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# Research on the Enterprise Financial Statement and Countermeasure --- Take Yili Company as an Example

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**ABSTRACT**
This paper uses some basic data analysis methods to analyze the annual financial report of Yili company. Through calculation and comparison, it can be found that Yili company actually has much more competitive advantages than other enterprises in the same industry and its efficiency and liquidity of its operation is truly great in the recent years. However, Yili company is facing increasingly debt burden, implying that it should invest less and reduce its unnecessary expenses. In short, scientifically analyzing financial statements is a good choice not only for investors, but also for the company managers.
***Keywords:*** *Enterprise Financial Statement, Yili Company, Countermeasure, basic data analysis, comparative analysis*

## 1. INTRODUCTION

Listed companies generally disclose their annual financial statements to reflect the operating conditions of the year, therefore, it is very important to analyze annual financial statements. Through the effective analysis of financial statements, investors can have a further understanding of the company's development prospects, and obtain profit difference in the trading of stocks. Not only that, the company's managers can find out the shortcomings of the company through the analysis of the financial report, optimize the management results, and study countermeasures to improve the company's profit level.

When it comes to Yili company, it is one of the most famous dairy enterprises in China and enjoys great influence in China and even in the world. In the field of China's dairy industry, Yili company can be said to be the leading enterprise, it and Mengniu company are known as China's dairy two giants. So as to explore Yili's business know-how and better development strategy in the future, this paper analyzes Yili as the main target enterprise, which has strong representative and research value. This report will mainly focus on two objectives which are to better understanding and analysis of the current business of Yili as well as to study the coping strategies to improve the level of internal management. As to data analysis, this paper will calculate and consider financial data through four different dimensions: profitability, efficiency and liquidity, solvency, market prospect. Through the analysis of this report, the author hopes that it can provide the investors of stock with some assistance as well as provide company managers with financial tools for scientific use.

## 2. LITERATURE REVIEW

Wang (2018) stated that using "solvency, operating capacity and profitability" to analyze financial statements, which is truly helpful for both managers and report users.[1] In addition, Mi (2017) [2] pointed out that higher inventory turnover rate will bring many adverse effects to enterprises, such as increasing the cost of storage and storage.[2] Combined with the 2017-2019 annual reports of Yili company and Mengniu company, this report will be based on official data to more accurately calculate and compare the relevant data and ratios. Data analysis of financial statements not only makes the business performance of enterprises quantified, but also makes the quantitative data of enterprises be compared, so as to meet the needs of all kinds of statement users to make reasonable management decisions. This paper will focus on 4 aspects: profitability, efficiency and liquidity, solvency, market prospect to analyze the financial annual reports of Yili company.

## 3. FINDINGS

### *3.1. General cognition*

Yili is a famous company in the diary industry, which is headquartered in Hohhot, Inner Mongolia Autonomous Region. Yili company ranks first in not only the global dairy industry, but also in Asia for six consecutive years, and its revenue has continuously exceeded 10 billion level growth. According to Yili annual report in 2019, the total operating revenue has reached 90.223 billion yuan. For analyzing a certain company, it is necessary to first look through its overall business development. Here are some data to simply demonstrate the basic operating background of Yili company. According to the analysis of the proportion of Yili Group's main business income, it can be seen that Yili company's main business accounted for more than 98% of the output value, which implies that its production and management has a strong professional, clear market objective.

**Table 1. Amount and proportion of main business income in 2017-2019 (unit: yuan)**

**(data calculated from annual report in 2017-2019)**

| Date | Total operating revenue | Main business income | Proportion of main business income |
|---|---|---|---|
| 2019.12.31 | 90,009,132,852.76 | 89,446,993,373.75 | 99.38% |
| 2018.12.31 | 78,976,388,687.29 | 78,720,560,129.96 | 99.68% |
| 2017.12.31 | 67,547,449,530.32 | 66,800,656,583.43 | 98.89% |

**Table 2. Detailed differentiation of main business in 2018-2019 products (unit: 100 million yuan)**

**(data calculated from annual report in 2018-2019)**

| **Date** | **2019.12.31** | | **2018.12.31** | |
|---|---|---|---|---|
| **Product** | **Amount of money** | **Proportion** | **Amount of money** | **Proportion** |
| **Liquid milk** | 737.6 | 82.5% | 656.8 | 83.4% |
| **Milk powder and dairy products** | 100.5 | 11.2% | 80.4 | 10.2% |
| **Cold drink products** | 56.3 | 6.2% | 50.0 | 6.4% |
| **others** | 0.6 | 0.1% | 0 | 0 |


**Figure 1.** Detailed proportion of products sold in 2019 (data from table 2)

Through table 2 and figure 1, Yili company's main products are liquid milk which accounts for more than 82.5% in the past three years. As the foundation of Yili company's survival and development, the quality assurance and product innovation of liquid milk are very important.

