



[For Immediate Release]

Xinhua Finance/MNI China Business Survey: Conditions Improve

Shanghai, October 27, 2006 – Xinhua Finance (TSE Mothers: 9399) and Market News International (MNI), a part of the news service line of Xinhua Finance, today announced the October Xinhua Finance/MNI China business sentiment survey. The results of the survey suggest operating conditions for Chinese companies have improved since the record lows recorded at the end of the third quarter as the threat of more aggressive tightening measures from the government recedes.

The survey was carried out October 9-23 with 141 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>

According to the survey, overall business conditions have turned up slightly, with respondents expecting them to continue their moderate improvement into next month, while production levels have also recovered from the record lows recorded last month. But conditions remain well below the levels seen during the first quarter of this year, before Beijing started tightening monetary and administrative policies.

The recovery in sentiment in the survey, the first monthly result for the formerly quarterly offering, follows a stream of data suggesting that economic activity is moderating following the series of actions taken by government departments since the start of the second quarter.

The slowdown in key economic indicators such as M2 and fixed-asset investment, first evidenced in August indicators but confirmed by those released in the following two months, has led to a significant downgrading of the possibility that the People's Bank of China will raise interest rates for a third time this year before the end of December.

As such, interest rate expectations have stabilized markedly since the last survey, with the index falling back to 55.64, down from the third quarter's record high of 66.67 but up from the first quarter's 50.00.

"It seems that businesses believe the first round of controls was relatively effective in slowing lending growth, and that further hikes and new tightening measures are unlikely," said Logan Wright, a Beijing-based analyst with Stone & McCarthy, a sister company of Market News International.

"But the survey results also suggest that the level of activity isn't what it was at the start of the year, and is unlikely to regain that first quarter pace."

Although the government has claimed initial success in bringing economic activity under control, it has also warned of the risks of rebounding and, as such, is keeping the pressure on local governments and banks to keep investment under control.

That's also reflected in the index measuring the availability of credit, which fell to a record low in October of 55.51 from 58.80 recorded in the third quarter survey. Expectations for credit availability next month remain unchanged, also standing at 55.51.

"The sharp decline in the credit availability index seems to reflect a growing corporate belief in the maintenance of government controls on lending and fixed asset investment," said Wright.

Nonetheless, corporate finances appear to have returned to the level approaching that of the first quarter survey, just before the government announced that it was raising benchmark lending rates in what marked the opening gambit in the tightening campaign. The index measuring companies' financial positions hit 67.63 in October, up nearly 5 points on the September reading and not far below the 69.85 seen in the first quarter.

The index measuring overall business conditions rose to 68.44, from the 66.99 recorded in the third quarter, while that measuring expectations for conditions in one month rose to 71.99.

The production index bounced back to 68.75 from the 65.85 recorded in the last survey and nearing levels last seen during the fourth quarter of last year, when the index stood at 69.08.

Production levels are expected to continue increasing, with the index measuring future expectations standing at 68.01.



The improvement in operating conditions was also seen in indices measuring prices.

Companies reported that the prices they receive for their products have recovered slightly -- rising to 55.80 from 53.31 in the last survey -- and are expected to continue rising moderately next month.

Input prices have also eased off, respondents reported. The index fell back to 64.23 last month, down from the last survey's 66.67.

Order backlogs are improving again too, after falling sharply in the third quarter survey, with the index climbing back to 55.08, a level not seen since the first quarter.

The index measuring employment recovered sharply from the record low of 43.42 hit in the September survey, bouncing back to 51.43, indicating more companies were reporting a shortage of workers than were reporting an excess. That's also just shy of the record high of 51.85 seen in the January-March survey earlier this year.

But difficulties clearly remain. The index measuring new orders continued to deteriorate -- even as it remains comfortably in expansionary territory -- falling to 68.08 from 70.14 in the last survey. That compares with the 69.83 recorded in the survey taken at the same time last year. The index covering expectations for new orders in a month stood at 73.08.

Despite the improvement in production, the index measuring productive capacity has fallen to a record low of 62.59, suggesting that the growth of productive capacity slowed. Respondents expect the pace of productive capacity growth will improve slightly next month, even if the index measuring future expectations also stands at a record low of 65.47.

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Xinhua Finance/MNI China Business Survey Methodology

The Xinhua Finance/MNI China Business Sentiment Survey was conducted October 9-23 with 141 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 one month 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.

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Notes to Editors:

About Xinhua Finance Limited

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For more information, please visit www.xinhuafinance.com.

About Market News International

Market News International (MNI), a Xinhua Finance company (www.xinhuafinance.com), is a financial news and information company dedicated to the global fixed income and foreign exchange markets. MNI joined the Xinhua Finance family in March 2004, bringing its niche expertise and extensive distribution network. Headquartered in New York, MNI has news bureaus and offices throughout the US, Europe and Asia.

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