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Finanční analýza společnosti Haier Company  
Financial Analysis of Haier Company

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2. Description of the financial analysis methodology  
3. Financial characterization of Haier company  
4. Financial analysis of Haier company  
5. Conclusion  
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List of Abbreviations  
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List of Annexes  
Annexes

### References:

GIROUX, Gary. *Core Concepts of Financial Analysis. A User Approach*. 1st edition. New York: John Wiley and Sons, 2003. 320 pages. ISBN 0-471-22990-3.  
ELAINE, Henry and Hennie van GREUNING. *International Financial Statement Analysis*. 1st edition. New York: John Wiley and Sons, 2008. 828 pages. ISBN:0470287667.  
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The declaration

“Herewith I declare that I elaborated the entire thesis, including all annexes, independently.

Ostrava dated.....

.....

Student's name and surname

**Content**

- 1. Introduction.....5**
- 2. Description of the financial analysis methodology.....6**
  - 2.1 Balance Sheet.....6
  - 2.2 Cash Flow Statement.....6
  - 2.3 Income Statement.....7
  - 2.4 Three groups of methods.....8
    - 2.4.1 Common size analysis.....8
    - 2.4.2 Financial ratios analysis.....9
      - 2.4.2.1 Profitability ratios.....9
      - 2.4.2.2 Liquidity ratios.....11
      - 2.4.2.3 Solvency ratios.....13
      - 2.4.2.4 Activity ratios.....17
  - 2.5 DuPont Analysis.....20
- 3. Financial characterization of Haier Company.....23**
  - 3.1 Introduction about Haier Company.....23
  - 3.2 Core Values of Haier.....24
  - 3.3 Strategy.....25
  - 3.4 Industries.....28
    - 3.4.1 White Goods Group.....28
    - 3.4.2 Digital & Personal.....29
    - 3.4.3 Integrated kitchen.....29

3.4.4 Residence.....	30
3.4.5 Home appliances.....	30
<b>4. Financial analysis of Haier Company.....</b>	<b>31</b>
4.1 Assets structure analysis.....	31
4.1.1 Fix and current analysis.....	31
4.1.2 Structure of current assets.....	34
4.1.3 Assets change trend analysis.....	36
4.1.4 The income statement trend analysis.....	39
4.1.5 Structure of cost.....	41
4.2 Ratios analysis.....	42
4.2.1 Profitability ratios analysis.....	43
4.2.2 Liquidity ratios analysis.....	44
4.2.3 Solvency ratios analysis.....	46
4. 2. 4 Activity ratios analysis.....	47
4.3.1 DuPont analysis chart.....	49
4.3.2 DuPont Analysis.....	50
<b>5. Conclusion.....</b>	<b>52</b>
Bibliography.....	53
List of Abbreviations.....	54
Declaration of Utilization of Results from the Bachelor Thesis.....	55
List of Annexes.....	56
Annexes	

## **Chapter 1 Introduction**

This thesis is some financial analysis about Haier Company. Haier Company is the best one in household appliances industry in China. It would be analyzed through three methods on profitability, operating ability and solvency ability. This thesis's aim is analysis Haier Company's profitability, operating ability and solvency ability.

In our daily life, people have been unable to live without household appliances. Household appliances save people from the heavy, trivial, time-consuming household chores. Household appliances create a more comfortable, beautiful and health living and working environment for people, provide a rich cultural and recreational conditions, has become a necessities of the modern family life.

This thesis include five chapters, the first chapter is introduction about thesis, it would tell us what the meaning of financial analysis, the aim of financial analysis and the structure about this thesis. The second chapter is methods of financial analysis; this chapter would describe some methods about analysis. The third chapter is financial characterization of Haier Company; this chapter introduced something about Haier Company, like history, core value, strategy, brand, production and industry analysis. Chapter four is financial analysis of Haier Company from 2006 to 2010; this chapter would show some analysis from balance sheet, cash flow statement and income statement. Chapter five is conclusion for this thesis; the conclusion would include three sides, they are profitability, operation ability and solvency ability.



## **Chapter 2 Methods of financial analysis**

There are three methods<sup>1</sup>. They are common-size analysis, financial ratio analysis and Dupont analysis. We need balance sheet, cash flow and income statement, and these data are from the website <http://finance.sina.com.cn/>.

### **2.1 Balance Sheet**

The balance sheet (also known as the statement of financial position or statement of financial condition) presents a company's current financial position by disclosing resources the company controls (assets) and what it owes (liabilities) at a specific point in time. Owners' equity represents the excess of assets over liabilities. This amount is attributable to the owners or shareholders of the business; it is the residual interest in the assets of an entity after deducting its liabilities.

The three parts of the balance sheet are formulated in an accounting relationship known as the accounting equation:  $\text{Assets} = \text{liabilities} + \text{owners' equity}$  (that is, the total amount for assets must balance to the combined total amounts for liabilities and owners' equity).

Depending on the form of the organization, owners' equity also goes by several alternative titles, such as "partners' capital" or "shareholders' equity."

### **2.2 Cash Flow Statement**

Although the income statement and balance sheet provide a measure of a company's success in terms of performance and financial position, cash flow is also

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<sup>1</sup> In this chapter, most of methodology are based on the book:  
ELAINE, Henry and Hennie van GREUNING. *International Financial Statement Analysis*. 1st edition. New York: John Wiley and Sons, 2008. 828 pages. ISBN 0470287667

vital to a company's long-term success. Disclosing the sources and uses of cash helps creditors, investors, and other statement users evaluate the company's liquidity, solvency, and financial flexibility. Financial flexibility is the ability to react and adapt to financial adversities and opportunities.

The cash flow statement classifies all company cash flows into operating, investing, and financing activity cash flows. Operating activities involve transactions that enter into the determination of net income and are primarily activities that comprise the day-to-day business functions of a company. Investing activities are those activities associated with the acquisition and disposal of long-term assets, such as equipment. Financing activities are those activities related to obtaining or repaying capital to be used in the business.

### **2.3 Income Statement**

The income statement presents information on the financial results of a company's business activities over a period of time. The income statement communicates how much revenue the company generated during a period and what costs it incurred in connection with generating that revenue. Net income (revenue minus all costs) on the income statement is often referred to as the "bottom line" because of its proximity to the bottom of the income statement. Income statements are reported on a consolidated basis, meaning that they include the revenues and expenses of affiliated companies under the control of the parent (reporting) company. The income statement is sometimes referred to as a statement of operations or profit and loss (P&L) statement. The basic equation underlying the income statement is

"Revenue-Cost = Net income".

## **2.4 Three groups of methods**

In this thesis, three methods would be used. They are common-size analysis (horizontal, vertical), financial ratio analysis and DuPont Analysis.

### **2.4.1 Common size analysis**

Common-size analysis involves expressing financial data, including entire financial statements, in relation to a single financial statement item, or base. Items used most frequently as the bases are total assets or revenue. In essence, common-size analysis creates a ratio between every financial statement item and the base item.

Common-size analysis was demonstrated in chapters for the income statement, balance sheet, and cash flow statement. In this section, we present common - size analysis of financial statements in greater detail and include further discussion of their interpretation. This method usually analyzes the financial statements data and their changes over the time; the aim is identify the trends and major differences. This method is divided by two types, one is horizontal common-size analysis (analysis of the evolution of financial statements data over the time or their changes with respect to given period as a benchmark), and another one is vertical common-size analysis (analysis of changes in the proportions of selected benchmarks: total revenues, total assets, total liabilities, etc.)

## **2.4.2 Financial ratios analysis**

There are many relationships between financial accounts and between expected relationships from one point in time to another. Ratios are a useful way of expressing these relationships.

Ratios express one quantity in relation to another (usually as a quotient). It is a comparison of financial data in the form of financial ratios to assess the financial health of the company. They are calculated from financial data and market data, among which is relationship (i. e. The ratio has some economical interpretation).

### **2.4.2.1 Profitability ratios**

The ability to generate profit on capital invested is a key determinant of a company's overall value and the value of the securities it issues. Consequently, many equity analysts would consider profitability to be a key focus of their analytical efforts. Profitability reflects a company's competitive position in the market, and by extension, the quality of its management. The income statement reveals the sources of earnings and the components of revenue and expenses. Earnings can be distributed to shareholders or reinvested in the company. Reinvested earnings enhance solvency and provide a cushion against short - term problems.

These ratios used to measure the ability to generate profit from invested capital in the form of return during a period; the return is expressed as "%".

The higher the profitability ratios, the better competitive position of the company

There are four types of measures, they are operating profit margin, net profit margin, return on assets and return on equity.

Operating profit margin is calculated as gross margin minus operating costs. So, an operating margin increasing faster than the gross margin can indicate improvements in controlling operating costs, such as administrative overheads. In contrast, a declining operating profit margin could be an indicator of deteriorating control over operating costs.

Operating profit margin formula is:

$$\text{Operating profit margin} = \frac{\text{Operating profit}}{\text{Revenues}} \quad (2.1)$$

Net profit margin is calculated as revenue minus all expenses. Net profit includes both recurring and nonrecurring components. Generally, the net profit margin adjusted for nonrecurring items offers a better view of a company's potential future profitability.

Net profit margin formula is:

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Revenues}} \quad (2.2)$$

ROA measures the return earned by a company on its assets. The higher the ratio, the more income is generated by a given level of assets. Most databases compute this ratio as:

Return on assets formula is:

$$\text{Return on assets} = \frac{\text{Net profit}}{\text{Total assets}} \quad (2.3)$$

ROE measures the return earned by a company on its equity capital, including minority equity, preferred equity and common equity. As noted, return is measured as

net income (i.e. interest on debt capital is not included in the return on equity capital). A variation of ROE is return on common equity, which measures the return earned by a company only on its common equity.

Return on equity formula is:

$$\text{Return on equity} = \frac{\text{Net profit}}{\text{Equity}} \quad (2.4)$$

#### **2.4.2.2 Liquidity ratios**

Liquidity analysis, which focuses on cash flows, measures a company's ability to meet its short-term obligations. Liquidity measures how quickly assets are converted into cash. Liquidity ratios also measure the ability to pay off short-term obligations. In day-to-day operations, liquidity management is typically achieved through efficient use of assets. In the medium term, liquidity in the nonfinancial sector is also addressed by managing the structure of liabilities. (See discussion on financial sector below.)