**Table 3. Detailed division of main business in 2018-2019 regions (unit: 100 million yuan) (data calculated from annual report in 2018-2019)**

| **Date** | **2019.12.31** | | **2018.12.31** | |
|---|---|---|---|---|
| **Region** | **Amount** | **Proportion** | **Amount** | **Proportion** |
| **North China** | 265.4 | 29.7% | 238.5 | 30.1% |
| **South China** | 237.2 | 26.5% | 212.7 | 27.1% |
| **Others** | 392.5 | 45.8% | 336.0 | 42.8% |

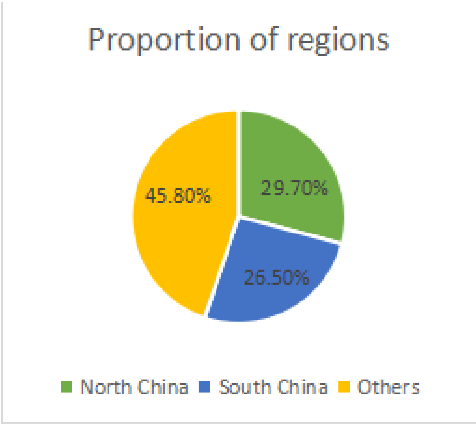


**Figure 2.** Detailed proportion of sales regions in 2019 (data from table 3)

Through the analysis of the sales amount and proportion of Yili Group, it can be seen that the sales areas of Yili Group are mainly North China and South China, and the sales proportion of the two regions can reach more than 50% of the total operating revenue, implying that Yili company's marketing focus is mainly on Eastern China.

### *3.2. Financial report overview*

Before the detailed calculation and comparison, it is important to have a overlook at the main statements in the annual reports.

**Table 4. Yili Group assets, liabilities, owner's equity table and chart (data calculated from annual reports in 2017-2019). Amount: (million yuan)**

| **Date** | **2019.12.31** | **2018.12.31** | **2017.12.31** |
|---|---|---|---|
| **Total assets** | 60,461.27 | 47,606.20 | 40,595.92 |
| **Total liabilities** | 34,187.13 | 19,568.98 | 22,878.24 |
| **Total equity** | 26,274.14 | 28,037.22 | 17,717.68 |

Through the composition of assets, liabilities and owner's equity of Yili Group, we can see that the overall financial structure of the company is good, and the owner's equity has been increasing year by year in recent three years, and the overall situation is good.

**Table 5. Table of assets, liabilities and owner's equity of Mengniu Company (data calculated from annual report of Mengniu company in 2017-2019). Amount: (million yuan)**

| **Date** | **2019.12.31** | **2018.12.31** | **2017.12.31** |
|---|---|---|---|
| **Total assets** | 78,537.41 | 66,457.27 | 58,138.73 |
| **Total liabilities** | 45,190.07 | 35,992.98 | 31,031.61 |
| **Total equity** | 33,347.34 | 30,464.28 | 27,107.12 |

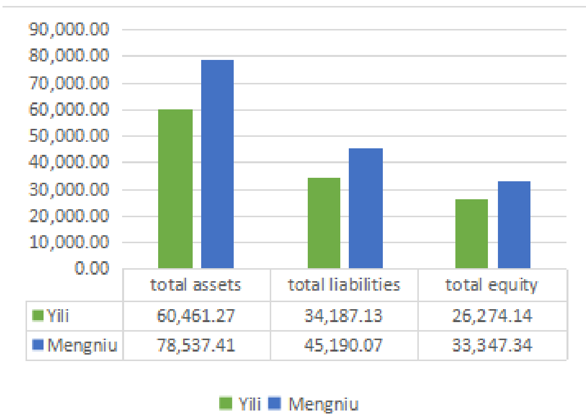


**Figure 3.** Comparison of assets, liabilities and owner's equity of Yili Group and Mengniu Group in 2019 (million yuan) (data from table 5)

Through the comparison of the chart, it can be seen that each value of Mengniu Group is higher than that of Yili Group, so in the overall market, Mengniu occupies a large proportion and has strong competitive strength. In the second phase, Mengniu Group's debt to asset ratio (asset liability ratio) is generally higher than that of Yili Group, which needs to repay more debts and needs higher solvency.

