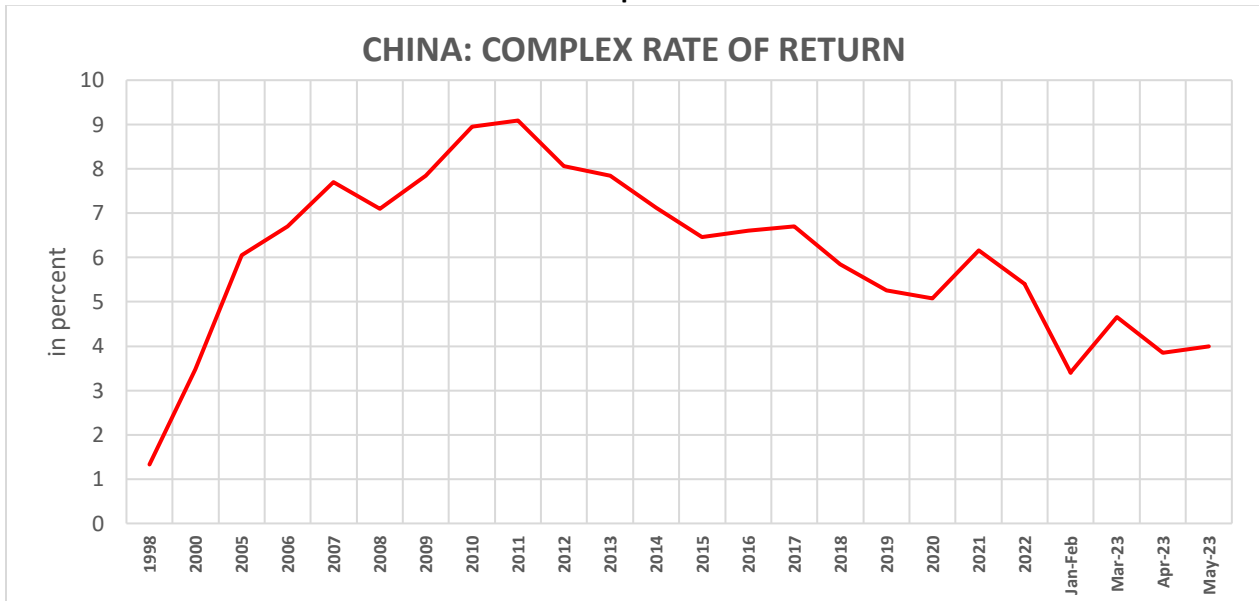


CHINA PROFITABILITY SAGS ONCE MORE.

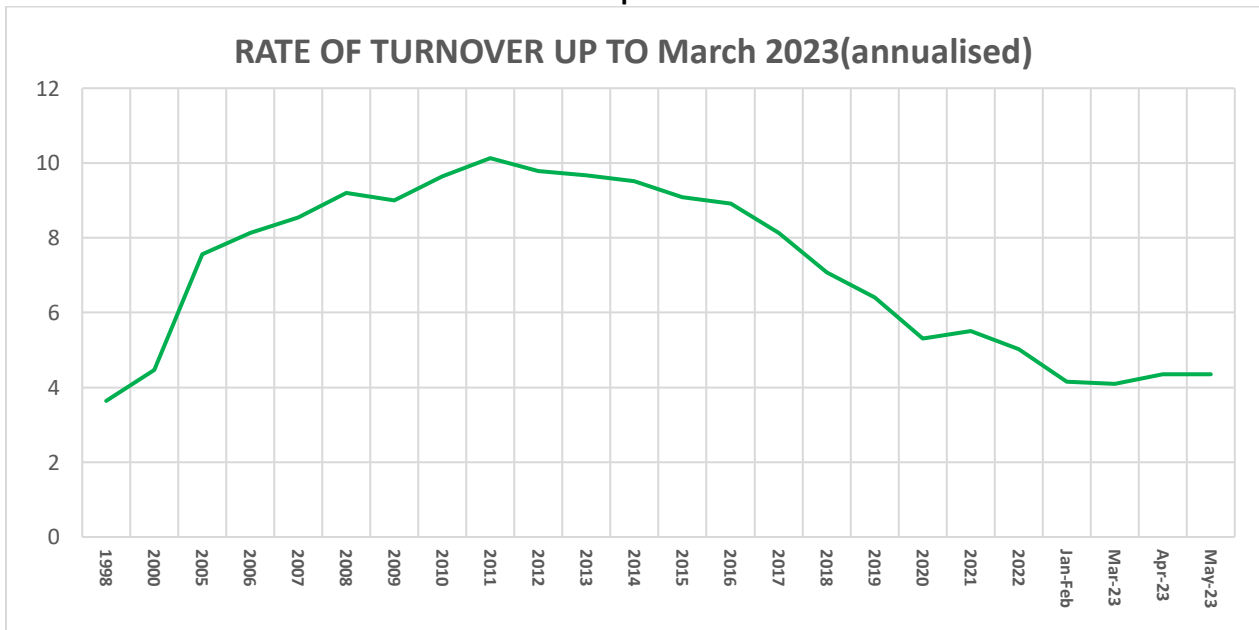
The Chinese Bureau of National Statistics released its profit figures for the period January to May today, allowing me to update the Complex Rate of Return as well as the Rate of Turnover. I have also included the Profit report from the Bureau for the period January to April, which can be found at the end.