The level of liquidity needed differs from one industry to another. A particular company's liquidity position may also vary according to the anticipated need for fund at any given time. Judging whether a company has adequate liquidity requires analysis of its historical funding requirements, current liquidity position, anticipated future funding needs, and options for reducing funding needs or attracting additional fund (including actual and potential sources of such funding). Larger companies are usually better able to control the level and composition of their liabilities than smaller companies. Therefore, they may have more potential funding sources, including public capital and money markets. Greater discretionary access to capital markets

also reduces the size of the liquidity buffer needed relative to companies without such access.

Contingent liabilities, such as letters of credit or financial guarantees, can also be relevant when assessing liquidity. The importance of contingent liabilities varies for the nonbanking and banking sector. In the nonbanking sector, contingent liabilities (usually disclosed in the footnotes to the company's financial statements) represent potential cash outflows, and when appropriate, should be included in an assessment of a company's liquidity. In the banking sector, contingent liabilities represent potentially significant cash outflows that are not dependent on the bank's financial condition. Although outflows in normal market circumstances typically may be low, a general macroeconomic or market crisis can trigger a substantial increase in cash outflows related to contingent liabilities because of the increase in defaults and business bankruptcies that often accompany such events. In addition, such crises are usually characterized by diminished levels of overall liquidity, which can further exacerbate funding shortfalls. Therefore, for the banking sector, the effect of contingent liabilities on liquidity warrants particular attention.

Liquidity ratios measures company's ability to meets its immediate or short-term liabilities and obligations.

Liquidity ratios include current ratios, quick ratios and cash ratios.

Current ratio expresses current assets (assets expected to be consumed or converted into cash within one year) in relation to current liabilities (liabilities falling due within one year). A higher ratio indicates a higher level of liquidity (i.e., a greater ability to meet short - term obligations). A current ratio of 1.0 would indicate that the

book value of its current assets exactly equals the book value of its current liabilities

Current ratio formula is:

$$\text{Current ratios} = \frac{\text{Current assets}}{\text{Short – term liabilities}} \quad (2.5)$$

The quick ratio is more conservative than the current ratio because it includes only the more liquid current assets (sometimes referred to as “quick assets”) in relation to current liabilities. Like the current ratio, a higher quick ratio indicates greater liquidity.

Quick ratio formula is:

$$\text{Quick ratios} = \frac{\text{Current assets} - \text{Inventory}}{\text{Short – term liabilities}} \quad (2.6)$$

The cash ratio normally represents a reliable measure of an individual entity’s liquidity in a crisis situation. Only highly marketable short - term investments and cash are included. In a general market crisis, the fair value of marketable securities could decrease significantly as a result of market factors, in which case even this ratio might not provide reliable information.

Cash ratios formula is:

$$\text{Cash ratios} = \frac{\text{Monetary fund}}{\text{Short – term liabilities}} \quad (2.7)$$

#### **2.4.2.3 Solvency ratios**

Solvency refers to a company’s ability to fulfill its long-term debt obligations. Assessment of a company’s ability to pay its long-term obligations (i. e. to make



interest and principal payments) generally includes an in-depth analysis of the components of its financial structure.

Solvency ratios provide information regarding the relative amount of debt in the company's capital structure and the adequacy of earnings and cash flow to cover interest expenses and other fixed charges (such as lease or rental payments) as they come due. Analysts seek to understand a company's use of debt for several main reasons. One reason is that the amount of debt in a company's capital structure is important for assessing the company's risk and return characteristics, specifically its financial leverage.

Leverage is a magnifying effect that results from the use of fixed costs — costs that stay the same within some range of activity — and can take two forms: operating leverage and financial leverage. Operating leverage results from the use of fixed costs in conducting the company's business. Operating leverage magnifies the effect of changes in sales on operating income.

Profitable companies may use operating leverage because when revenues increase, with operating leverage, their operating income increases at a faster rate. The explanation is that, although variable costs would rise proportionally with revenue, fixed costs would not. When financing a firm (i. e. raising capital for it), the use of debt constitutes financial leverage because interest payments are essentially fixed financing costs. As a result of interest payments, a given percent change in EBIT results in a larger percent change in earnings before taxes (EBT). Thus, financial leverage tends to magnify the effect of changes in EBIT on returns flowing to equity holders.

Assuming that a company can earn more on the fund than it pays in interest, the inclusion of some level of debt in a company's capital structure may lower a company's overall cost of capital and increase returns to equity holders. However, a higher level of debt in a company's capital structure increases the risk of default and results in higher borrowing costs for the company to compensate lenders for assuming greater credit risk. Starting with Modigliani and Miller (1958, 1963), a substantial amount of research has focused on a company's optimal capital structure and the subject remains an important one in corporate finance.

In analyzing financial statements, an analyst aims to understand levels and trends in a company's use of financial leverage in relation to past practices and the practices of peer companies. Analysts also need to be aware of the relationship between operating leverage and financial leverage. The greater a company's use of operating leverage, the greater the risk of the operating income stream available to cover debt payments; operating leverage can thus limit a company's capacity to use financial leverage. A company's relative solvency is fundamental to valuation of its debt securities and its creditworthiness. Finally, understanding a company's use of debt can provide analysts with insight into the company's future business prospects because management's decisions about financing often signal their beliefs about a company's future.

Solvency ratios include debt-to-assets ratios, debt-to-equity ratios, interest coverage and fixed charges coverage.

Debt-to-assets ratio measures the percentage of total assets financed with debt. For example, a debt-to-assets ratio of 0.40 or 40 percent indicates that 40 percent of

the company's assets are financed with debt. Generally, higher debt means higher financial risk and thus weaker solvency.

Debt-to-assets ratio formula is:

$$\text{Debt – to – assets ratios} = \frac{\text{Total debt}}{\text{Total assets}} \quad (2.8)$$

Debt-to-equity ratio measures the amount of debt capital relative to equity capital. Interpretation is similar to the preceding two ratios (i.e. a higher ratio indicates weaker solvency). A ratio of 1.0 would indicate equal amounts of debt and equity, which is equivalent to a debt-to-capital ratio of 50 percent. Alternative definitions of this ratio use the market value of stockholders' equity rather than its book value (or use the market values of both stockholders' equity and debt).

Debt-to-equity ratio formula is:

$$\text{Debt – to – equity ratios} = \frac{\text{Total debt}}{\text{Total equity}} \quad (2.9)$$

Interest coverage measures the number of times a company's EBIT could cover its interest payments. A higher interest coverage ratio indicates stronger solvency, offering greater assurance that the company can service its debt (i.e., bank debt, bonds, notes) from operating earnings.

Interest coverage formula is:

$$\text{Interest coverage} = \frac{\text{EBIT}}{\text{Interest payments}} \quad (2.10)$$

Fixed charge coverage relates fixed charges, or obligations, to the cash flow

generated by the company. It measures the number of times a company's earnings (before interest, taxes, and lease payments) can cover the company's interest and lease payments. 9 Similar to the interest coverage ratio, a higher fixed charge coverage ratio implies stronger solvency, offering greater assurance that the company can service its debt (i.e., bank debt, bonds, notes, and leases) from normal earnings. The ratio is sometimes used as an indication of the quality of the preferred dividend, with a higher ratio indicating a more secure preferred dividend.

Fixed charge coverage formula is:

$$\text{Fixed changes coverage} = \frac{\text{EBIT} + \text{Lease payments}}{\text{Interest payments} + \text{Lease payments}} \quad (2.11)$$

#### **2.4.2.4 Activity ratios**

Activity ratios are also known as asset utilization ratios or operating efficiency ratios. This category is intended to measure how well a company manages various activities, particularly how efficiently it manages its various assets. Activity ratios are analyzed as indicators of ongoing operational performance — how effectively assets are used by a company. These ratios reflect the efficient management of both working capital and longer-term assets. As noted, efficiency has a direct impact on liquidity (the ability of a company to meet its short-term obligations), so some activity ratios are also useful in assessing liquidity.

Activity ratios measure how well a company uses its assets (e.g. assets utilization). Assets efficiency utilization has a direct impact on liquidity.

Activity ratios include inventory turnover, receivables, fix assets turnover, current assets turnover, total assets turnover.

Inventory turnover and DOH, inventory turnover lies at the heart of operations for many entities. It indicates the resources (money) tied up in inventory (i.e., the carrying costs) and can, therefore, be used to indicate inventory management effectiveness. The higher the inventory turnover ratio, the shorter the period that inventory is held and so the lower DOH. In general, inventory turnover (and DOH) should be benchmarked against industry norms.

Inventory turnover formula is:

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}} \quad (2.12)$$

Receivables turnover and DSO, the number of DSO represents the elapsed time between a sale and cash collection, reflecting how fast the company collects cash from customers it offers credit. Although limiting the numerator to sales made on credit would be more appropriate, credit sales information is not always available to analysts; therefore, revenue as reported in the income statement is generally used as an approximation.

Receivables turnover formula is:

$$\text{Receivables turnover} = \frac{\text{Revenue}}{\text{Average receivables}} \quad (2.13)$$

Fixed asset turnover this ratio measures how efficiently the company generates revenues from its investments in fixed assets. Generally, a higher fixed-asset turnover ratio indicates more efficient use of fixed assets in generating revenue. A low ratio can indicate inefficiency, a capital-intensive business environment, or a new business not yet operating at full capacity in which case the analyst would not be able to link the

ratio directly to efficiency. In addition, asset turnover can be affected by factors other than a company's efficiency. The fixed-asset turnover ratio would be lower for a company whose assets are newer (and, therefore, less depreciated and so reflected in the financial statements at a higher carrying value) than the ratio for a company with older assets (that are thus more depreciated and so reflected at a lower carrying value). The fixed-asset ratio can be erratic because, although revenue may have a steady growth rate, increases in fixed assets may not follow a smooth pattern; so, every year-to-year change in the ratio does not necessarily indicate important changes in the company's efficiency.

