

2007 Corporate Credit Rating Report on ShanXi Taigang Stainless Steel Co., Ltd.

No. D 【2007】 056 Report (Issuer)

Corporate Credit Rating :
AA+

Issuer: ShanXi Taigang Stainless Steel Co., Ltd.

Rating outlook: Stable

(times)			
Operating net cash flow to total liabilities (%)	12.19	16.19	31.89

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

Item	2006	2005	2004
Total assets	408.23	118.44	110.66
Owners' equity	132.82	54.06	48.86
Main business revenue	400.86	237.51	224.10
Total profits	33.59	10.61	13.35
Operating net cash flow	20.03	9.42	16.37
Debt to asset ratio (%)	65.99	49.97	51.64
Debt to capital ratio (%)	57.70	36.65	31.21
Main business gross margin (%)	14.29	6.63	7.50
Return on total assets	9.11	9.45	12.72
Return on net assets	18.25	14.37	20.64
EBITDA to interest coverage ratio	3.35	14.82	22.39

Rating Opinions

ShanXi Taigang Stainless Steel Co., Ltd. ("Taigang Stainless Steel" or the company) is the world largest stainless steel manufacturer. The rating result reflects the company's advantage in development prospect, production scale, market share, technology and equipment, technical innovation and cost control. Despite rising raw material prices and fierce market competition at home and abroad, the company's strong guarantee for debt repayment will not be affected substantially.

It is expected that the company's sales revenue will maintain steady and sound growth and profitability keep stable with newly built projects gradually generating economic benefits and product mix adjustment in the next couple of years. Therefore, the rating outlook for the company is stable.

Main advantages/opportunities

- The company faces beneficial development prospect amid stable and sustainable development of the national economy;
- The company's products coat is below the industry

average and enjoys evident competitive advantage in cost relying on its rich iron ore source, advanced technology and equipment as well as abundant coal and electricity resource in Shanxi province;

- The company is the world largest stainless steel producer, taking an important position in the domestic iron and steel industry and boasting remarkable scale advantage;
- The company owns internationally advanced technology and equipment, helping it diversify product mix, lower production costs and boost comprehensive strength;
- The company has achieved a lot of scientific research results by sticking to its technology

innovation strategy, and maintained a leading position in technology in the domestic stainless steel sector;

- The company saw enlarged asset scale, and impressive increase in main business revenue and profitability after it acquired steel assets of Taiyuan Iron & Steel (Group) Co., Ltd. in 2006

Main risks/challenges

- The company will face increasingly tough market competition at home and abroad in the wake of substantially expanding stainless steel capacity both domestically and globally;
- The company's stainless steel production cost is on the rise following recent sharp rise in nickel prices;
- Recent considerable increase in debt to asset ratio is expected to lead to rather high financial expenses.

Dagong Global Credit Rating Co., Ltd.

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