In Graph 1, we see that the complex rate of return for the first five months of this year remains depressed with little improvement evident. At around 4%, the rate of return is less than half the rate Chinese Enterprises earned in 2011, and they are also down by a quarter from the COVID boost to exports in 2021.

Graph 1.



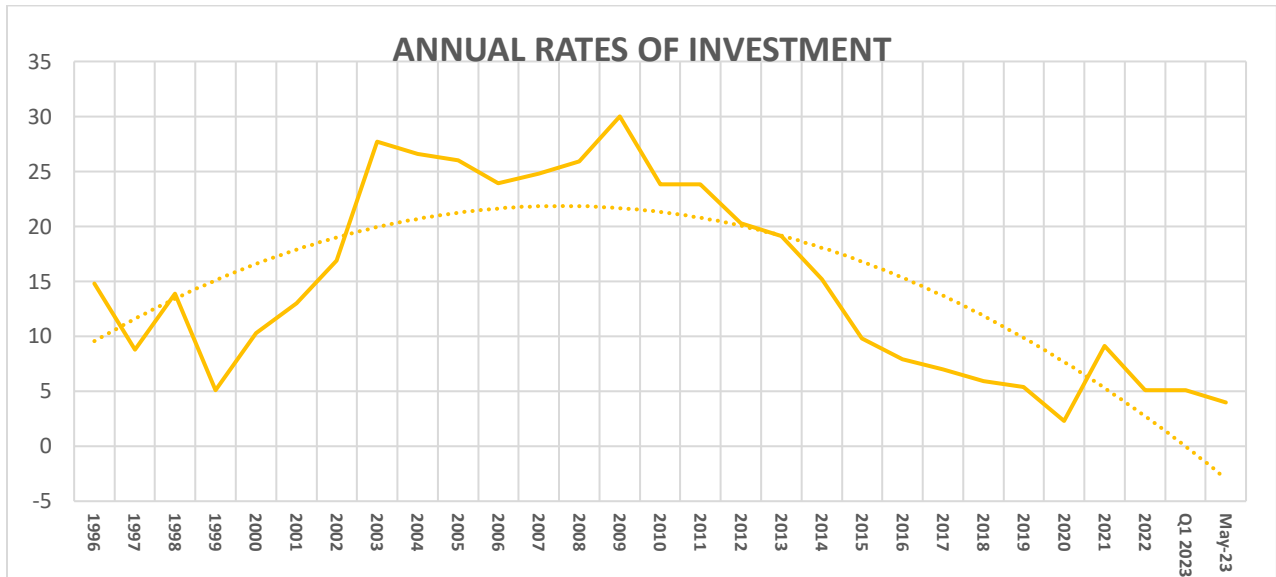
Graph 2.



We see a similar profile for the rate of return. It too remains depressed barely recovering from the lockdowns at the start of the year. Until the rate of turnover significantly accelerates, the complex rate of return cannot improve significantly. It is also the case that private enterprises are doing considerably worse than state owned enterprises both in terms of the rate of return and the rate of turnover. The difference in their profitability can be seen in the attached report from the Chinese Statistical Bureau below.

Predictably the fall in the rate of return has had an adverse effect on the rate of investment which remains subdued for the economy as a whole and which is falling for the private sector. The national annual rate of investment fell from 5% in the first quarter of 2023 to only 4% for the period January through to May showing a declining trend.

Graph 3.