Fixed asset turnover formula is:

$$\text{Fix assets turnover} = \frac{\text{Revenue}}{\text{Average fix assets}} \quad (2.14)$$

Current assets (expected to be consumed or converted into cash within one year) assets minus current liabilities. Working capital turnover indicates how efficiently the company generates revenue with its working capital.

Current assets turnover formula is:

$$\text{Current assets turnover} = \frac{\text{Revenue}}{\text{Average current assets}} \quad (2.15)$$

Total asset turnover. The total asset turnover ratio measures the company's overall ability to generate revenues with a given level of assets. A ratio of 1.20 would indicate that the company is generating € 1.20 of revenues for every € 1 of average assets. A higher ratio indicates; greater efficiency. Because this ratio includes both fixed and current assets, inefficient working capital management can distort overall

interpretations. It is, therefore, helpful to analyze working capital and fixed-asset turnover ratios separately.

A low asset turnover ratio can be an indicator of inefficiency or of relative capital intensity of the business. The ratio also reflects strategic decisions by management: for example, the decision whether to use a more labor - intensive (and less capital - intensive) approach to its business or a more capital - intensive (and less labor - intensive) approach.

Total asset turnover formula is:

$$\text{Total assets turnover} = \frac{\text{Revenue}}{\text{Total assets}} \quad (2.16)$$

## 2.5 DuPont Analysis

As noted earlier, ROE measures the return a company generates on its equity capital. To understand what drives a company's ROE, a useful technique is to decompose ROE into its component parts. (Decomposition of ROE is sometimes referred to as DuPont analysis because it was developed originally at that company.) Decomposing ROE involves expressing the basic ratio (i. e. net income divided by average shareholders' equity) as the product of component ratios. Because each of these component ratios is an indicator of a distinct aspect of a company's performance that affects ROE, the decomposition allows us to evaluate how these different aspects of performance affected the company's profitability as measured by ROE.

Decomposing ROE is useful in determining the reasons for changes in ROE over time for a given company and for differences in ROE for different companies in a given

time period. The information gained can also be used by management to determine which areas they should focus on to improve ROE. This decomposition would also show why a company's overall profitability, measured by ROE, is a function of its efficiency, operating profitability, taxes, and use of financial leverage. DuPont analysis shows the relationship between the various categories of ratios discussed in this chapter and how they all influence the return to the investment of the owners.

Analysts have developed several different methods of decomposing ROE. The decomposition presented here is one of the most commonly used and the one found in popular research databases, such as Bloomberg. Return on equity is calculated as:

$$ROE = \frac{\text{Net income}}{\text{Average shareholders' equity}} \quad (2.17)$$

The decomposition of ROE makes use of simple algebra and illustrates the relationship between ROE and ROA. Expressing ROE as a product of only two of its components, we can write:

$$ROE = \frac{\text{Net income}}{\text{Average shareholder's equity}} = \frac{\text{Net income}}{\text{Average total assets}} \times \frac{\text{Average total assets}}{\text{Average shareholders' equity}} \quad (2.18)$$

Also can be interpreted as:

$$ROE = ROA \times \text{Leverage} \quad (2.19)$$

In other words, ROE is a function of a company's ROA and its use of financial leverage ("leverage" for short, in this discussion). A company can improve its ROE by improving ROA or making more effective use of leverage. Consistent with the definition given earlier, leverage is measured as average total assets divided by



average shareholders' equity. If a company had no leverage (no liabilities), its leverage ratio would equal 1.0 and ROE would exactly equal ROA. As a company takes on liabilities, its leverage increases. As long as a company is able to borrow at a rate lower than the marginal rate it can earn investing the borrowed money in its business, the company is making an effective use of leverage and ROE would increase as leverage increases. If a company's borrowing cost exceeds the marginal rate it can earn on investing, ROE would decline as leverage increased because the effect of borrowing would be to depress ROA.

## **Chapter 3 Financial characterization of Haier Company**

This chapter introduced something about Haier Company<sup>2</sup>, like history, core value, strategy, brand, production and industry analysis.

### **3.1 Introduction about Haier Company**

Qingdao Haier company (stock code 600690), was founded in 1984 in Qingdao, China, the world's white goods first brand. Up to 2009, Haier established 29 manufacturing facilities, eight integrated R&D centers, 19 overseas trading companies, employs more than 60,000 people. In 2009, Haier's global turnover of 124.3 billion yuan, 81.2 billion yuan of brand value, for eight consecutive years ranked China's valuable brands list.

Haier Company mainly engaged in the operation of refrigerators, air conditioners, electric freezers, dishwashers, gas stoves and other small appliances and other related products. Washing machine, refrigerator, air conditioning, televisions, water heaters, computers, mobile phones, home integration and so on, there are 18 products under the brand was named China's famous brand, even Haier refrigerators, washing machines, AQSIQ (Administration of Quality Supervision, Inspection and Quarantine) has also been named the first world famous. August 30, 2005, Haier was rated as the first in the top ten world-class brands. 2006, "Asian Wall Street Journal" organization named the "top 200 enterprises in Asia", the Haier company, had been four consecutive years topped the "top Chinese mainland enterprises integrated leadership" list. Haier has been among the ranks of world-class brand, and its

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<sup>2</sup> The information is extracted from the company's official website:  
[http://www.haier.net/cn/about\\_haier/](http://www.haier.net/cn/about_haier/)

influence rapid increase with the expansion of global markets.

Qingdao Haier Industry is household appliances manufacturing. business scope, including a refrigerator, freezer, marine refrigerators wave furnace, vacuum packing machines, air conditioners, electromagnetic pipe, washing machines, water heaters, electric fans, rice cookers and accessories communications equipment.

By 2009, Haier total has 9258 patent applications, 2532 of them are invention patent. On the basis of independent intellectual property rights, Haier has participated in 19 international standard-setting, five international standards have been promulgated and implemented, which indicates that Haier of independent innovation in the field of international standards have been recognized. In 2008, Haier was selected prepared by the World Brand Lab value buyers satisfaction brand "ranked fourth.

### **3.2 Core Values of Haier**

Founded in 1984, Haier has experienced rapid development in the waves of reform and opening to the outside world. In 26 years' time, customer-oriented Haier has stood out as the No.1 Home Appliance Brand in the world through four stages of development: brand creation, diversification, internationalization and globalization.

The vision and mission of Haier is to become the industrial leader and the most competitive and consumer preferred home appliance solution provider. Constant quest for innovation and the win-win independent operational mode would make them the pace-setter of global home appliance industry, an excellent example of manufacturing-to-service transformation, and the leader of consumer proximity to

create a world class brand.

Innovation is “the way of Haier”, which means: create values for customer on the basis of world-class systems and platforms, so as to establish a win-win culture. Meanwhile, Haier is committed to long term success, which depends to a large extent on their values.

Core Values of Haier is divided into four types, they are customer Oriented–think what consumers think; development focused - entrepreneurial spirit and creativity and interest driven–win-win Culture.

### 3.3 Strategy

This picture is the strategy of Haier’s development.

Graph 3.1 Strategy of Haier’s development



**The phase of Brand building strategy (1984-1991): Always aiming at the top position.**

In the 1980s, the beginning of reform and opening-up, many enterprises, including Haier, introduced advanced foreign technology and equipment in refrigerators. At that time, demand exceeded supply in the home appliance market, and many enterprises sought economies of scale, focusing on output while neglecting

quality. Haier did not seek high output blindly. Instead, it was very strict with the quality of its products, and implemented comprehensive quality management. It valued the concept of “Always aiming at the top position”. When supply exceeded demand in the home appliance market, Haier won competitive advantage through superior quality. In this phase, Haier devoted itself to the manufacturing of refrigerators and developed a set of implantable models in management, technique, talent, capital and corporate culture.

**The phase of Diversification strategy (1991-1998): culture activated “shocked fish”.**

In the 1990s, the state encourages mergers and acquisitions. After merging and restructuring, some enterprises could not develop, or considered specialization rather than diversification. The creation of Haier was the merging of eighteen domestic enterprises with the thought of “Haier culture activated shocked fish”, and Haier entered into an era of vast development space in diversified business and expansion. At that time, there was fierce competition in the home appliance market and quality had become a basic requirement for consumers. Haier took the lead to provide the star service system. While home appliance manufacturers focused on price wars, Haier won competitive advantage through superior quality. In this phase, Haier began to implement the OEC (Overall Every Control and Clear) management approach, i.e. everyone shall conduct overall control of and clear everything that needs to be done every day, with the aim to “accomplish what’s planned each day; evaluate and improve what’s accomplished each day”. This management approach also became

the cornerstone of Haier's innovation.

**The phase of Internationalization strategy (1998-2005): Go abroad and export to create a famous brand.**

In the late 1990s, with China's entry into WTO, many enterprises went abroad at the call of the state. But they found it was difficult to develop overseas, so they returned while continuing with licensing agreements. Haier thought that going abroad did not just mean earning foreign exchange. Instead, enterprises should create China's own brands. Therefore, Haier proposed the "three steps strategy" of "Get in, Move into mainstream, Leadership". Haier put forward the thought of "difficult first, easy later" and created a famous brand in developed countries. After the brand was established, Haier entered the markets of developing countries, and created the localization mode of "three in one", i.e., combining design, manufacturing and sales into one. In this phase, Haier implemented "Market Chain" management. Such a management system was based on computer information systems and centered on order information flow to improve the logistics and capital flow and to rebuild the business process. This innovation management system facilitated information flow within the enterprise, and encouraged employees to align their value orientation with the needs of users.

**The phase of Global brand strategy (after 2005): Consolidating global resources and creating a global brand.**

The Internet era brings segmentation of the market, and the mode of traditional

enterprises featuring “production-storing-selling” can no longer satisfy the tailored needs of users. The enterprises must shift from the enterprise-centric sale of products to the user-centric sale of services. That is, they should shift to the “demand manufacturing and delivery” mode. The Internet also brings integration of the global economy, and the relationship between internationalization and globalization is one of logical improvement. Internationalization means creating international brands with the own resources of the enterprises, while globalization means making use of global resources to create localized mainstream brands. They are quite different. Therefore, Haier consolidates the global resources in R&D, manufacturing, and marketing to create a global brand. In this phase, the business mode created by Haier to develop consumers in the Internet era is a “Win-win Mode of Individual-Goal Combination”.

