

PMI Report on Manufacturing



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The China Purchasing Managers' Index series is produced by NTC Research, an independent research company that produces 45 surveys of business conditions in 19 countries.

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Modest month-on-month increases in output and new orders. Input prices rise for first time in four months.

The CLSA China Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector – indicated a further slight improvement in business conditions at Chinese manufacturers in February. After accounting for the strong seasonality associated with the Chinese New Year, the PMI recorded 50.7 in February, up from 50.2 in January and above 50.0 for the third straight month.

The marginal improvement in the headline PMI in February largely reflected more positive contributions from its new orders and output components. Total volumes of incoming new business rose for the twenty-third consecutive month in February and, although still only modest, the pace of increase picked up slightly from January. New business wins were reported from both domestic and export clients, with growth of orders from foreign markets showing slightly the stronger increase.

After accounting for strong seasonal factors, the underlying trend in Chinese manufacturing output also improved in February, following four consecutive months of near-stagnation in production. The pick up in growth to a five-month high was linked to higher sales.

February's survey confirmed that capacity at Chinese manufacturers remained sufficient to deal with existing workloads. Backlogs of outstanding work

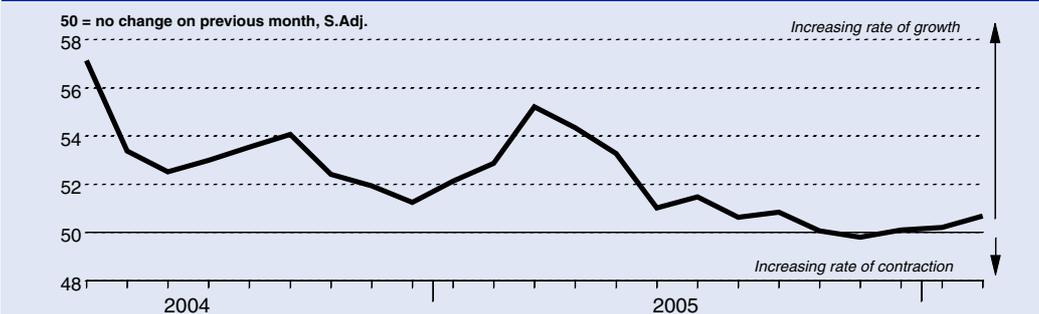
fell marginally during the month, having remained unchanged in January, while firms also reported a further slight fall in employment levels – the seventh in successive months.

Manufacturers maintained tight controls over inventories in February, as they remained reluctant to tie up capital in stock. Stocks of both purchases and finished goods were reported to have fallen from a month earlier, the third and seventh consecutive monthly declines respectively. The latest drop in inventories of inputs occurred despite a slight pick up in growth of purchasing – and reflected the strategy amongst the majority of manufacturers that purchasing should only cover immediate existing production requirements.

Following three consecutive months of deflation, average purchase prices faced by Chinese manufacturers rose slightly in February. Copper, non-ferrous metals and oil were all reported to have risen in price over the month. Despite the increase in input costs, strong competition, weak demand and excess supply prevented all but 4% of manufacturers from raising their output prices in February. Measured overall, average factory gate prices fell for the ninth consecutive month as a result.

Finally, suppliers' delivery times lengthened marginally in February from a month earlier, but the vast majority (94%) of firms reported that average supplier lead-times were unchanged over the month.

CLSA China Purchasing Managers' Index (PMI™)



Index Summary

(seasonally adjusted, 50 = no change on previous month)