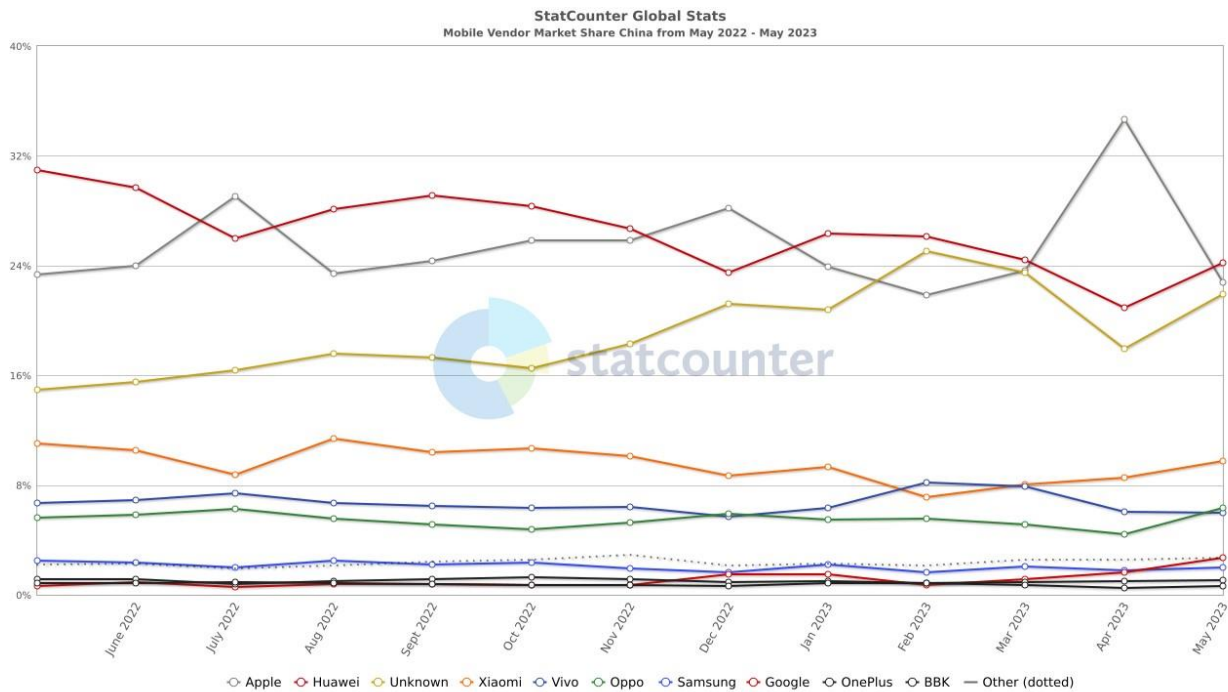


http://www.stats.gov.cn/english/PressRelease/202306/t20230620_1940782.html

On a positive note the *dual circulation strategy* seems to be working if the latest sales data from Huawei is anything to go by. It has increased its share of both the smartphone, computer, and tablet market at the expense of foreign rivals such as Apple and Samsung. This has been driven by Chinese consumers beginning to switch to Chinese products angered by the continuous efforts of the US, the EU, Japan, and South Korea to damage the Chinese economy and therefore their own prospects. The trend can be seen in the Graph below, where with a few monthly exceptions, Huawei has led Apple. Significantly the release of Huawei's latest phones in May seems to have boosted its sales at the expense of Apple. In addition Huawei's operating system, from which all elements of Android have now been scrubbed is beginning to gain a significant share of global smartphone operating systems.

However, on balance, as Western boycotts cover more and more tech chokepoints, it is creating significant headwinds for the economy. It is likely that China will have to reinvent the whole tech architecture built up over 30 years in the West. Until it does it remains vulnerable. However, in the meantime its economy and every Western economy will be hit by the boycott fall-out due to the loss of markets and the rise in costs.

Graph 4.



<https://gs.statcounter.com/vendor-market-share/mobile/china>

Brian Green, 28th June 2023.

The Profit of Industrial Enterprises above Designated Size from January to April in 2023

From January to April, the total profits of industrial enterprises above designated size reached 2,032.88 billion yuan, a year-on-year decrease of 20.6 percent (calculated on a comparable basis, see Annotation 2 for details). **In May it reached 2,668.9.**

From January to April, among industrial enterprises above designated size, state-holding enterprises realized a total profit of 757.98 billion yuan, a year-on-year decrease of 17.9 percent; the share-holding enterprises realized a total profit of 1,496.24 billion yuan, down 22.0 percent; the enterprises funded by foreign investors and investors from Hong Kong, Macao and Taiwan realized a total profit of 467.99 billion yuan, down 16.2 percent; the private enterprises realized a total profit of 524.03 billion yuan, down 22.5 percent.

From January to April, the mining industry realized a total profit of 475.24 billion yuan, a year-on-year decrease of 12.3 percent; the total profit of the manufacturing industry was 1,372.37 billion yuan, down 27.0 percent; the production and supply of

electricity, heat power, gas and water realized a total profit of 185.27 billion yuan, up 34.1 percent.