### **3.4 Industries**

This is a simple introduction and some analysis about Household appliances product industries.

#### **3.4.1 White Goods Group**

As the number one Global Major Appliances Brand, Haier aims to provide worldwide consumers with perfect solutions for a wonderful household life. In order to achieve its commitment to global consumers, Haier Group relies on its white goods such as refrigerators, air conditioners, washing machines, water heaters and kitchen electric appliances to continually create the latest life experience and great lifestyle for global consumers.

### **3.4.2 Digital & Personal**

Haier Digital and Personal Product Group is one of the cornerstone industries of Haier Group in its implementation of global brand strategy. Haier Digital and Personal Product Group are engaged in multiple fields such as home appliances, computers and mobile phones. It is the only manufacturer in China that is able to produce big screens of TV, mid-sized screens of computer as well as small mobile screens. Haier takes personalized entertainment to another level by offering a brand new and unique smart home life solution through “cloud family” plan. Centered by Cloud Smart TV, cloud family integrates computers, mobile phones and home appliances to comprehensive interconnection and interaction. Consumers’ dream of a high quality life is now fulfilled.

### **3.4.3 Integrated kitchen**

Qingdao Haier Kitchen Facilities Co., Ltd. started research and development in October 1996 and put into production in September 1997. It is mainly engaged in the development, production and sales of kitchen cabinets, and it strives to offer the market with quality integrated kitchen appliances with the support of Haier household electric appliances. Haier Kitchen has invested RMB 183 million yuan in building a world-class digital production base, which is of leading level in Asia. In China, Haier Kitchen first promoted the “Integrated kitchen cabinets and home appliances, one stop service satisfaction” sales philosophy. It is honored with the title “Pioneer of China’s Kitchen & Bath Industry”.



### **3.4.4 Residence**

Haier Real Estate adheres to the Haier Spirit: Creating resources and worldwide prestige. Through a strategic approach of “innovative products, creating values and establishing a system”, Haier Real Estate strives to accomplish its development strategy of “Solid foundation, integrated innovation and speeding up expansion”. Since 2009, Haier Real Estate has continuously achieved fast development and quickly become one of the National Top 100. In 2011, Haier Real Estate is ranked number 36 among China’s Top 100 Real Estate Companies. It is ranked second in Top 10 Growth and won the title of China’s Top 100 Real Estate Company for the fourth year in a row. It was rewarded the number one Business Leader of Shandong Real Estate Companies in 2010. Its brand value is ranked second among real estate companies in North China.

### **3.4.5 Home appliances**

Its scope of business includes three major categories: environmental, kitchen and personal care. It boasts over 200 products ranged of 14 kinds, including vacuum cleaners, induction cookers, rice cookers, electric pressure cookers, microwave ovens, soybean milk machines, water dispensers, garment steamers and so on. Haier home appliances fully meet the diverse needs of users and provide them with various solutions to quality life. Haier Home Appliances is developing rapidly and committed to growing up as the number one brand in the high-end home appliances industry!

Resources: Haier's official website: <http://www.haier.net/en/>

**Chapter 4 Financial analyses**

This chapter is financial analysis of Haier Company from 2006 to 2010; it would show some analysis according to balance sheet, cash flow statement and income statement.

**4.1 Assets structure analysis**

Since the business is the use of various assets, allowed to fully play a role, to produce the greatest benefits, assets of these different divisions, different structures of production, operation and financial activities, would produce different effects. And with the development of enterprises, economic should be growth, only when economic growth is particularly fast or decreased, there would be some special reasons.

**4.1.1 Fix and current analysis**

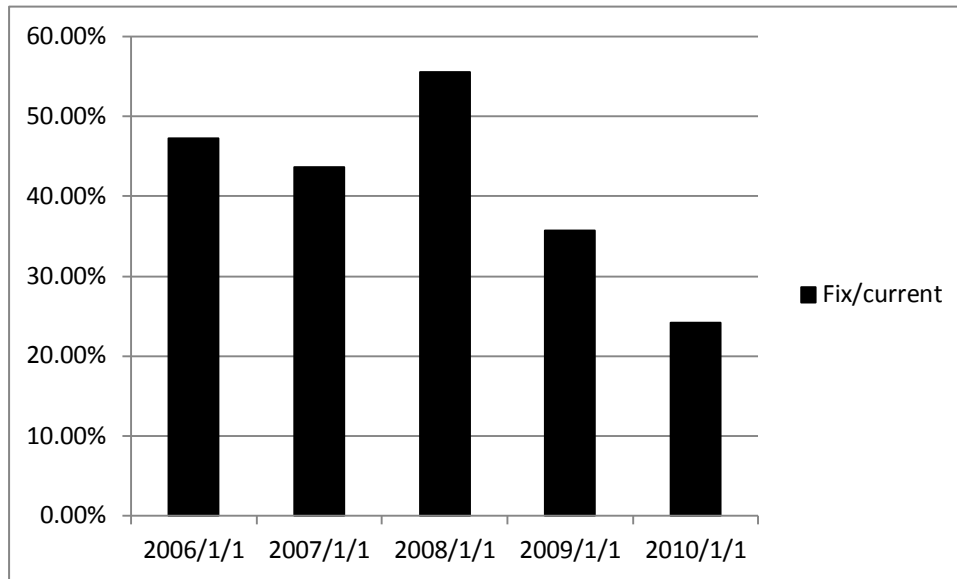
In this part we will analysis fix assets and current assets' proportion.

Table 4.1 Fix assets and current assets' proportion

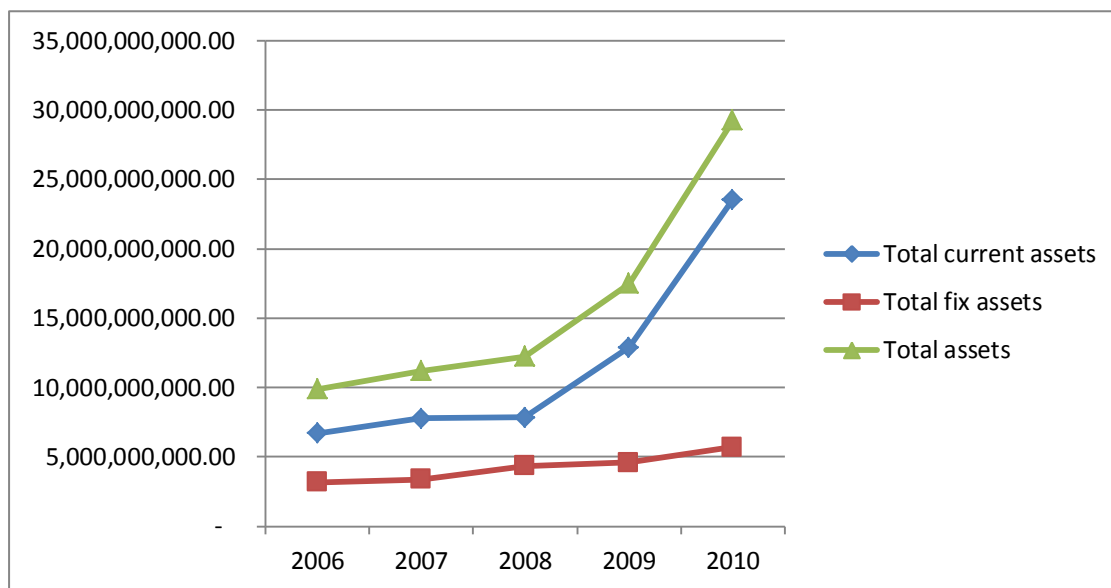
Fix and current	2010/12/31	2009/12/31	2008/12/31	2007/12/31	2006/12/31
Fix/current	24.17%	35.69%	55.54%	43.62%	47.25%

From these charts (table4.1, graph4.1, 4.2, 4.3), we can see from 2008 haier tend to steady structure of asset, current assets increased in the proportion of the total assets. Its characteristic is the enterprise risk was low, and has good financial credit. Haier keep the low risk, increase current asset.

Graph 4.1 Ratio of fix assets and current assets of Haier

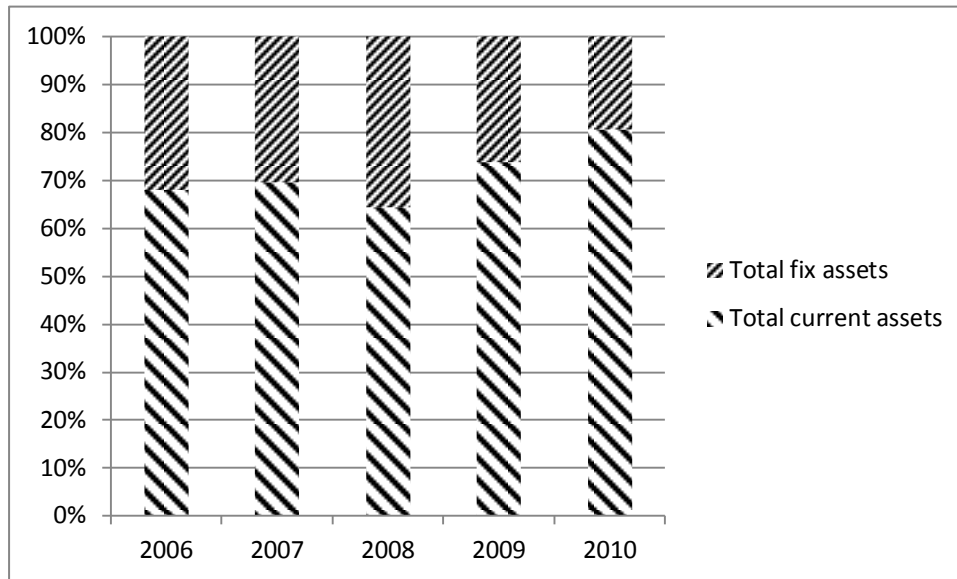


Graph 4.2 Assets trend of Haier



These charts showed the asset developing trend. From 2006 to 2010, all kinds of assets are increasing, but current asset increase much more than fix asset. So the current asset is more and more big in the proportion of the total assets, fix asset and other asset is decrease in the proportion of the total Asset.

