



**[For Immediate Release]**

## **Xinhua Finance/MNI China Business Survey: Sentiment Falls**

**Shanghai, June 23, 2006** – Xinhua Finance (TSE Mothers: 9399) and Market News International (MNI), a part of the news service line of Xinhua Finance, today announced the second-quarter Xinhua Finance/MNI China business sentiment survey. The results of the survey suggested that government efforts to slow the economy after scorching first-quarter growth have sharply curtailed the expectations of Chinese businesses.

The survey was completed June 5-19 with 160 listed companies responding. A result greater than 50 implies growth or improving conditions. (See accompanying story for more on the survey methodology).

The full survey results can be found at  
<http://www.xinhuafinance.com/en/main/chinabizsurvey.html>.

After improving markedly in the first quarter, the survey shows expectations for future orders, production and business conditions falling across the board in the wake of government moves to slow an overheating economy.

Chinese companies still expect production, new orders, overall business conditions and most of the other factors measured by the survey to rise. But their expectations for the pace of growth have fallen, in the case of production capacity to the lowest index levels recorded in the survey's history.

The index for expectations of overall business conditions in three months fell to 74.65 in the second quarter from 85.14 in the first quarter. The index for future production fell to 76.1 from 83.33 in the first quarter while the index for future new orders fell to 74.61 from 85.43 in the first quarter.

Most of the indexes showing current conditions were down from the first quarter survey, although not as sharply as those of the indexes reflecting expectations of conditions in three months.

The index for current production fell to 71.69 in the second quarter from 78.89 in the first quarter while the index for current new orders fell to 75.78 from 78.35. The index for current overall business conditions fell slightly to 72.22 from 73.91 in the first quarter.

The indexes for production capacity, both for current conditions and future expectations, fell to the lowest levels since the survey started in the first quarter of 2005. The index for current production capacity fell to 65.63 in the second quarter from 73.91 in the first quarter while the index for production capacity in three months dropped to 70.83 from 77.90 in the last survey.

The results suggest that businesses expect government efforts to slow the economy will affect their business and may already be affecting their planning.

First-quarter data showed GDP grew at 10.3%, urban fixed asset investment grew 27.7% and bank loans rose 70% year-on-year to 1.26 trillion, already half of the government target of 2.5 trillion for the full year.

The government responded by raising benchmark lending rates by 27 basis points on April 27 and hiking the reserve requirement for banks by 0.5 percentage point last Friday. It also has also been using targeted money market operations to penalize banks it sees as having loaned more than appropriate in the first quarter.

Expectations for future interest rates rose sharply, to 62.78 in the second quarter from 51.17 in the first.

The government moves came after more than a year of warnings about the possibility of overheating in some sectors, combined with administrative and other measures aimed at slowing those sectors.

Past government efforts to tighten credit through administrative measures were at least partially offset by the People's Bank of China's deliberate easy money policy which was instituted last year to prepare the financial system for that summer's currency reforms.

Despite stepping up sterilization operations and an aggressive campaign to engineer interbank lending rates higher, data have been showing liquidity continuing to rise.



Some companies responding to the survey say the fluctuating value of the yuan is already affecting their operations or is expected to affect them in future. The yuan has risen about 3.4% since the government removed its peg to the dollar last summer.

Said one maker of electric equipment: "The appreciation of the (yuan) will make exporting more difficult."

A medical equipment maker complained that "the fluctuation of exchange rates is having some impact on our exports."

While Chinese exports have continued to rise, the People's Bank of China has warned that companies are not adjusting to increasing volatility in currency rates as well as they should.

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 June 5-19 with 160 companies taking part.

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

Results were compiled for both current conditions compared with a month 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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**More Information:**

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**Notes to Editors:**



### **About Xinhua Finance Limited**

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