### 3.3. Four assessment methods

### 3.3.1. Profitability

In this part, “profit margin”, “gross profit margin” and “return on assets”(ROA) are the major measurements for the aspect of profitability.

Profit margin is one of the commonly used profitability ratios to gauge the degree to which a company or a business activity makes money [3]. Its calculation formula is profit margin=net profit/net sales. This ratio describes a company’s ability to earn net profit from each sales dollar. Gross profit margin is a metric analysts use to assess a company's financial health by calculating the amount of money left over from product sales after subtracting the cost of goods sold(COGS) [4]. Its calculation formula is gross profit margin=(net sales-cost of goods sold)/net sales.

**Table 6. Profit margin of Yili and Mengniu company (data calculated from annual report of Yili and Mengniu in 2017-2019)**

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **YILI** | 7.70% | 8.11% | 8.82% |
| **MENGNIU** | 5.44% | 4.64% | 3.38% |

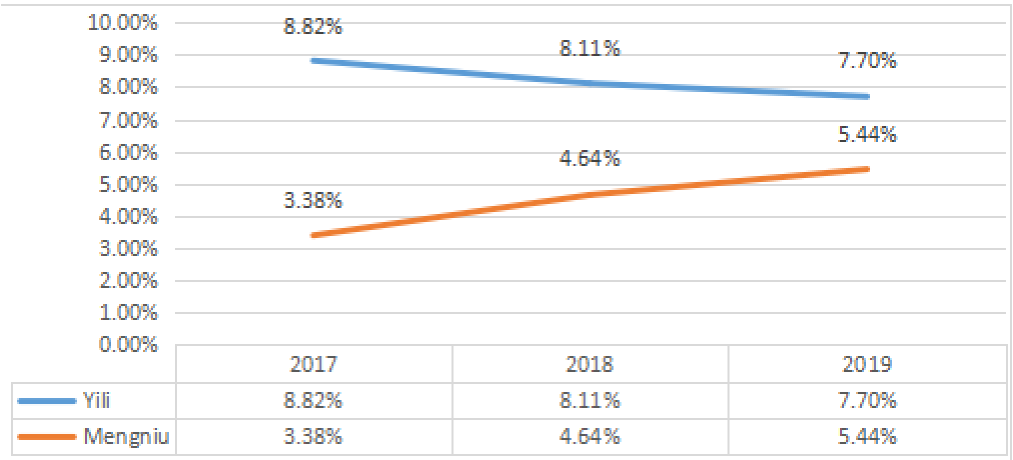


**Figure 4.** Comparison of profit rate between Yili and Mengniu (from table 6)

Although the net interest rate of Yili Group in recent three years is significantly higher than that of Mengniu Group, it shows a downward trend in recent three years, but it has been maintained in the approximate range of 7% - 8%. Although the net interest rate of Mengniu Group has been rising in recent three years, its relative middle cost of sales, management costs and other expenses are relatively high, so the net interest rate is lower than Yili Group. Yili Group's cost control effectively controls the cost, which leads to the advantage of net interest rate and improves the competitiveness of products and market share.

**Table 7. Gross profit margin of Yili and Mengniu company (data calculated from annual report of Yili and Mengniu in 2017-2019)**

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **YILI** | 37.35% | 37.82% | 37.28% |
| **MENGNIU** | 37.55% | 37.38% | 35.21% |