From January to April, among the 41 industrial categories, 13 industries saw year-on-year increase in total profits, 1 industry was flat, and 27 industries saw a decline. The profits of main industries were as follows: the total profit of production and supply of electricity and heat power increased by 47.2 percent year-on-year, the manufacture of electrical machinery and apparatus increased by 30.1 percent, the manufacture of general purpose machinery increased by 20.7 percent, the manufacture of automobiles increased by 2.5 percent, the extraction of petroleum and natural gas decreased by 6.0 percent, the manufacture of special purpose machinery decreased by 7.4 percent, the mining and washing of coal decreased by 14.6 percent, the manufacture of non-metallic mineral products decreased by 27.4 percent, the textile industry decreased by 30.2 percent, the processing of food from agricultural and sideline products decreased by 36.3 percent, the manufacture of computers, communication equipment and other electronic equipment decreased by 53.2 percent, the smelting and pressing of non-ferrous metals decreased by 55.1 percent, the manufacture of raw chemical materials and chemical products decreased by 57.3 percent, processing of petroleum, coal and other fuel decreased by 87.9 percent, and smelting and pressing of ferrous metals decreased by 99.4 percent.

From January to April, industrial enterprises above designated size achieved an operating income of 41.07 trillion yuan, an increase of 0.5 percent over the same period of last year; the operating cost incurred was 34.98 trillion yuan, up 1.6 percent; the profit margin of operating revenue was 4.95 percent, a year-on-year decrease of 1.32 percentage points.

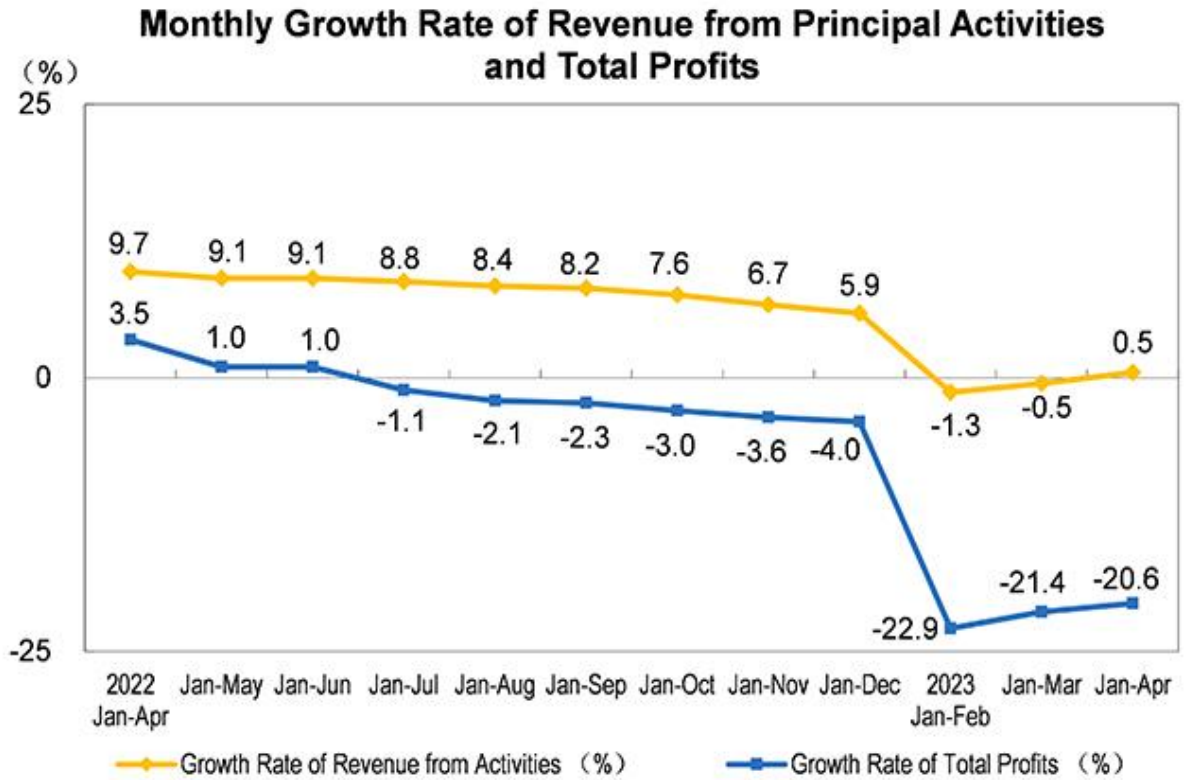
At the end of April, the assets of industrial enterprises above designated size totaled 158.55 trillion yuan, a year-on-year increase of 7.3 percent; the total liabilities were 90.80 trillion yuan, up 7.8 percent; owner's equity totaled 67.75 trillion yuan, up 6.5 percent; the asset liability ratio was 57.3 percent, a year-on-year increase of 0.3 percentage point. **In May it reached 159.24. 3.85% r.o.t April. 4.0%.**