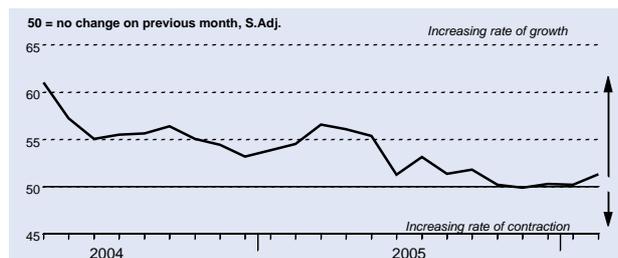
	PMI	Output	New Orders	Export Orders	Backlogs of Work	Finished Goods Stock	Employment	Output Prices	Input Prices	Delivery Times	Quantity of Purchases	Stocks of Purchases
Sep '05	50.9	51.8	52.6	52.3	54.4	47.3	49.4	49.9	56.3	49.7	53.4	47.0
Oct	50.1	50.2	51.0	51.1	52.0	49.4	49.1	49.4	52.1	50.9	52.7	50.2
Nov	49.8	49.9	50.9	51.9	51.4	49.9	49.5	48.6	46.8	52.5	52.0	50.3
Dec	50.1	50.3	51.9	52.7	52.1	49.2	49.3	46.3	44.3	52.4	52.4	49.8
Jan '06	50.2	50.2	51.0	50.8	50.1	48.7	49.5	48.6	47.8	50.0	51.5	49.6
Feb	50.7	51.3	51.7	52.6	49.8	47.8	49.9	49.2	51.1	49.7	52.3	48.2

The CLSA China Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index and PMI are trademarks of NTC Economics Ltd.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj. Index
2005	Sep	25.2	59.8	15.0	10.2	55.1	51.8
	Oct	16.6	57.6	25.8	-9.3	45.4	50.2
	Nov	21.6	56.3	22.1	-0.4	49.8	49.9
	Dec	21.5	59.7	18.8	2.8	51.4	50.3
2006	Jan	22.8	57.5	19.7	3.1	51.6	50.2
	Feb	11.7	50.2	38.1	-26.4	36.8	51.3

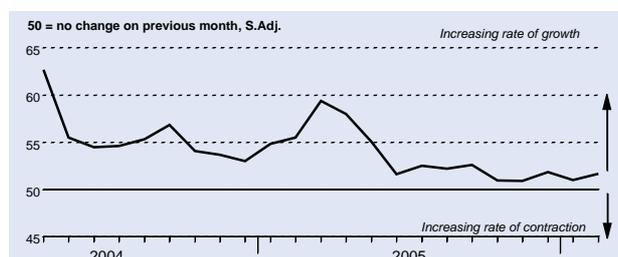


After accounting for the strong seasonal effects of factory closures and holidays for the Chinese New Year, February's data indicated a further modest month-on-month rise in Chinese manufacturing production. The seasonally adjusted Output Index recorded 51.3, up from 50.2 in January and its highest level in five months to signal a slight underlying improvement in production growth. Improved sales were reported by those manufacturers that saw a rise in their output levels from a month earlier. Shortages in the supply of electricity were reported by a number of firms that saw their output fall.

New Orders Index

Q. Please compare the level of new orders received (China and export) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj. Index
2005	Sep	22.4	68.1	9.5	12.9	56.4	52.6
	Oct	15.1	66.9	17.9	-2.8	48.6	51.0
	Nov	20.1	65.0	14.9	5.1	52.6	50.9
	Dec	23.5	59.7	16.8	6.7	53.3	51.9
2006	Jan	14.8	71.5	13.7	1.1	50.5	51.0
	Feb	11.6	72.5	15.9	-4.3	47.9	51.7

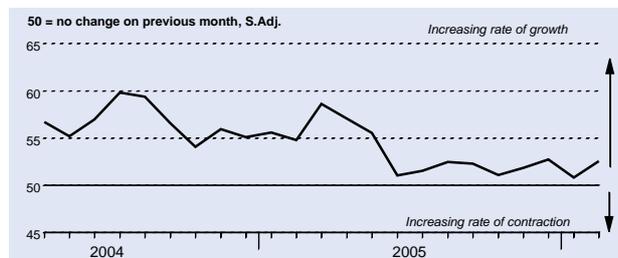


The Spring Festival holidays also had a strong seasonal effect on February's new orders data. After accounting for this, the New Orders Index rose slightly to record 51.7 in February from 51.0 in January, but remained well down on the long-run series average. The latest underlying improvement in total new orders was linked by manufacturers to a strengthening in market demand, the launch of new products and enhanced product quality. Those companies that saw their orders decline during the month reported that demand for their products had weakened.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj. Index
2005	Sep	18.5	73.8	7.7	10.8	55.4	52.3
	Oct	14.4	71.3	14.3	0.0	50.0	51.1
	Nov	15.7	74.5	9.8	5.9	53.0	51.9
	Dec	20.8	69.4	9.8	11.0	55.5	52.7
2006	Jan	6.4	86.5	7.1	-0.6	49.7	50.8
	Feb	10.3	80.4	9.3	1.0	50.5	52.6