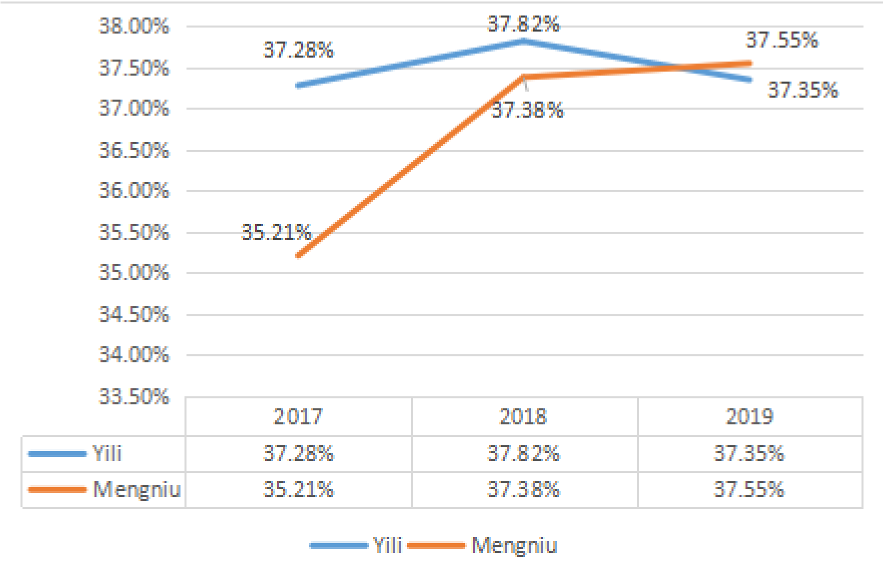


**Figure 5.** Comparison of gross profit rate between Yili and Mengniu (from table 7)

Although the gross profit of Yili Group is significantly lower than that of Mengniu Group in 2019, the gross profit margin of Yili Group is significantly lower than that of Mengniu Group in 2017 and 2018. Although the recent two years have shown a downward trend, Yili Group has maintained a gross profit margin of more than 37%, which reflects the excellent value-added ability of Yili Group. With the previous analysis of Yili Group to increase research and development investment, improve product characteristics and competitiveness is inseparable.

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings [5]. Its calculation formula is ROA=net income/total assets.

**Table 8. Return on assets (ROA) of Yili company (data calculated from annual report in 2017-2019)**

| | **2019.12.31** | **2018.12.31** | **2017.12.31** |
|---|---|---|---|
| **YILI** | 13.83% | 16.85% | 14.79% |

Through the calculation of the above data, we can see that the return of assets(ROA) of Yili company has shown a downward trend after the current growth in the past three years, and the overall trend has declined. The reasons for similar financial situation may be the increase of intermediate link expenses and the decrease of profit margin of related products.

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year [6]. Its calculation formula is current ratio=current assets/current liabilities.

### *3.3.2. Efficiency and liquidity*

This part will mainly use “current ratio” and “Acid-test ratio” to measure efficiency and use “Accounts receivable turnover” and “Inventory turnover” to assess liquidity.

**Table 9. Yili company current ratio(data calculated from annual reports in 2017-2019)**

| | **2019.12.31** | **2018.12.31** | **2017.12.31** |
|---|---|---|---|
| **YILI** | 0.47 | 0.53 | 0.68 |

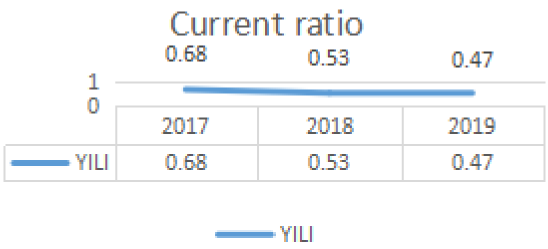


**Figure 6.** Yili current ratio line chart (from table 9)

From the application of the ratio, it can be seen that the higher the current ratio is, the greater the liquidity of enterprise assets is. However, if the ratio is too large, it indicates that the current assets are occupied more, which will affect the turnover efficiency and profitability of operating funds.

According to the statistical data of the past three years, Yili's current ratio has decreased year by year, which shows that the liquidity of the enterprise's assets has decreased and the ability to repay short-term debts has decreased this year.

The acid-test ratio can be used as an indicator of whether it has sufficient short-term assets to cover its short-term liabilities. Its calculation formula is Acid-test ratio= (Cash + market securities+ Accounts receivable)/ current liabilities.

