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HSBC China Services PMI™

January data signals solid rise in both activity and new business

Key findings:

- · New business increases at the quickest pace in eight months
- · Strong expansion of workforce numbers
- Input prices increase in January, but output charges fall

January data signalled a solid expansion of business activity in China's service sector. New business also rose at a solid pace in January, with the rate of growth the fastest in eight months. The level of outstanding business continued to decline for the twelfth successive month, albeit slightly. Meanwhile, employment levels increased and at the second-fastest rate in the last 19 months. On the price front, input costs increased at a marked pace, while average tariffs were lowered following a slight increase in December. Service providers remained optimistic regarding the one-year business outlook in January, with the level of confidence the highest in the past eight months.

After adjusting for seasonal factors, the headline Business Activity Index posted 54.0 in January, signalling a solid rate of expansion in service sector activity. The rate of growth accelerated from the previous month, with the index posting above December's reading of 51.7. Moreover, it was the strongest rate of expansion for the past four months. A number of survey respondents attributed the rise in business activity to new projects and new orders growth. Overall, new business volumes rose solidly over the month, with the rate of growth the fastest in eight months. Growth of new orders was generally associated with improved market conditions.

The level of outstanding business at service providers fell for the twelfth month in a row in January, with just over 5% of panellists reporting a reduction in work-in-hand. The rate of backlog depletion eased from the previous month to only a marginal

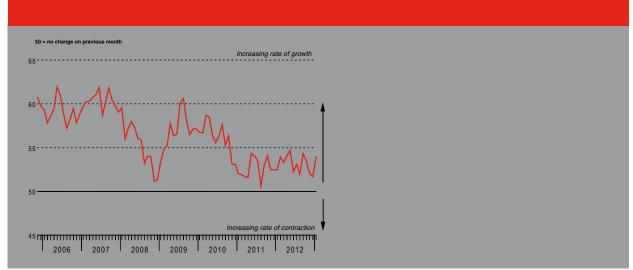
pace, and was the weakest since last September.

Workforce numbers continued to expand at Chinese service sector companies in January. The rate of job creation slowed from December but remained marked, with nearly 7% of survey respondents registering increased payroll numbers. Anecdotal evidence suggested that additional staff were hired in order to meet higher production requirements.

Average tariffs charged by service providers fell in January, following a marginal increase in December. That said, the rate of reduction was only slight. A number of panellists reduced their output charges in an effort to attract new business.

Average input costs continued to rise at service providers in January. Although the rate of input price inflation had eased from December it remained marked, with almost 9% of survey respondents signalling higher input costs. Inflation was generally associated with increased staff costs.

Chinese service providers remained optimistic regarding the one-year business outlook in January's survey. The Business Expectation Index indicated a higher degree of positive sentiment than that seen in the previous month, with more than 31% of survey respondents expecting business activity to increase in 12 months' time. Furthermore, the index posted its highest reading since May 2012. A number of panellists attributed their optimism to improving market conditions and growth of new business.



The survey uses a methodology identical to the HSBC China Manufacturing PMI^{TM} . The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Chinese services economy. Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously. $Purchasing Managers' Index^{TM}$ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

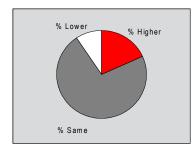




Business Activity Index

Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



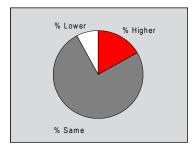


Business activity in the Chinese service sector continued to expand in January. The seasonally adjusted Business Activity Index indicated the rate of expansion accelerated from December to a solid pace, the quickest since September 2012. Over 18% of survey respondents reported a higher level of business activity in the latest survey period, compared with just over 9% that recorded a reduction. A number of panellists attributed the rise to new projects and growth of new orders.

New Business Index

Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



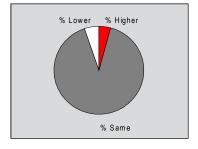


After adjusting for seasonal factors, the New Business Index signalled further growth of new orders in January. Latest data indicated that new orders increased at a solid pace, quicker than that seen in December. Moreover, it was the fastest rate of growth since May 2012, with nearly 17% of panellists noting an increased level of new business. The overall rise in new business in January was generally associated with improved market conditions.

Outstanding Business Index

Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



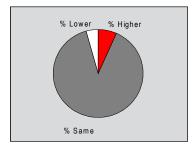


Backlogs of work decreased in the service sector in January, as they have in every month for the past year. The rate of depletion slowed from December and was slight, with just over 5% of panellists noting a lower level of work-in-hand. Moreover, it was the weakest reduction in four months with a majority of panellists (nearly 91%) recording no change.

Employment Index

Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



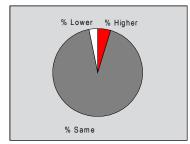


Staff numbers at Chinese service providers increased in January. Employment levels have now continuously risen for the past four years. The rate of job creation in the latest survey period eased slightly from the 26-month high recorded in December, but was still marked, with nearly 7% of survey respondents signalling increased payroll numbers. Anecdotal evidence suggested that the expansion of workforce numbers was due to higher production requirements.

Prices Charged Index

Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



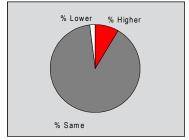


Output charges fell in January, following a slight increase in December. The rate of reduction was only slight, with just over 3% of panellists recording lower average tariffs. However, a majority (over 92%) reported no change. A number of survey respondents reduced their selling prices in hopes of attracting new business.

Input Prices Index

Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



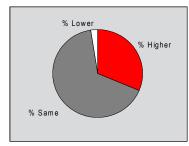


Average input prices faced by service providers continued to rise in January. The rate of input price inflation eased from December, but remained strong. That said, it was the slowest pace of inflation since July 2012. Almost 9% of panellists reported higher input costs, a number of which attributed the rise to increased staffing costs.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?





Firms in the Chinese service sector remained optimistic in January, with the level of overall business activity anticipated to increase in 12 months' time. The degree of optimism improved upon the previous month as signalled by the Business Expectations Index rising to its highest reading since May 2012. More than 31% of panellists anticipate an expansion of business activity in a year's time, compared with less than 3% that expect a reduction, as forecasts of improved market conditions and ongoing growth of new business are both expected to support the rise in output.

Notes on the Data and Method of Presentation

The China Services PMI™ covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read $50(100 \times 0.5)$, and so on. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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