Graph 4.3 Structure of assets of Haier



The reason of the current assets increased was the U.S. "subprime crisis" is gradually emerging from the spring of 2006; August 2007 swept the U.S., EU and Japan, the world's major financial markets. The haier company in order to maintain a low risk rate increased current assets from 2008.

At the same time, the Chinese government launched a policy called the "household appliances to the countryside", enterprises would sell products in a low-priced to consumers, and then the government would compensate this part of the lost to the companies. So the inventory decreased, current assets increased.

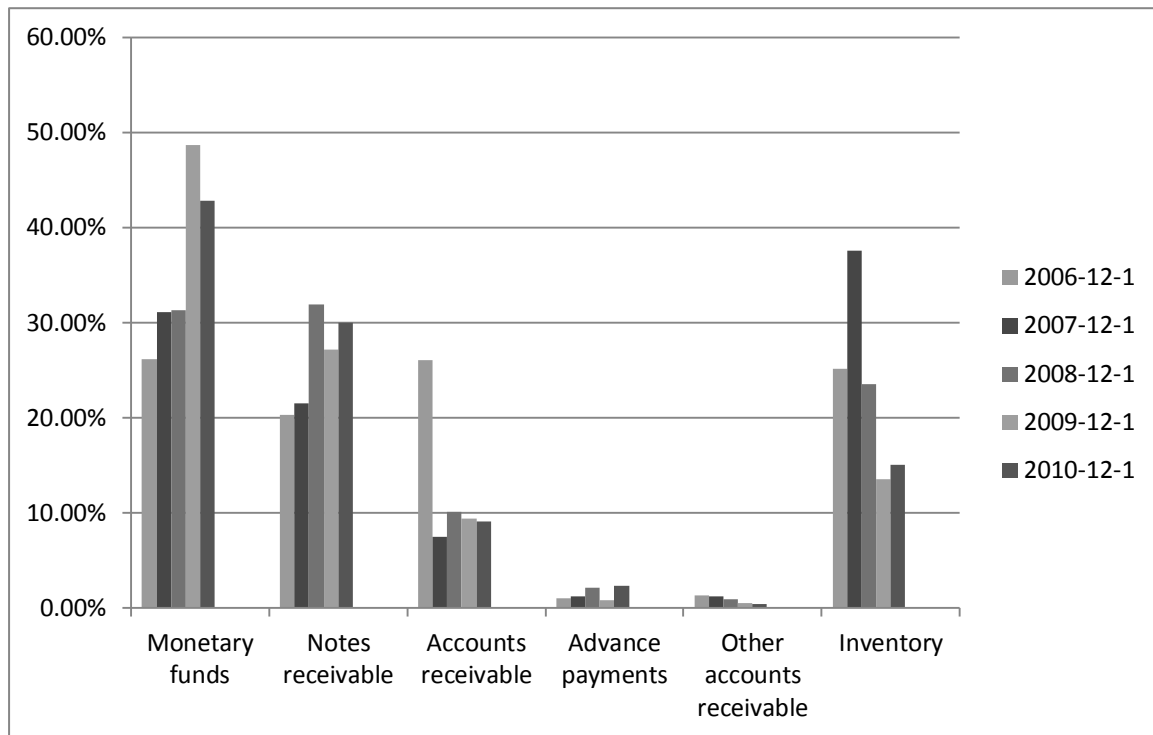
#### 4.1.2 Structure of current assets

In this part we will analysis structure of current assets.

Table 4.2 Structure of current assets of Haier (Unit 1000RMB)

Structure of current asset	2010-12-1	2009-12-1	2008-12-1	2007-12-1	2006-12-1
Monetary fund	10,098,100	6,282,450	2,461,590	2,420,830	1,755,630
Notes receivable	7,060,550	3,505,030	2,512,220	1,675,340	1,365,710
Accounts receivable	2,141,520	1,204,650	794,570	578,904	1,746,380
Advance payments	555,731	97,289	168,607	94,249	67,365
Other accounts receivable	101,888	63,095	73,437	92,855	88,008
Inventory	3,557,070	1,742,540	1,852,920	2,928,670	1,689,790
Other current assets	0	0	0	13	41
Total current assets	23,571,150	12,895,054	7,863,344	7,790,861	6,712,923
Proportion					
Monetary fund	42.84%	48.72%	31.30%	31.07%	26.15%
Notes receivable	29.95%	27.18%	31.95%	21.50%	20.34%
Accounts receivable	9.09%	9.34%	10.10%	7.43%	26.02%
Advance payments	2.36%	0.75%	2.14%	1.21%	1.00%
Other accounts receivable	0.43%	0.49%	0.93%	1.19%	1.31%
Inventory	15.09%	13.51%	23.56%	37.59%	25.17%
Other current assets	0.00%	0.00%	0.00%	0.00%	0.00%
Total current assets	100.00%	100.00%	100.00%	100.00%	100.00%

Graph 4.4 Structure of current asset of Haier



From these charts (table 4.2, graph 4.4), we can know that the proportion of Monetary fund increased, from 26.15% to 42.84%, the most is 48.72%, it means the monetary fund isn't utility maximization.

The inventory decreased, from 25.17% to 15.09%. It means the problem of inventory management was solved, inventory turnover significantly increased high. And Net notes receivable is a large part of current asset, the risk of Net notes receivable is lower than Net receivables.

We can see the Inventory decreased 14% from 2007 to 2008 at the same time the net notes receivable increased more than 10%.

The reason was the Chinese government launched a policy called the "household appliances to the countryside", enterprises would sell products in a low-priced to consumers, and then the government would compensate this part of the lost to the companies.

In 2008, the results of the second bidding project of Household Appliances Go into Rural Areas jointly held by Ministry of Commerce and the Ministry of Finance of the People's Republic of China were announced; Haier Color TV, Mobile phone, and Refrigerator won the biddings. This time, the project had, based on the originally 3 provinces of Shandong, Henan, and Sichuan, recruited another 11 provinces, and apart from color TV, mobile phone and refrigerator, washing machine was added to the list.

#### 4.1.3 Assets change trend analysis

In this part we will analysis assets change trend.

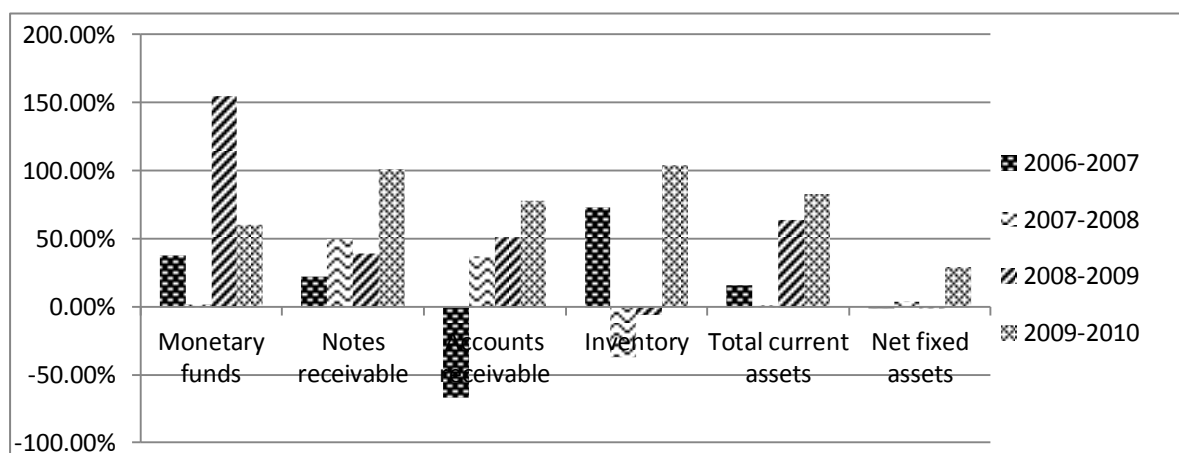
Table 4.3 Assets and assets change trend of Haier (Unit 1000RMB) part 1

Assets	2010-12-31	2009-12-31	2008-12-31	2007-12-31	2006-12-31
Monetary fund	10,098,100	6,282,450	2,461,590	2,420,830	1,755,630
Notes receivable	7,060,550	3,505,030	2,512,220	1,675,340	1,365,710
Accounts receivable	2,141,520	1,204,650	794,570	578,904	1,746,380
Inventory	3,557,070	1,742,540	1,852,920	2,928,670	1,689,790
Total current assets	23,571,150	12,895,054	7,863,344	7,790,861	6,712,923
Net fixed assets	3,184,940	2,462,130	2,468,570	2,374,390	2,392,830

Table 4.3 Assets and assets change trend of Haier (Unit 1000RMB) part 2

Assets change trend	2009-2010	2008-2009	2007-2008	2006-2007
Monetary fund	3,815,650	3,820,860	40,760	665,200
Notes receivable	3,555,520	992,810	836,880	309,630
Receivable	936,870	410,080	215,666	-1,167,476
Inventory	1,814,530	-110,380	-1,075,750	1,238,880
Total current assets	10,676,096	5,031,710	72,482	1,077,938
Net fixed assets	722,810	-6,440	94,180	-18,440
Monetary fund	60.74%	155.22%	1.68%	37.89%
Notes receivable	101.44%	39.52%	49.95%	22.67%
Receivable	77.77%	51.61%	37.25%	-66.85%
Inventory	104.13%	-5.96%	-36.73%	73.32%
Total current assets	82.79%	63.99%	0.93%	16.06%
Net fixed assets	29.36%	-0.26%	3.97%	-0.77%

Graph 4.5 Assets change trend



From these two charts (table 4.3, graph 4.5), the Monetary fund increased



significant. At the end of 2009, the monetary fund increased 155.22% (¥38,208,600,006) over the previous year. The reason is Sales policy adjustments and the structural optimization of the back section.

