



[For Immediate Release]

Xinhua Finance/MNI China Business Survey: Sentiment Leaps

Shanghai, March 24, 2006 – Xinhua Finance (TSE Mothers: 9399) and Market News International (MNI), a part of the news service line of Xinhua Finance, today announced the first-quarter Xinhua Finance/MNI China business sentiment survey. The results of the survey suggested that Chinese business conditions and sentiment have leapt ahead after three quarters of relatively flat conditions.

The survey was completed March 6-21 with 140 listed companies responding. A result greater than 50 implies growth or improving conditions. (See accompanying story for more on the survey methodology.)

The survey results can be found at

<http://www.xinhuafinance.com/en/main/chinabizsurvey.html>

Many of the survey indexes assessing current conditions for the first quarter of this year came close to or topped the results of the survey from the first quarter last year, the first and to date most positive result.

The index for overall current business conditions was at 73.91, for example, up from 67.41 in the fourth quarter of last year and compared with 78.03 in the first quarter last year.

The index for the current state of new orders hit its highest level yet, at 78.35 compared with 69.38 in the previous quarter and 75.83 a year ago. The index reflecting current order backlogs also rose, to 56.00 from 43.7 in the previous survey and from 49.00 in the survey from the first quarter last year.

The indexes reflecting expectations for conditions three months ahead were even stronger, with many of them suggesting respondents are more positive about the future than they have been at any time since the survey began.

The index reflecting expectations for overall business conditions in three months hit 85.14, its highest level ever, up from 70.00 in the previous survey and 75.00 a year ago.

The index assessing expectations for the financial state of companies in three months also hit the

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highest level yet, at 79.41 compared with 68.56 in the last survey and 77.27 in the first quarter last year.

The survey results fell sharply in the second quarter last year as government efforts to slow overheating parts of the economy took hold. Only some of those measures have since been loosened while others have been reinforced.

But there are signs that the economy has adapted and worked around the mostly administrative measures put in place, leaving the government to redouble its efforts in the last few weeks to stem overheating parts of the economy.

In a harshly-worded statement to provincial governments and ministries dated March 12 but released in the official press this week, China's State Council urged the tightening of controls on new projects to avoid a rebound in fixed-asset investment and stem over-capacity.

The State Council, China's cabinet, urged all provincial governments and ministries to "accelerate consolidation in sectors with over-capacity problems," saying that overheating sectors and the overcapacity that has resulted is a "key problem in economic development."

The government's latest attempts to control growth come amidst other signs that the economy is far from slowing. China's fixed-asset investment jumped 26.6% year-on-year in the first two months of this year, which showed little sign of slowing down and was far above the government target of 18% for 2006.

The survey suggests that companies continue to accelerate production. The index for current production reached its highest level yet, at 78.89 compared with 69.08 in the previous quarter and 77.42 in the first quarter of 2005.

Expectations for production three months from now rose to 83.33 from 72.14 in the last quarter, although still under the 83.87 hit in the survey a year ago.

There are a number of possible explanations for the increasing optimism of the majority of respondents in the survey, aside from basic business conditions.

For one, Chinese companies listed on the stock markets (as are all respondents in the survey) are

overwhelmingly state-owned enterprises and as such may expect to benefit from the introduction of the government's latest five-year plan.

Analysts say the plan, which attempts to shape the economy to meet general government goals, tends to result in money being front-loaded in key areas and on special projects at the start of the five-year periods covered.

Indeed, some of the respondents said they are encouraged that their companies will benefit from the latest 5-year plan.

"Thanks to the national policy that favors agricultural development, the group's revenues will be boosted," said a respondent from a company that makes agricultural equipment (respondents were encouraged to include comments with their submissions). Agriculture is a key area targeted in the government's latest plan.

"The industry outlook is promising as a result of the (government's) urbanization policy and mechanization of the agricultural sector," said an official with a maker of farm and construction equipment.

Some companies also suggested that the government's efforts to stem overcapacity had either proven a benefit to them already or were expected in the future, as smaller competitors were removed from the market.

Company officials in the coal, steel and aluminum industries, all targeted by the government as sectors seeing overcapacity, said the removal of smaller players was improving their outlook.

"National policies have resulted in the consolidation of the steel industry, which has resulted in improvements in (our) profit margins," said an official at one steel firm.

Although the comments from some companies indicated continued concerns that their costs were rising while their ability to pass on costs was limited (a key complaint in past surveys), the overall results suggested the majority were finding price conditions improving.

The index reflecting current prices received rose to 57.25, the highest result since 64.62 in the first quarter of last year. The index for expectations of prices received in three months rose to 60.31, its



highest level yet, from 53.03 in the previous survey.

The index for input prices also rose, although not as dramatically as that for prices received and lower than the index in the first two quarters of last year.

Although the government has attempted to tighten credit in a series of measures over the last year or so, the survey results echo official data that show liquidity has continued to increase.

The index for the current availability of credit rose to 63.49, up from 57.81 in the previous quarter and the highest result yet.

Government efforts to tighten credit through administrative measures have been at least partially offset by the effects of its purchase of vast amounts of dollars flowing into China. Despite increasing efforts at sterilizing those purchases by removing larger and larger amounts of yuan from the system in its money market operations, data show liquidity continuing to rise.

The latest figures for M2 money supply show that growth hit a near-two year high in January, rising 19.2% over the same month last year.

The survey results may have been affected by seasonal factors, since the survey is not adjusted for changing corporate conditions over the course of the year.

The next survey will be released in three months.

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Xinhua Finance/MNI China Business Survey Methodology

The Xinhua Finance/MNI China Business Sentiment Survey was conducted March 6-21 with 140 companies taking part.

Survey questions were modeled on Japan's Tankan survey and the U.S. Institute for Supply Management's Report on Business.

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Results were compiled for both current conditions compared with three months ago and for expectations of conditions three months ahead.

Indexes were compiled using the Institute for Supply Management's example: adding half of the percentage saying conditions were unchanged to the percentage of those saying conditions had improved generated the index. Therefore, a result higher than 50 indicates a net positive response.

Companies agreed to participate in the survey, and to provide comments about business conditions, under the assurance that individual survey responses would not be divulged except as part of the overall results.

Companies surveyed were all listed on domestic stock markets or in Hong Kong, although some also have foreign listings. The companies chosen were a mix of manufacturers and non-manufacturers with about 75% of the companies responding to the survey in manufacturing.

The next survey will be released in three months.

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Notes to Editors:

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