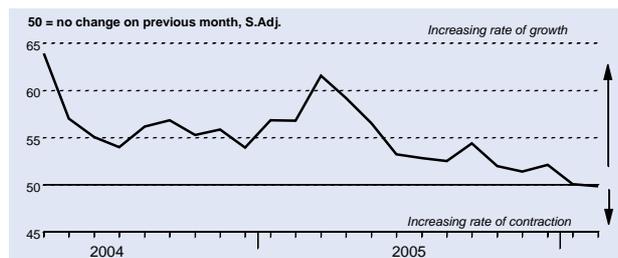


Chinese manufacturers reported a rise in new export orders for the twenty-third successive month in February. Increasing demand in export markets was reported to have boosted foreign sales during the month. February's seasonally adjusted New Export Orders Index recorded 52.6, up from 50.8 in January to signal a modest acceleration in the pace of growth of exports from a month earlier.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj. Index
2005	Sep	25.3	65.2	9.5	15.8	57.9	54.4
	Oct	17.3	65.3	17.4	-0.1	49.9	52.0
	Nov	12.7	79.0	8.3	4.4	52.2	51.4
	Dec	13.9	79.2	7.0	6.9	53.4	52.1
2006	Jan	6.4	86.4	7.2	-0.8	49.6	50.1
	Feb	9.2	82.9	7.9	1.3	50.6	49.8

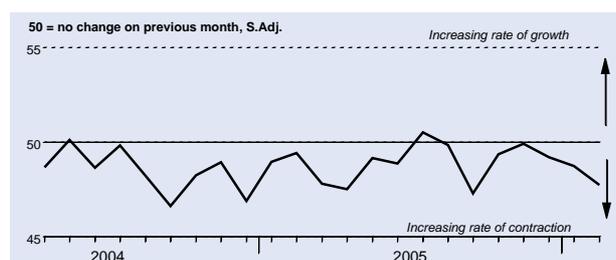


At a level of 49.8 in February, down from 50.1 in January, the seasonally adjusted Backlogs of Work Index signalled a marginal decline in volumes of outstanding business at Chinese manufacturers for the first time in the twenty-three month survey history. Those manufacturers that reported a decline in their outstanding workloads attributed the fall to weaker growth of new business and increased production. Where backlogs of work rose, the increase was generally blamed on a reduction in the number of working days as a result of the Spring Festival.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj. Index
2005	Sep	7.0	79.6	13.3	-6.3	46.8	47.3
	Oct	10.3	77.5	12.2	-1.9	49.1	49.4
	Nov	13.6	77.5	9.0	4.6	52.3	49.9
	Dec	11.9	72.9	15.2	-3.3	48.4	49.2
2006	Jan	9.3	79.6	11.1	-1.8	49.1	48.7
	Feb	4.8	83.6	11.7	-6.9	46.5	47.8

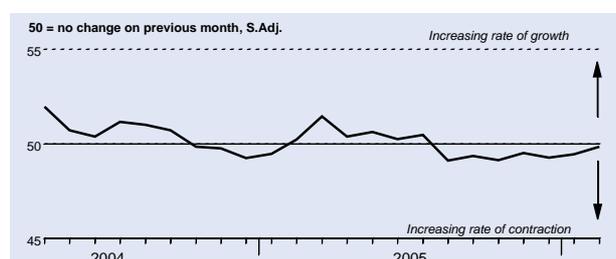


Inventories of finished goods at Chinese manufacturers fell for the seventh consecutive month in February, with the pace of decline picking up slightly to the sharpest in five months. With around 12% of all companies reporting a fall in their stocks against just 5% reporting a rise, the seasonally adjusted Stocks of Finished Goods Index dropped to 47.8 from 48.7 in January. A reduction in output and the faster dispatch of new orders were the principal reasons given for the latest decline in inventories.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj. Index
2005	Sep	4.4	91.0	4.6	-0.1	49.9	49.4
	Oct	2.7	92.5	4.8	-2.1	48.9	49.1
	Nov	2.7	92.8	4.5	-1.8	49.1	49.5
	Dec	6.4	85.4	8.2	-1.8	49.1	49.3
2006	Jan	1.7	94.6	3.8	-2.1	48.9	49.5
	Feb	1.4	96.3	2.3	-0.9	49.5	49.9