The Notes receivable increased 39.52% than last year; main reason is increasing in corporate of income and back section.

In 2009, net receivable increased by 51.61% over the previous year, mainly reporting period due to the increase in revenue.

The reasons are the U.S. "subprime crisis" is gradually emerging from the spring of 2006; August 2007 swept the U.S., EU and Japan, the world's major financial markets. The haier company in order to maintain a low risk rate increased current assets from 2008. And the Chinese government launched a policy called the "household appliances to the countryside", enterprises would sell products in a low-priced to consumers, and then the government would compensate this part of the lost to the companies. So the inventory decreased, current assets increased.

But the inventory, from 2007 to 2009, decreased year by year, and increased in 2010. The reason was after two years promotion, the market was basically saturated.

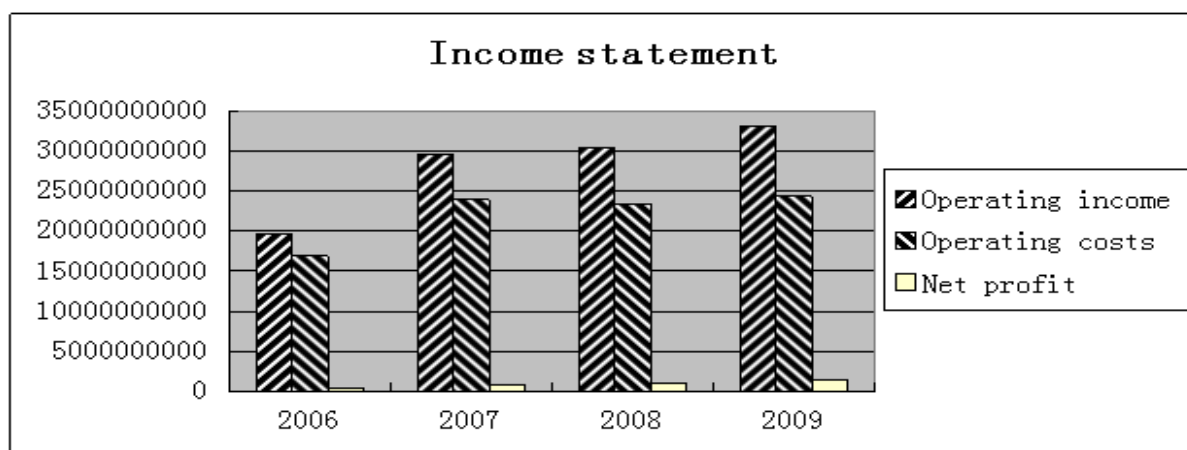
#### 4.1.4 The income statement trend analysis

In this part we will analysis income trend.

Table 4.4 Absolute change of income statement of Haier (Unit 1000RMB)

Income statement	2009/12/31	2008/12/31	2007/12/31	2006/12/31
Operating income	32,979,419	30,408,039	29,468,646	19,622,831
Operating costs	24,263,147	23,375,986	23,867,836	16,868,522
Cost of sales	4,984,188	4,074,594	3,502,459	1,386,074
Management costs	2,116,221	1,691,186	1,187,483	768,060
Financial costs	-7,966	103,655	47,971	2,534
investment income	167,072	151,058	64,868	-110,665
Operating profit	1,630,501	1,166,731	899,294	489,532
Non-operating income	116,134	34,345	47,229	21,821
Non-Operating expenses	6,485	6,395	66,408	48,299
Total profit	1,740,150	1,137,127	880,115	463,053
Income tax	365,542	158,428	125,829	106,575
Net profit	1,374,608	978,699	754,286	356,478

Graph 4.6 Income statement of Haier



From these charts (table 4.4, graph 4.6), we can see Haier's main trend is upward. Operating income, operating costs, operating income, operating costs, operating profit increased year by year, and other business profits all decreased. Cost of sales also has an upward trend, Management fees increased and then decreased. Let's watch 2008 and 2009's data.

Table 4.5 Income statement from 2008 to 2009 of Haier (Unit 1000RMB)

Income statement	2009/12/31	2008/12/31	Absolute change	Annual change
Operating income	32,979,419	30,408,039	2,571,380	8%
Operating costs	24,263,147	23,375,986	887,161	4%
Cost of sales	4,984,188	4,074,594	909,593	22%
Management costs	2,116,221	1,691,186	425,035	25%
Financial costs	-7,966	103,655	-111,621	-108%
Investment income	167,072	151,058	16,013	11%
Operating profit	1,630,501	1,166,731	463,771	40%
Non-operating income	116,134	34,345	81,789	238%
Non-Operating expenses	6,485	6,395	90	-90%
Total profit	1,740,150	1,137,127	603,024	53%
Income tax	365,542	158,428	207,114	131%
Net profit	1,374,608	978,699	395,910	40%

According the table 4.5, from 2008 to 2009, Haier's revenue grew 8%, operating profit increased by 40%, showing good momentum of development in 2009 Haier.

Cost of sales increased by 22%, and administrative expenses increased 25%, but the financial costs have been reduced by 108%.

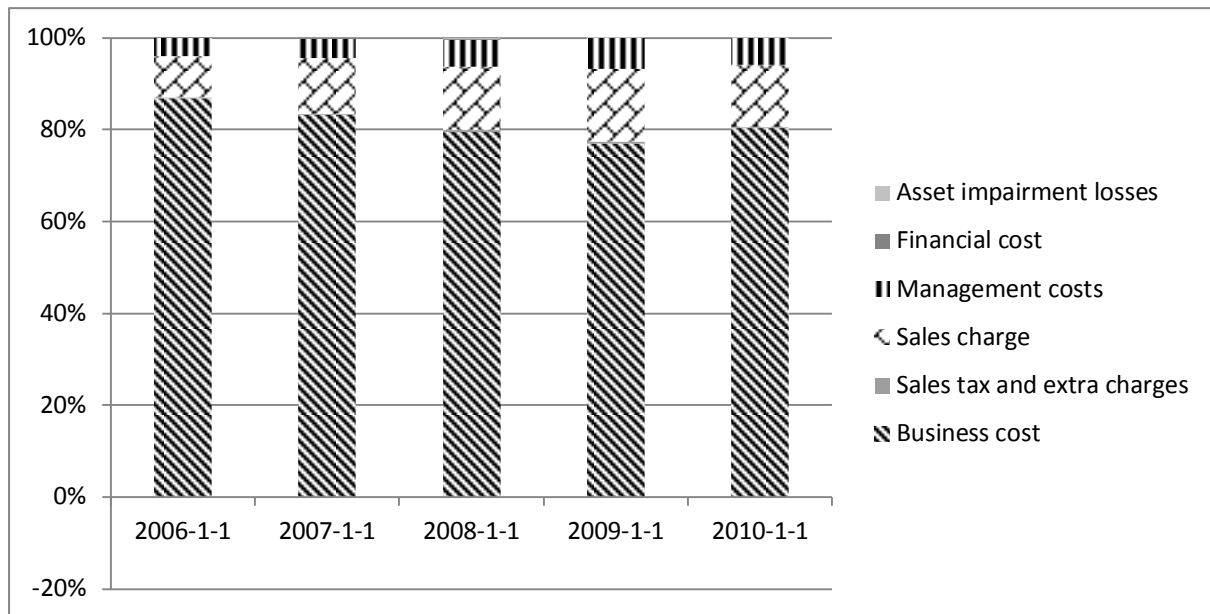
**4.1.5 Structure of cost**

In today's society, competition is becoming increasingly intense, in this rapid elimination of the social, the enterprises need doing more and more outstanding to stand, excellent enterprises cannot do without good management and cost control management philosophy is the top priority of corporate management. Only through good cost control and management than have a chance to get better efficiency, higher profits.

Table 4.6 Structure of cost of Haier

Structure of cost	2010-12-31	2009-12-31	2008-12-31	2007-12-31	2006-12-31
total operating cost	100.00%	100.00%	100.00%	100.00%	100.00%
Business cost	80.22%	76.99%	79.53%	83.35%	86.84%
Sales tax and extra charges	0.28%	0.43%	0.32%	0.23%	0.19%
Sales charge	13.51%	15.81%	13.86%	12.23%	8.90%
Management costs	5.90%	6.71%	5.75%	4.15%	4.06%
Financial cost	0.01%	-0.03%	0.35%	0.17%	0.01%
Asset impairment losses	0.08%	0.08%	0.18%	-0.13%	0.00%

Graph 4.7 Structure of cost of Haier



According to the charts (table 4.6, graph 4.7), there were three main costs; their proportion almost had no change. The main cost was business cost, which was more than 80%. So we can know if we can reduce this part of the cost, the total cost would drop by a large margin, and the product would become more competitive.

On August 9th, 2007, Haier Group acquired an Indian refrigerator plant with an annual capacity of 350,000 units, announcing the initiation of Haier's first India-based manufacturing center. The acquisition was part of Haier's localization strategy in India, and by so, Haier would enjoy a more favorable tariff level (saving by 30% the cost for each refrigerator), reduce delivery time, and provide better services for customers.

#### 4.2 Ratios analysis

Including profitability ratios analysis, liquidity ratios analysis, solvency ratios analysis and activity ratios analysis.