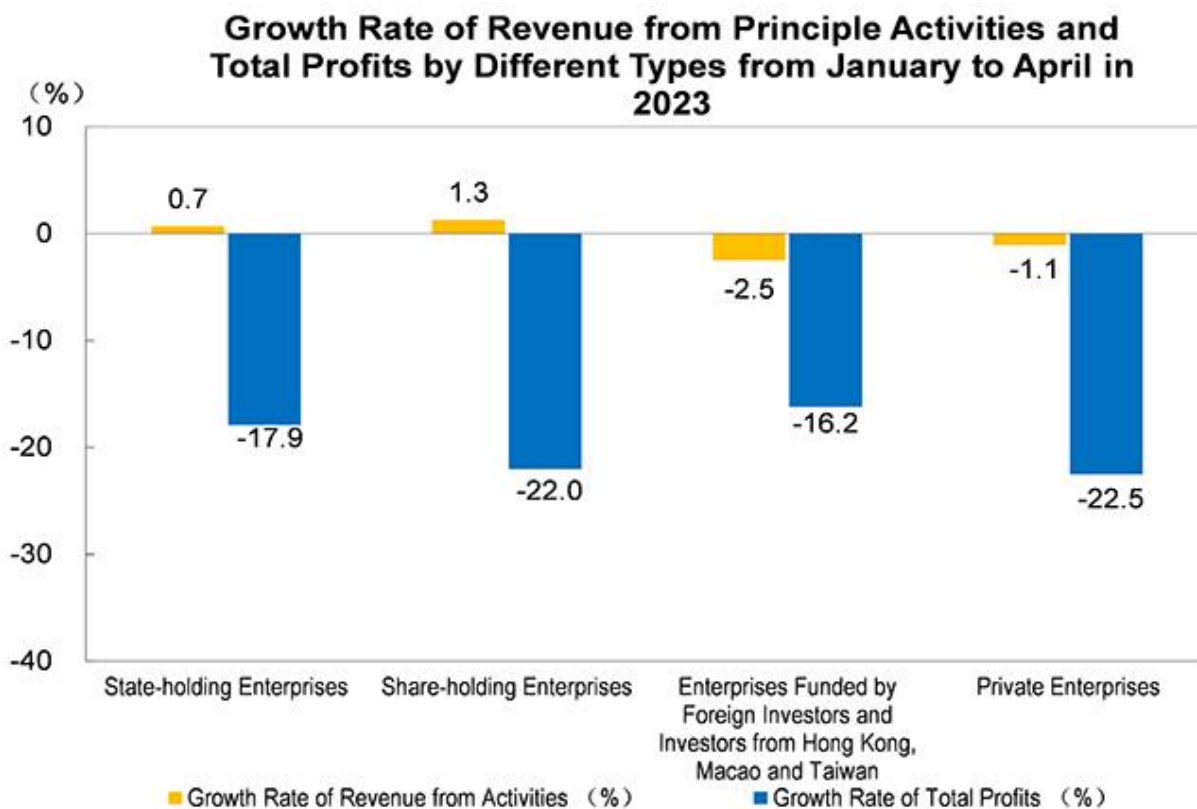
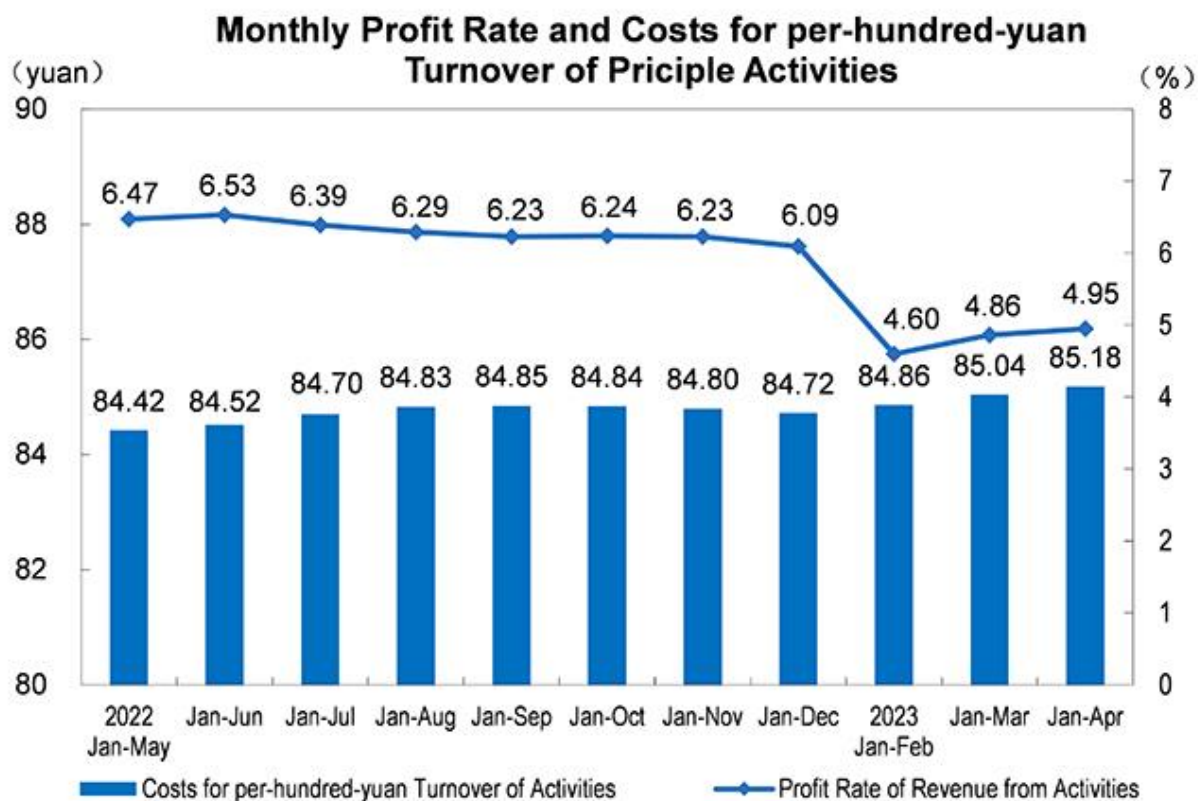
At the end of April, the accounts receivable of industrial enterprises above designated size was 21.94 trillion yuan, a year-on-year increase of 12.6 percent; the inventory of finished products was 6.13 trillion yuan, up 5.9 percent. **In May it was 22.37 and inventories was 6.14**