**Table 10. Yili Acid-test ratio (data calculated from annual report in 2017-2019)**

| | 2019.12.31 | 2018.12.31 | 2017.12.31 |
|---|---|---|---|
| **YILI** | 0.25 | 0.23 | 0.51 |

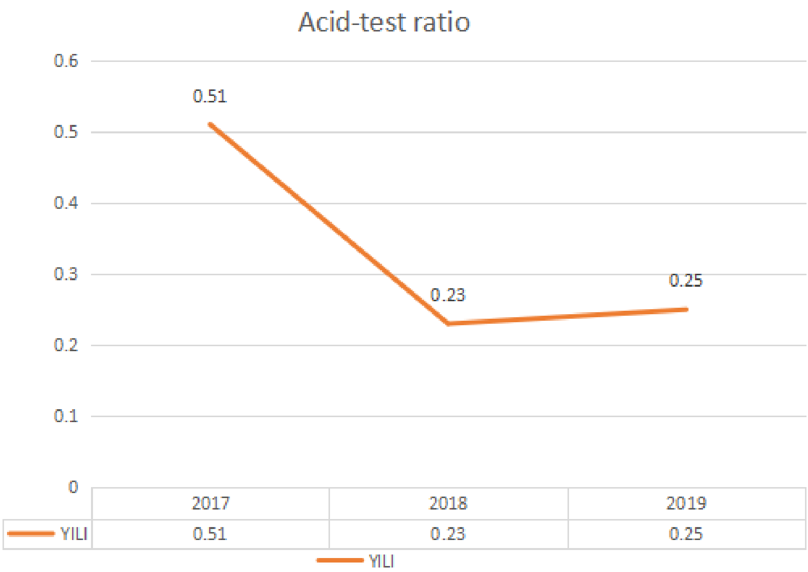


**Figure 7.** Yili Acid-test ratio line chart (from table 10)

In the three years from 2017 to 2019, the Acid-test ratio first decreased and then increased, showing a downward trend as a whole. In 2017-2018, the decline was significant, and the liquidity of enterprises was weakened.

The receivables turnover ratio is an accounting measure used to quantify a company's effectiveness in collecting its receivables or money owed by clients. The ratio shows how well a company uses and manages the credit it extends to customers [7]. Its calculation formula is Accounts receivable turnover=Net credit sales/Average accounts receivable

**Table 11. Yili accounts receivable turnover (data calculated from annual reports in 2017-2019)**

| | 2019.12.31 | 2018.12.31 | 2017.12.31 |
|---|---|---|---|
| **YILI** | 9.53 | 9.87 | 11.61 |

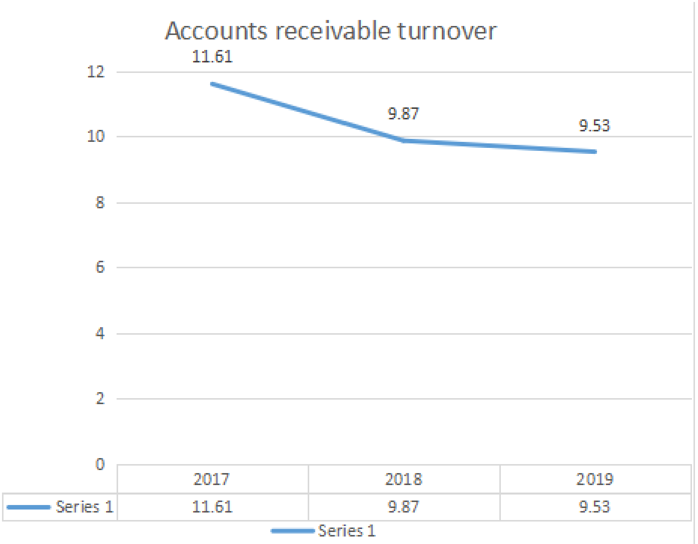


**Figure 8.** Yili accounts receivable turnover line chart (from table 11)

The accounts receivable of a company play an important role in the current assets. If the company's accounts receivable can be recovered in time, the company's capital utilization efficiency can be greatly improved. According to the chart, Yili Group's accounts receivable turnover rate decreased year by year in the three years from 2017 to 2019, which reflected that Yili company's liquidity management ability was enhanced and the company's capital utilization efficiency was improved. Inventory turnover is a ratio showing how many times a company has sold and replaced inventory during a given period. A company can then divide the days in the period by the inventory turnover formula to calculate the days it takes to sell the inventory on hand [8]. Its calculation formula is Inventory turnover=Sales/average inventory.

**Table 12. Yili inventory turnover (data calculated from annual report in 2017-2019)**

| | **2019.12.31** | **2018.12.31** | **2017.12.31** |
|---|---|---|---|
| **YILI** | 39.38 | 41.09 | 40.78 |

At the same time of ensuring the continuity of production and operation, enterprises should improve the efficiency of capital utilization and enhance the short-term solvency of enterprises. Inventory turnover is a supplement to the turnover rate of current assets. It is a comprehensive index to measure the production, inventory management level and sales recovery ability of enterprises. According to the inventory turnover rate of Yili in the above table, during the three years from 2017 to 2019, the inventory turnover first increased and then decreased, showing a downward trend. In 2018-2019, the decline rate was significant, and the overall change was not large, which maintained at about 40, indicating that the efficiency of capital utilization of enterprises in 2019 was improved and the inventory liquidity was more reasonable.