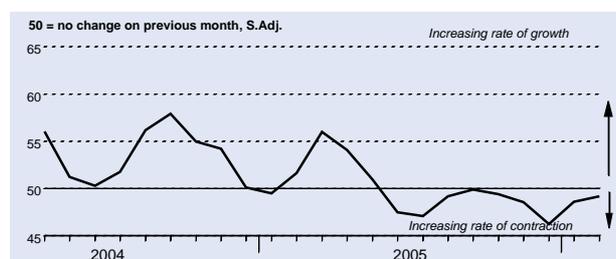


The seasonally adjusted Employment Index rose slightly for the second month running in February but, at 49.9, remained just below the no-change mark of 50.0 that divides expansion from contraction. The Index therefore signalled a marginal contraction of the Chinese manufacturing workforce for the seventh month running. Those companies that reported a decline in their staffing levels from a month earlier (just 2.3%), attributed the fall to weaker growth of new business. Nevertheless, the vast majority of firms (96.3%) reported no change to their workforce numbers from a month earlier.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj. Index
2005	Sep	9.9	80.4	9.7	0.2	50.1	49.9
	Oct	9.8	80.4	9.8	0.0	50.0	49.4
	Nov	10.8	75.1	14.1	-3.3	48.4	48.6
	Dec	6.1	79.1	14.8	-8.7	45.6	46.3
2006	Jan	6.7	83.5	9.8	-3.1	48.4	48.6
	Feb	3.6	90.5	5.9	-2.3	48.9	49.2

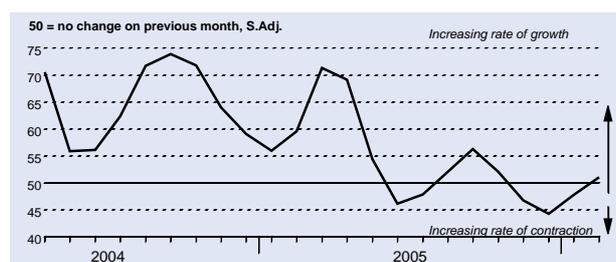


Average prices charged by Chinese manufacturers for their finished goods fell in February for the ninth consecutive month. Although up for the second month running from last December's survey low, at 49.2 in February, the seasonally adjusted Output Prices Index remained slightly below the no-change mark of 50.0. Strong competition, weaker market demand and the over supply of certain products were all reported to have forced prices down in February. Where charges rose, the increases were generally linked to higher raw material costs.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj. Index
2005	Sep	28.8	56.8	14.3	14.5	57.3	56.3
	Oct	14.5	73.2	12.3	2.2	51.1	52.1
	Nov	11.5	62.2	26.3	-14.8	42.6	46.8
	Dec	10.1	66.0	23.9	-13.9	43.1	44.3
2006	Jan	9.9	76.5	13.7	-3.8	48.1	47.8
	Feb	17.8	78.5	3.7	14.1	57.0	51.1

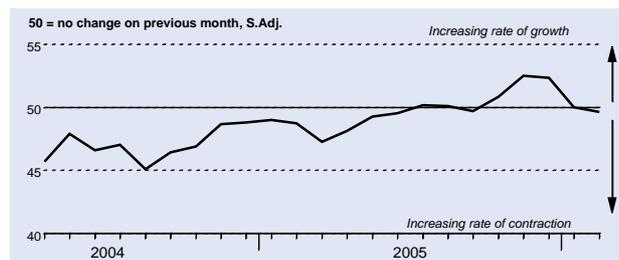


Average input prices faced by Chinese manufacturers rose slightly in February following three consecutive months of deflation. The seasonally adjusted Input Prices Index rose to 51.1 from 47.8 in January as almost 18% of companies reported that their purchase prices had risen. A wide variety of raw materials were reported to have increased in price from a month earlier, with the cost of copper, non-ferrous metals and oil in particular reported to have risen. Just 4% of manufacturers reported a decline in their average purchase prices in February.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