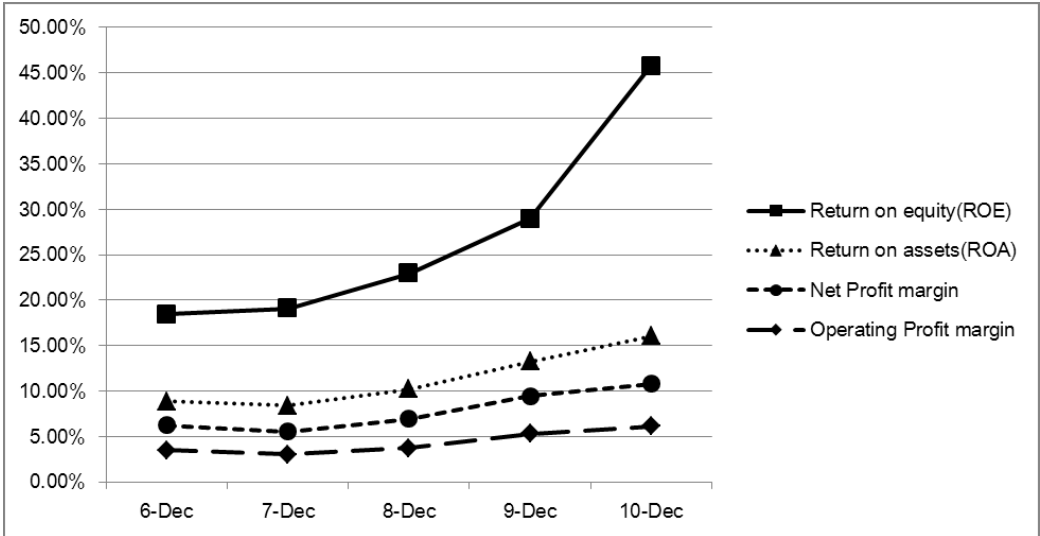
### 4.2.1 Profitability ratios analysis

In this part we will analysis profitability ratios of Haier.

Table 4.7 Profitability ratios of Haier (Unit 1000RMB)

Profitability ratios	2010-Dec	2009-Dec	2008-Dec	2007-Dec	2006-Dec
Revenues	60,588,200	32,979,400	30,408,000	29,468,600	23,214,300
Operating Profit	3,712,310	1,740,150	1,137,130	880,115	806,400
Net Profit	2,824,280	1,374,610	978,699	754,286	637,765
Total asset	53,927,634	36,407,351	30,139,616	26,457,953	24,262,816
Equity	9,488,790	8,752,240	7,701,060	7,056,130	6,651,420
Operating Profit margin	6.13%	5.28%	3.74%	2.99%	3.47%
Net Profit margin	4.66%	4.17%	3.22%	2.56%	2.75%
ROA	5.24%	3.78%	3.25%	2.85%	2.63%
ROE	29.76%	15.71%	12.71%	10.69%	9.59%

Graph 4.8 Profitability ratios of Haier



Look the charts (table 4.7, graph 4.8), from 2006 to 2010, net profit margin, return on assets and return on equity all had a little increasing but still kept stable. Operating

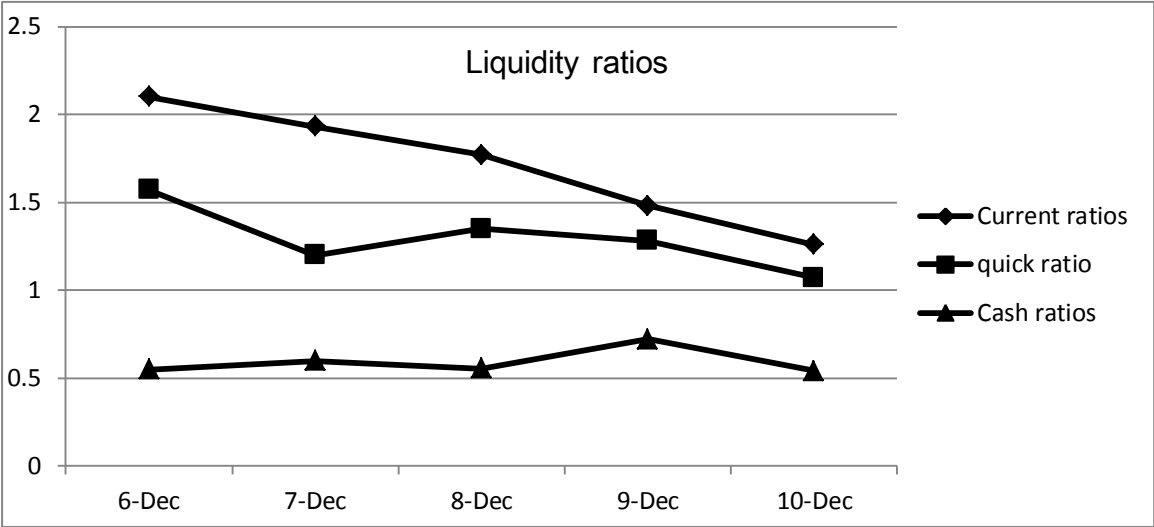
profit margin had a slow growth from 2009 to 2009 and grew fast in 2010. It means Haier's market competitiveness of enterprises; potential for development, profitability is growing.

### 4.2.2 Liquidity ratios analysis

Table 4.8 Liquidity ratios of Haier (Unit 1000RMB)

Liquidity ratios	Dec-10	Dec-09	Dec-08	Dec-07	Dec-06
Inventory	3,557,070	1,742,540	1,852,920	2,928,670	1,689,790
Monetary fund	10,098,100	6,282,450	2,461,590	2,420,830	1,755,630
Current Assets	23,571,150	12,895,054	7,863,344	7,790,861	6,712,923
Current liabilities	18,673,342	8,698,036	4,444,537	4,043,218	3,193,319
Current ratios	1.26	1.48	1.77	1.93	2.10
Quick ratio	1.07	1.28	1.35	1.20	1.57
Cash ratios	54.08%	72.23%	55.38%	59.87%	54.98%

Graph 4.9 Liquidity ratios of Haier



According these two charts (table 4.8, graph 4.9); the current ratio is to reflect all

current assets to be realized according to the face value of the ability to pay off the entire carrying amount of current liabilities. The higher current ratio means higher ability to pay back the current liabilities; otherwise, it means the company has a lower ability to pay back the current liabilities. But, this is only one-side, high current ratio, also shows that the enterprise cannot effectively use the current assets, current assets management capabilities lower. We usually think current ratio of 2:00 is more reasonable, but this can only be used as reference, we need analyzing the current ratio contacting with the industry average and the historical level of the enterprise. Before 2006, the current ratios of Haier Company are nearly 5.0, from 2006 to 2010 the current ratios still decreased from 2.1 to 1.26. It is a reasonable data.

Quick ratio reflects the company's ability about liquid assets to repay all current assets. Various projects in the current assets liquidity different, a part of them cannot or are not easily realized, it would be calculated after adjusting the ratio to better reflect the short-term solvency of the enterprise. The general quick ratio is 1.0. But there are also inter-industry differences and other factors caused the difference by the quick ratio, we compared to the level of corporate history, quick ratio is reasonable, and it's relatively high short-term solvency. The monetary fund is adequate, more prepayments; accounts receivable, other receivables, compared to less, means the company has a higher ability of the short-term solvency.



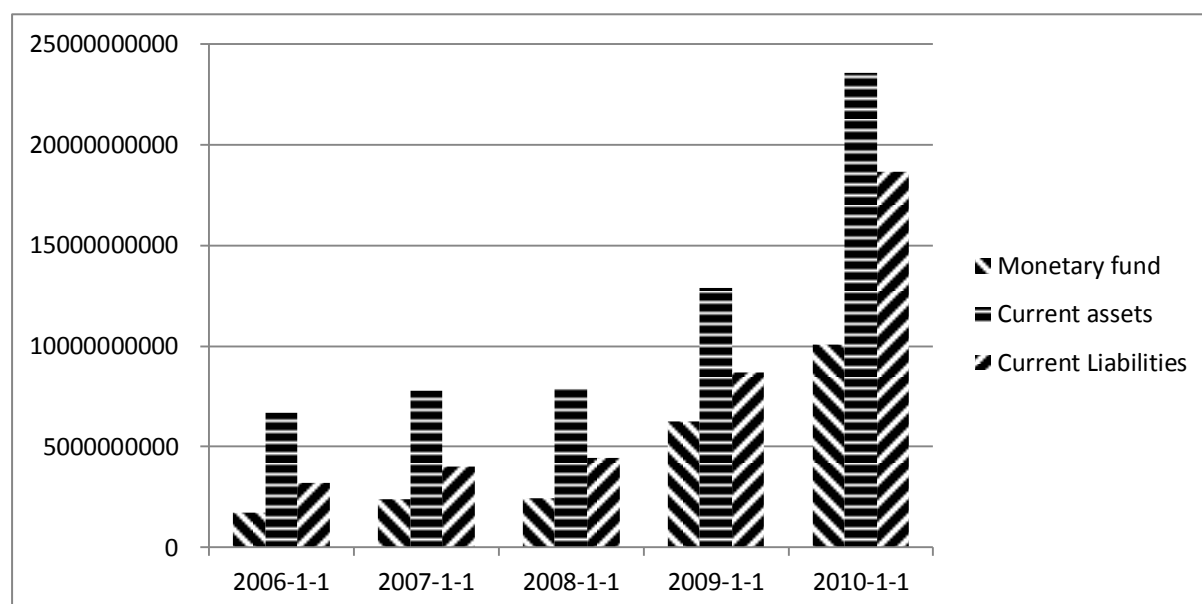
### 4.2.3 Solvency ratios analysis

In this part we will analysis solvency ratios.

Table 4.9 Solvency ratios of Haier (Unit 1000RMB)

Solvency ratios	2010	2009	2008	2007	2006
Monetary fund	10,098,100	6,282,450	2,461,590	2,420,830	1,755,630
Note receivables	7,060,550	3,505,030	2,512,220	1,675,340	1,365,710
Net receivables	2,141,520	1,204,650	794,570	578,904	1,746,380
Inventory	3,557,070	1,742,540	1,852,920	2,928,670	1,689,790
Current assets	23,571,150	12,895,100	7,863,330	7,790,860	6,712,930
Short-term debt	4,437,090	0	174,700	97,000	223,000
Notes payable	6,399,530	2,614,970	638,770	460,115	163,000
Accounts Payable	1,912,290	3,156,890	1,614,060	2,367,970	2,122,330
Current Liabilities	18,673,342	8,698,040	4,444,540	4,043,220	3,193,320

Graph 4.10 Current assets and Current liabilities of Haier



From these two charts(table 4.9, graph 4.10), we can see the absolute number of Haier currency fund show an upward trend, and current assets in 2007 as the inflection point, down then up and then drop. Current liabilities had the same trend in 2007 as a turning point, rise first and then decreased. This trend led to the current ratio, quick ratio of trends, namely, we analyze the current ratio and quick ratio before a rapid downward trend in the 2006-2007, then rebounded to stabilize. In current assets, cash, notes receivable, accounts receivable and inventory in the 2006-2007 decreased shows that the decline in the size of current assets because all the current assets decline at the same time. The short-term borrowings and notes payable is based on different proportions down then up, resulting in the values of I in the current liabilities in general after an initial drop.

