels after the acquisition of a 24% stake in Erdos Power Metallurgy Co Ltd (“Power Metallurgy Company”) and the possibility that its debt levels may rise even further with its ongoing investments in power metallurgy projects. Xinhua Far East also notes the Company has shifted its focus to the cyclical metallurgy industry, a move which has overshadowed its risk profile, making it inconsistent with an investment-grade company. We are also concerned about its inexperience in the new industry and its aggressive financial policy.

When Erdos completed its acquisition of the 24% equity stake in Power Metallurgy Company, it consolidated the latter company's July to September results into its financial statements. As expected by Xinhua Far East, this significantly raised its debt levels and liquidity risks and, at the end of the third quarter of 2006, Erdos' gross debt to total capital was up 55.8% from 28.5% as of year-end 2005. Its gross debt and net debt rose to RMB6,139.3 million and RMB5,079.3 million respectively from RMB1,358 million and RMB456.1 million as of year-end 2005. Furthermore, 68% of the gross debt was short-term in nature, indicating the Company is probably using short-term debt to finance its long-term projects.

Yet the Company's debt levels could rise even further, with several power metallurgy projects still under construction or in planning stage. The budget for its coal-electricity-silicon alloy project and associated equipment is RMB17.2 billion, according to figures from the Power Metallurgy Company, with accumulative investments reaching RMB4.1 billion at the end of 2005. Although the company could turn to the equity markets or joint ventures to partly finance the project, it could quite possibly raise some funds through debt, given the large amount of investment involved and its aggressive financial policies to date.



At the same time, given the company's inexperience in the metallurgy industry and given the fact that the industry is cyclical in nature, Erdos' foray into this new industry has heightened its risk profile. Although power metallurgy sector sales accounted for just 13.3% of the Company's total revenues of RMB2,169.9 million in the first three quarters of 2006, this percentage is expected to rise substantially next year when it incorporates Power Metallurgy Company's full-year results and when more power metallurgy projects are completed and put into production in succession. As such, the challenges Erdos faces in managing a multi-industry conglomerate are significant.

Another factor overshadowing Erdos is that Power Metallurgy Company's performance itself could be negatively affected by oversupply and fierce competition, despite the cost advantages it holds in respect to abundant coal resources. Power metallurgy sector sales in the third quarter of this year were RMB289.1 million, 46.1% of which derived from ferro silicon products and 16.7% of which were from electricity. Although demand for Ferro silicon has risen significantly in recent years with the rapid development of the domestic steel industry, the market has encountered oversupply, with production capacity rapidly expanding also. There have also been indications that the electricity market in Inner Mongolia has also been in over-supply in recent years. Overall, Xinhua Far East does not believe Erdos' financial profile and risk structure will substantially improve over the next few years.

Even so, as a leader of cashmere industry, Erdos is nevertheless able to generate relatively stable income from cashmere, supporting a stable ratings outlook.

In 2005, Erdos realized turnover of RMB2.9 billion and, at the end of June 2006, Erdos Cashmere Group Co Ltd was the company's largest shareholder, with a 40.7% stake.

Established in April 2003, Erdos Power Metallurgy Co Ltd is based in the Qipanjing Industrial Park in Eerduosi of the Inner Mongolia Autonomous Region. Leveraging its access to the region's natural resources, it engages primarily in power metallurgy projects. It currently holds a 54% share in Erdos Power Metallurgy Co Ltd and intends to increase its stake to 85%.

Erdos is a constituent of both the Xinhua/FTSE China 200 and B35 Indices and, as of market close on December 20, 2006, its total A-share market capitalization and investable capitalization were RMB3,005 million and RMB901 million respectively. Its B-share market cap totaled US\$172 million, all of which is investable.



新华远东中国评级 Xinhua Far East China Ratings

For the rating report summary, please visit www.xinhuafinance.com/creditrating.

ends

More Information:

Hong Kong

Joy Tsang, Corporate & Investor Communications Director, Xinhua Finance
+852-3196-3983, +8621-6113-5999, +852-9486-4364, joy.tsang@xinhuafinance.com

US

Taylor Rafferty (IR/PR Contact in US)

Ms. Ishviene Arora

+1-212-889-4350, ishviene.arora@taylor-rafferty.com

Note to Editors:

About Xinhua FTSE China 200 and B35 Indices

Xinhua FTSE China 200 Index is the large cap index in the Xinhua FTSE China A Share Index Series and includes the top 200 companies in China by market cap. It is designed as a tradable index and is calculated in real-time every 15 seconds. Xinhua FTSE China B 35 Index is the large cap tradable index in the FTSE Xinhua China B Index Series, covering 'B' shares listed on the Shanghai and Shenzhen stock exchanges. It provides international investors with exposure to the mainland Chinese market. For daily data and further information, see www.xinhuaftse.com.

About Xinhua Far East China Ratings

Xinhua Far East China Ratings (Xinhua Far East) is a pioneering venture in China that aims to rank credit risks among corporations in China. It is a strategic alliance between Xinhua Finance (TSE Mothers: 9399), and Shanghai Far East Credit Rating Co., Ltd. Shanghai Far East became a Xinhua Finance partner company in 2003 and the first China member of The Association of Credit Rating Agencies in Asia in December 2003.

Capitalizing on the synergy between Xinhua Finance and Shanghai Far East, Xinhua Far East's rating methodology and process blend unique local market knowledge with international rating standards. Xinhua Far East is committed to provide investors with independent, objective, timely and forward-looking credit opinions on Chinese companies. It aims to help investors differentiate the credit risks among the corporations in China, thereby, cultivating their awareness and promoting information disclosures and transparency in China market. For more information, see www.xfn.com/creditrating.

About Xinhua Finance Limited

Xinhua Finance Limited is China's unchallenged leader in financial information and media, and is listed on the Mothers board of the Tokyo Stock Exchange (symbol: 9399) (OTC ADRs:



新华远东中国评级 Xinhua Far East China Ratings

XHFNY). Bridging China's financial markets and the world, Xinhua Finance serves financial institutions, corporations and re-distributors through four focused and complementary service lines: Indices, Ratings, Financial News and Investor Relations. Founded in November 1999, the Company is headquartered in Shanghai with 20 news bureaus and offices in 19 locations across Asia, Australia, North America and Europe. For more information, please visit www.xinhuafinance.com.

About Shanghai Far East Credit Rating Co., Ltd

Shanghai Far East Credit Rating Co., Ltd. is the first and leading professional credit rating company with comprehensive business coverage in China. It is an independent agency established by the Shanghai Academy of Social Sciences with the mission to develop internationally accepted standards for capital market in China. The company is a pioneer in conducting bond-rating business in China. For years, it has been authorized by the Shanghai branch of the PBOC to undertake loan certificate credit rating.

Since establishment, it has rated over 1,000 corporate long-term bonds and commercial papers, based on the principles of objectivity, fairness and independence. The company has also maintained over 50% market share in the loan certificate-rating sector in Shanghai for three consecutive years. With its strong local presence and knowledge, it provides investors with unique and the most insightful credit opinion. For more information, see www.fareast-cr.com.