	Faster %	Same %	Slower %	Net %	Index	S.Adj. Index
2005 Sep	5.3	88.6	6.1	-0.8	49.6	49.7
Oct	4.6	92.7	2.7	1.9	50.9	50.9
Nov	6.8	91.3	1.9	4.8	52.4	52.5
Dec	8.0	88.5	3.4	4.6	52.3	52.4
2006 Jan	1.2	96.1	2.7	-1.6	49.2	50.0
Feb	0.6	94.4	5.0	-4.4	47.8	49.7

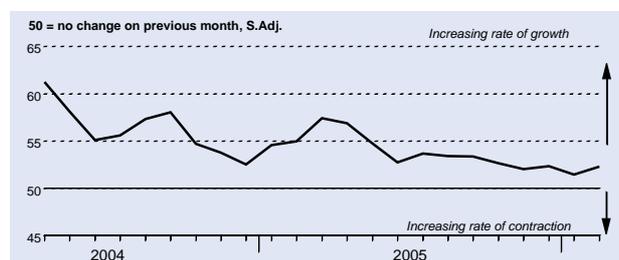


A third consecutive decline in the seasonally adjusted Suppliers' Delivery Times Index took the series to a five-month low in February and a level (49.7) below the no-change mark of 50.0 for the first time since last September. The slight lengthening of average delivery times signalled by the Index was attributed to a combination of stronger purchasing and poor weather. Once again, however, the vast majority of manufacturers (94.4%) reported no change in delivery times from a month earlier.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

	Higher %	Same %	Lower %	Net %	Index	S.Adj. Index
2005 Sep	25.5	57.2	17.2	8.3	54.2	53.4
Oct	21.7	60.7	17.7	4.0	52.0	52.7
Nov	22.3	57.2	20.5	1.9	50.9	52.0
Dec	25.0	52.9	22.1	2.9	51.5	52.4
2006 Jan	22.7	62.2	15.0	7.7	53.8	51.5
Feb	11.4	66.5	22.1	-10.7	44.7	52.3

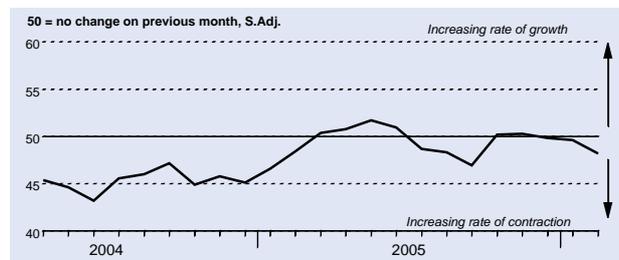


After accounting for strong seasonal effects associated with holidays around the Chinese New Year, purchasing by Chinese manufacturers of raw materials and semi-manufactured goods for use in the production process rose for the twenty-third consecutive month in February. Increased purchasing largely reflected higher production requirements and efforts to meet rising sales. The vast majority of companies reported that any purchasing was made on a just-in-time basis to avoid causing any build-up of stocks.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

	Higher %	Same %	Lower %	Net %	Index	S.Adj. Index
2005 Sep	11.9	69.2	18.9	-6.9	46.5	47.0
Oct	11.5	75.3	13.2	-1.6	49.2	50.2
Nov	16.0	69.1	14.9	1.2	50.6	50.3
Dec	15.6	64.7	19.7	-4.1	47.9	49.8
2006 Jan	12.5	76.2	11.3	1.1	50.6	49.6
Feb	4.5	79.3	16.3	-11.8	44.1	48.2



Inventories of purchases at Chinese manufacturers declined for the third month running in February. The seasonally adjusted Stocks of Purchases Index recorded 48.2, down from 49.6 in January and its lowest level since last September. The latest reduction in inventories of inputs largely reflected the use of existing purchases in production and deliberate efforts to run down stocks in order to free up working capital.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Chinese Industrial Production. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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