From January to April, the cost of industrial enterprises above designated size per 100 yuan of operating income was 85.18 yuan, a year-on-year increase of 0.91 yuan; the expenses per 100 yuan of operating income were 8.40 yuan, a year-on-year increase of 0.31 yuan.

At the end of April, the operating income of industrial enterprises above designated size per 100 yuan of assets was 78.2 yuan, a year-on-year decrease of 5.6 yuan; the per capita operating income was 1.699 million yuan, a year-on-year increase

of 62,000 yuan; the turnover days of finished goods inventory was 20.8 days, a year-on-year increase of 1.3 days; the average recovery period of accounts receivable was 63.1 days, a year-on-year increase of 6.4 days. **Turnover April 4.35 unchanged for May**





	(%)	(yuan)	(yuan)	(yuan)	10 thousand yuan/person)	(%)	(days)	(days)
Total	.95	5.18	.40	8.2	69.9	7.3	0.8	3.1
Of which: Mining	3.13	2.82	.00	7.0	48.8	6.5	3.5	7.6
Manufacturing	.89	5.91	.69	9.7	62.9	6.5	3.3	4.7
Production and supply of electricity, heat power, gas and water	.95	0.57	.40	2.4	29.7	1.1	.9	6.5
Of which: State-holding enterprises	.59	2.11	.29	9.7	83.3	7.4	3.0	0.4
Share-holding enterprises	.79	5.34	.45	6.3	67.9	8.1	1.3	0.6
Enterprises funded by foreign investors and investors from Hong Kong, Macao and Taiwan	.60	5.29	.77	5.7	71.6	3.3	0.5	5.8
Of which: Private enterprises	.47	7.40	.99	02.0	30.3	0.0	4.4	2.9

Table III Key Financial Indicators of Industrial Enterprises above the Designated Size from January to April (Group by Industries)

Indicators	Operating Income		Operating Costs		Total Profits	
	Volume (10 0 million yuan)	Increase rate Y/Y (%)	Volume (10 0 million yuan)	Increase rate Y/Y (%)	Volume (10 0 million yuan)	Increase rate Y/Y (%)
Total	410681.8	0.5	349824.5	1.6	20328.8	-20.6
Mining and washing of coal	12	-	76	-	29	-
Extraction of petroleum and natural gas	356.9	6.0	58.0	2.7	54.2	14.6
Mining of ferrous metal ores	38	-	19	3	12	-
Mining of non-ferrous metal ores	16.7	3.6	21.6	.2	95.2	6.0
Mining and processing of nonmetal ores	14	-	11	-	14	-
Mining support service activities	82.8	5.7	60.4	4.5	0.8	42.8
Mining and washing of coal	10	1	70	-	24	6
Extraction of petroleum and natural gas	79.7	.0	3.8	1.0	8.3	.7
Mining of ferrous metal ores	11	-	81	-	11	1
Mining of non-ferrous metal ores	26.7	4.4	5.3	6.4	3.1	0.8
Mining and processing of nonmetal ores	67	1	63	1	0.	-
Mining support service activities	2.3	7.2	9.6	6.2	6	50.0