### *3.3.3. "Debt-to-equity"*

In this part, the "Debt-to-equity" ratio is chosen as a measurement to assess the solvency of the company. The ratio is used to evaluate a company's financial leverage. The D/E ratio is an important metric used in corporate finance [9]. Its calculation formula is D/E ratio=total liabilities/total shareholders' equity. This ratio measures what portion of a company′s assets are contributed by creditors. A large debt-to-equity ratio implies less opportunity to expand through use of debt financing. According to the figure above, the D/E ratio has increased year after year since 2017, implying that Yili company has a larger burden on the debt financing.

**Table 13. Yili D/E ratio (data calculated from annual report in 2017-2019)**

| | **2019.12.31** | **2018.12.31** | **2017.12.31** |
|---|---|---|---|
| **YILI** | 1.36 | 1.18 | 1.14 |

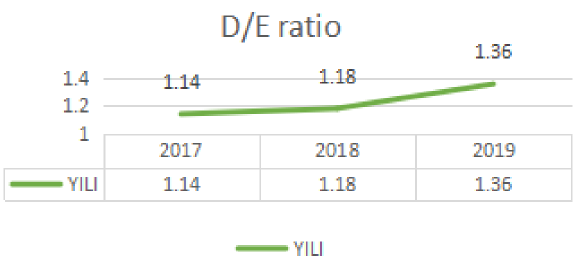


**Figure 9.** Yili D/E ratio line chart (from table 12)

### 3.3.4. Price earning ratio

The price to earnings ratio(P/E ratio) is the ratio of market price per share to earning per share. The P/E ratio is a valuation ratio of a company's current price per share compared to its earnings per share. According to the data in table 14, the PE value shows an upward trend year by year in 2017-2019, and the growth rate is fast. PE can evaluate whether the stock price level is reasonable, and the rising PE value also reflects that in the normal range, the market price has stronger profitability for the stock, but at the same time, the greater the risk the shareholders take. Above is the total 4-step analysis for the annual report of Yili company from the aspect of profitability, efficiency and liquidity, solvency, market prospect, which is relatively comprehensive.

**Table 14. Yili company P/E ratio (data calculated from annual report in 2017-2019)**

| | 2019.12.31 | 2018.12.31 | 2017.12.31 |
|---|---|---|---|
| **Yili company** | 27.34 | 25.87 | 24.39 |

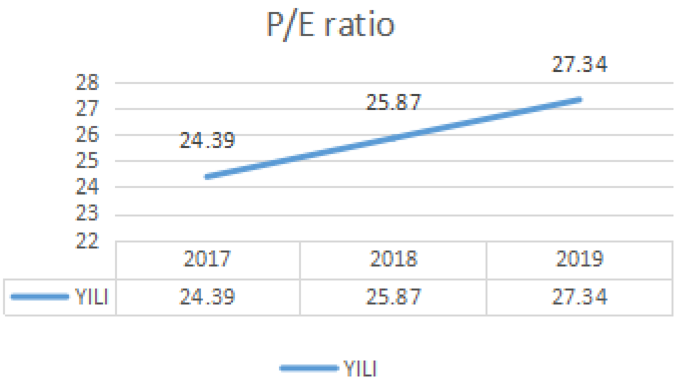


**Figure 10.** Yili company P/E ratio line chart (from table 13)

### 3.4. Counter-measures

Yili company has a higher profit margin than Mengniu company, implying that its product has much more competitive advantages. Therefore, to maintain the trend, Yili should pay more attention on the quality of their product and invest more on the area of new product development. Besides, from 2017-2019, the company’s capital and inventory utilization has improved a lot, which does a good demonstration role for the future development of Yili. In addition, Yili shows a larger debt burden in the recent years. Therefore, it is important for Yili to better handle its financial tools and reduce unnecessary investments and expenses. What is more, the PE value shows a upward trend in recent years, implying its bright development future, but at the same time, Yili should pay attention to the risk of stock market and protect the revenue of stakeholders.

## 4. CONCLUSION

This paper first gives a general understanding of the current situation of Yili enterprises through a general survey of the company's business conditions, then makes a detailed analysis of the data calculation and comparison from four aspects, and finally comes to the relevant understanding. Through the analysis of the financial statements of listed companies, it is conducive to more scientific investment of investors and better internal management of the company.

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