Mining of other ores N.E.C	9.	2	7.	1	0.	0
Processing of food from agricultural and sideline products	17	9.6	2	8.0	2	.0
Manufacture of foods	67	2	52	2	52	-
Manufacture of wines, beverages and refined tea	04.7	.0	91.8	.3	7.4	2.6
Manufacture of cigarettes and tobacco	53	2	33	0	95	1
Textile industry	45.9	.7	78.4	.3	4.2	1.6
Manufacture of textile wearing apparel and ornament	60	6	15	4	88	6
Manufacture of leather, fur, feather and its products	40.3	.8	93.2	.2	4.1	.7
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	71	-	63	-	15	-
Manufacture of furniture	11.1	5.1	90.7	4.8	6.5	30.2
Manufacture of paper and paper products	37	-	31	-	13	-
Printing, reproduction of recording media	05.1	8.4	45.7	8.8	3.3	17.9
Manufacture of articles for culture, education, artwork, sport and entertainment activity	24	-	21	-	91	-
Processing of petroleum, coal and other fuel	30.3	15.3	00.9	15.3	.3	26.7
Manufacture of raw chemical materials and chemical products	27	-	25	-	77	-
Manufacture of medicine	41.3	6.4	01.5	6.2	.4	7.4
Manufacture of chemical fibres	18	-	15	-	68	-
Manufacture of rubber and plastics articles	98.0	11.0	76.7	12.4	.4	12.3
Manufacture of non-metallic mineral products	43	-	38	-	70	-
Smelting and pressing of ferrous metals	15.0	5.0	71.4	3.5	.0	51.6
Smelting and pressing of non-ferrous metals	20	-	17	-	78	-
Manufacture of metal products	36.7	6.0	22.3	6.3	.3	15.6
Manufacture of general-purpose machinery	40	-	34	-	14	-
Manufacture of special-purpose machinery	05.2	2.5	95.7	2.3	1.0	6.7
Manufacture of automobiles	20	2	17	6	97	-
Manufacture of railway, ship, aerospace and other transport equipment	652.1	.3	829.7	.2	.0	87.9
	26	-	23	-	11	-
	905.7	6.6	448.1	1.7	89.0	57.3
	85	-	49	-	11	-
	60.6	4.1	35.6	1.5	25.2	23.8
	31	-	29	-	30	-
	60.7	3.7	64.3	2.6	.7	65.0
	85	-	72	-	36	1
	49.7	4.3	75.7	5.2	5.6	.4
	17	-	14	-	91	-
	678.5	5.6	994.4	4.5	7.4	27.4
	26	-	25	-	3.	-
	786.0	6.5	834.2	4.2	9	99.4
	23	0	22	3	49	-
	599.8	.6	451.0	.9	3.0	55.1
	13	-	12	-	39	-
	628.5	3.8	088.2	4.0	6.5	16.1
	14	4	11	2	83	2
	042.3	.4	480.4	.6	0.6	0.7
	10	2	86	1	71	-
	970.9	.2	23.8	.4	2.8	7.4
	28	1	25	1	11	2
	609.4	1.5	000.9	1.9	22.8	.5
	37	8	31	6	17	4
	01.9	.2	40.6	.7	9.4	7.2

Manufacture of electrical machinery and apparatus	32	1	27	1	16	3
	081.8	5.6	635.7	4.6	19.0	0.1
Manufacture of computers, communication equipment and other electronic equipment	43	-	38	-	86	-
	076.5	4.7	009.2	3.9	1.6	53.2
Manufacture of measuring instrument and equipment	27	7	20	4	21	9
	38.4	.1	48.2	.8	4.7	.6
Other manufacturing	56	-	47	-	24	-
	5.9	5.3	1.9	6.9	.8	9.5
Waste recycling and recovery	34	2	33	3	30	-
	73.7	.0	64.5	.4	.0	62.5
Repair of fabricated metal products, machinery and equipment	56	1	48	1	28	2
	5.8	7.4	0.8	3.9	.2	35.7
Production and supply of electricity and heat power	30	6	27	5	14	4
	189.8	.3	464.1	.3	95.1	7.2
Production and supply of gas	58	8	53	1	26	-
	56.6	.9	89.4	0.2	4.9	4.7
Production and supply of water	13	5	10	5	92	5
	68.4	.2	31.7	.4	.7	.8

Note: The total of some indicators in this table is not equal to the sum of sub items, which is caused by data rounding, without mechanical adjustment.

Annotations:

I. Explanatory Notes:

1. Total Profits: refer to the surplus of various revenue deducting various costs in the production process of enterprises, reflecting the total profit and loss in the report period.

2. Operating income: refers to the inflow of economic benefits from the production and operation of enterprises, such as selling goods, providing labor services and transferring the right to use assets, including the total amount of revenue of enterprises recognized by the principal business and other business operations. And it refers to the total amount of revenue of enterprises recognized by the principal business and other business operations.

3. Operating costs: refers to the actual costs from the production and operation of enterprises such as selling goods, providing labor services and transferring the right to use assets, including the total amount of costs of enterprises incurred by the principal business and other business operations. Operating costs should be matched with operating revenue.

4. Total Assets: refers to the resources which are gotten from past transactions or events, owned or controlled by enterprises, and expected to bring economic benefits to the enterprises.

5. Total Liabilities: refers to the current obligation generated from past transactions or events, and expected an outflow of economic benefits from the enterprises.

6. Total Owners' Equity: refers to the residual interests after deducting liabilities, which belongs to the enterprise's owners.

7. Accounts Receivable: refers to the amount that should be collected by an enterprise due to its business activities, such as selling goods and providing services, measured at amortized cost on the balance sheet date.

8. Finished Goods: refers to manufactured products which are ready for sale by the end of report period.

9. Profit Rate of Revenue from Principal Activities = total profits / revenue from principal activities × 100%, unit: %.

10. Costs for per-hundred-yuan Turnover of Principal Activities = the costs of revenue from principal activities / the revenue from principal activities × 100, unit: yuan.

11. Expenses for per-hundred-yuan Turnover of Principal Activities = (selling expenses + administrative expenses + financial expenses) / the revenue from principal activities × 100, unit: yuan.

12. Revenue from Activities Brought by per Hundred-yuan Assets = the revenue from activities / average assets / the cumulative number of months × 12 × 100, unit: yuan.

13. Revenue from Activities per Capita = revenue from activities / average number of employment / the cumulative number of months × 12, unit: 10 thousand yuan/ person.

14. Asset-Liability Ratio = total liabilities / total assets × 100%, unit: %.

15. Turnover Days of Finished Goods = 360 × average finished goods / revenue from activities × the cumulative number of months / 12, unit: days.

16. Average Payback Period of Accounts Receivable = 360 × average accounts receivable / revenue from activities × the cumulative number of months / 12, unit: days.

17. In the columns of increase rate year-on-year of the three tables above, the "note" refers to negative total profits in the same period last year, which means loss; the positive value refers to a year-on-year increase of profits; the negative value which is greater than or equal to -100% refers to a year-on-year decrease of profits; the value less than -100% indicates turning gain in the same period last year into loss in current

period; and the value of 0 indicates that the profits remain at the same level year-on-year.

18. In the main groups, state-holding enterprises include state-owned absolute holding enterprises and state-owned relative holding (including agreement holding) enterprises. Enterprises funded by foreign investors and investors from Hong Kong, Macao and Taiwan include Sino foreign (or Hong Kong, Macao and Taiwan funded) joint ventures, cooperative enterprises and joint stock limited companies whose shareholders of foreign capital (or Hong Kong, Macao and Taiwan funded) account for more than 25% of the company's registered capital. Private enterprises include private limited liability companies, private share-holding limited companies, private partnerships and private sole proprietorships.

II. The growth rates of the total profits and revenue from activities of industrial enterprises above designated size are calculated on a comparable basis. There are incomparable factors between the data in the reporting period and the same indicator data published in the previous year, which cannot be directly compared to calculate the growth rate. The main reasons are: (1) According to the statistical system, the survey coverage of industrial enterprises above designated size is adjusted regularly every year. Each year, some companies will be included in the survey after having reached designated size, and some will exit the survey due to their smaller size, and there are also influence of new built and starting enterprises, bankruptcies, and companies that have been suspended or sold. (2) By strengthening the statistical law enforcement, the enterprises found in the statistical law enforcement inspection that do not meet the industrial statistics requirements above designated size have been cleared, and relevant bases have been revised in accordance with regulations. (3) Strengthen data quality management and eliminate the cross-regional and cross-industry repeated calculation.

III. Statistical Coverage

Industrial enterprises above the designated size, which refer to industrial enterprises with revenue from principal activities over 20 million yuan.

IV. Survey Method

The Financial Report of Enterprises above the Designated Size conducts complete survey by month (the data on January are not required to report).

V. Industrial Classification Standard