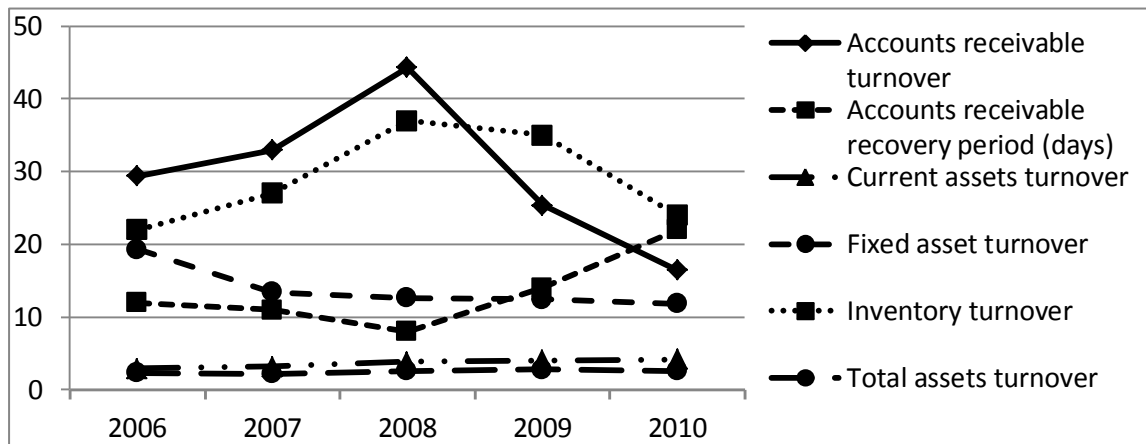
#### 4.2.4 Activity ratios analysis

In this part we will analysis activity ratios.

Table 4.10 Activity ratios of Haier

Time	2006-12-31	2007-12-31	2008-12-31	2009-12-31	2010-12-31
Accounts receivable turnover	29.412	32.992	44.279	25.346	16.472
Accounts receivable recovery period (days)	12	11	8	14	22
Current assets turnover	2.921	3.177	3.885	4.064	4.162
Fixed asset turnover	19.306	13.446	12.631	12.443	11.835
Inventory turnover	22	27	37	35	24
Total assets turnover	2.332	2.219	2.597	2.797	2.573

Graph 4.11 Activity ratios of Haier

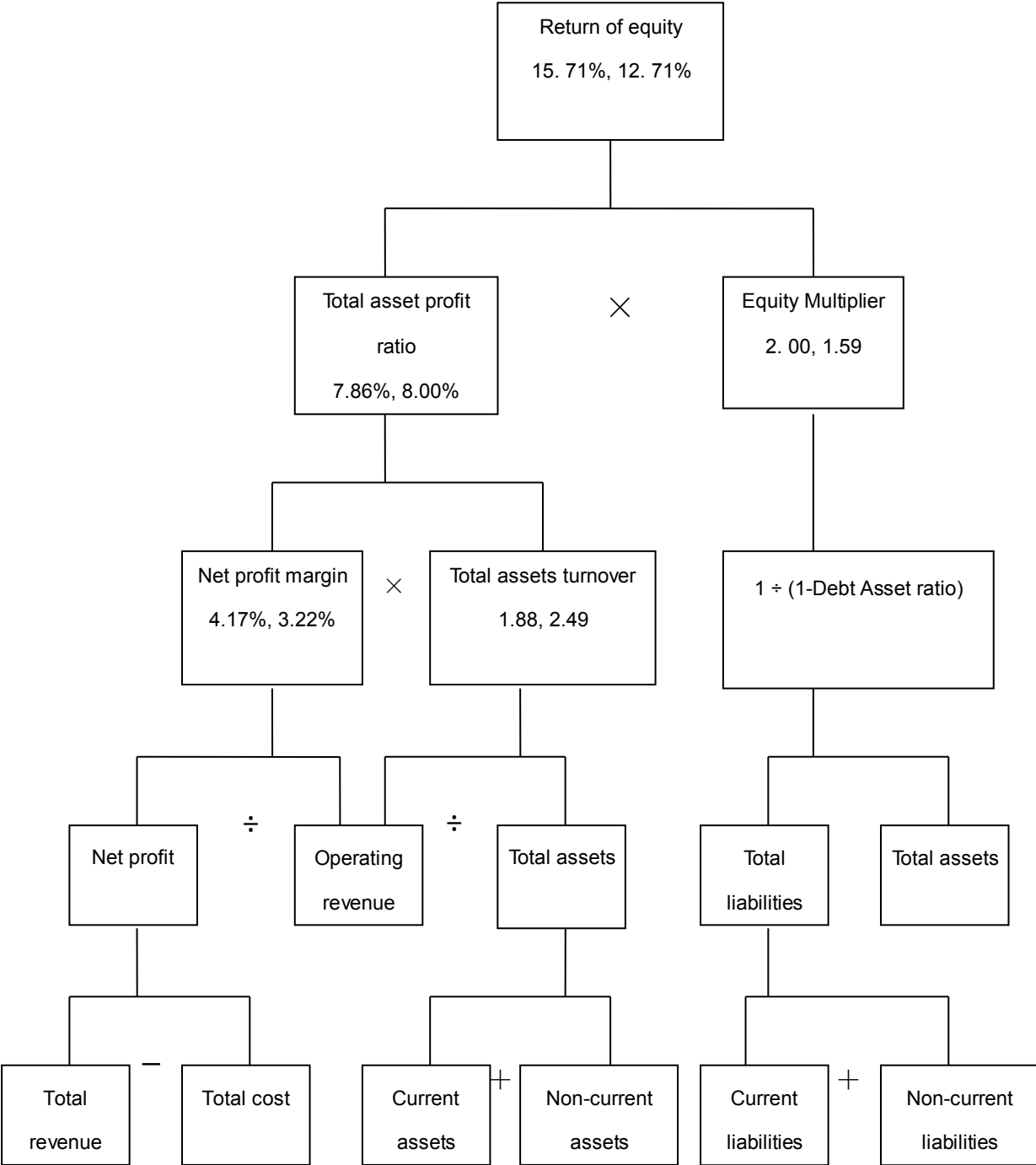


From these two charts (table 4.10, graph 4.11), Haier's current asset turnover and fixed asset turnover were very stable. It means Haier's asset management efficiency does not improve any more.

The Accounts receivable turnover was significantly decreased from 2008; and the Accounts receivable recovery period increased, the reason was the U.S. "subprime crisis" is gradually emerging from the spring of 2006; August 2007 swept the U.S., EU and Japan, the world's major financial markets. The haier company in order to maintain a low risk rate increased current assets from 2008.

### 4.3.1 DuPont analysis chart

Graph 4.12 DuPont analysis chart of Haier from 2008 to 2009



### 4.3.2 DuPont Analysis

These data are calculated according to the Qingdao Haier's reports data in 2008 and 2009.

Table 4.11 Ratios about DuPont

	2009	2008	Annual change
Return of equity	15.71%	12.71%	23.60%
Total asset profit ratio	7.86%	8.00%	-1.75%
Net profit margin	4.17%	3.22%	29.50%
Total Assets Turnover	1.88	2.49	-24.50%
Equity Multiplier	2.00	1.59	25.79%

From these two charts (graph 4.12, table 4.11), we can see, compared to 2008 Qingdao Haier 2009 return on equity increased by 23.60%, it means the company overall profitability is rising rapidly, the investors rate of return is also in growth. The growth of ROE is mainly due to the substantial growth of the net profit margin and the equity multiplier. At the same time total assets turnover decreased so much.

Net profit margin on the influence of the ROE:

$$(4.17\% - 3.22\%) \times 2.49 \times 1.59 = 3.75\%$$

Total assets turnover on the influence of the ROE:

$$4.17\% \times (1.88 - 2.49) \times 1.59 = -3.98\%$$

Equity Multiplier on the influence of the ROE:

$$4.17\% \times 1.88 \times (2.00 - 1.59) = 3.23\%$$

This company's Net profit margin increased by 29.50%, the largest increase of the ROE is influenced by Net profit margin, it is 3.75%. We can see from profit/loss

chart, the total revenue in 2009 only increased 8% than 2008, but net profit increased 40.45%, a substantial increase in net profit is the reason of high rate of increase in the net profit margin. And total revenue increased 8.72%, total cost increased 7.68%, the revenue grow fast than the cost, it means the growth in net profit due to expanded operating revenue and cost control.

Total assets turnover on the influence of the ROE is -3.98%, it means the company's ability to use assets to expanded operating revenue reduced. Total revenue increased 8%, but total assets increased 43%, current assets increased 64%, non-current assets increased only 5.38%.

A substantial increase in current assets is the main reason leading to lower total asset turnover. Net receivable increased 51.61%, cash on hand increased 155%, it means the mainly reason of the total assets turnover lower is utilization of fund to expand production capacity reduced, that lead to asset use efficiency lower.

Equity Multiplier changed from 1.59 to 2.00, increased 25.79%. Total assets increased 43.06%, total liabilities increased 93.06%, owner's equity just increased 13.65%, and it means the equity multiplier increase was mainly caused by a substantial increase in liabilities. And non-current liabilities decreased, so the reason of liabilities increasing is current liabilities increased (mainly are Notes payable, accounts Payable and so on).

## Chapter 5 Conclusion

Haier Company is a very good company. Its profitability is able to obtain the profits of an enterprise within a certain period. Whether the business activities have a strong profitability, is important to the survival and development of the enterprise. Haier, which is a large enterprise, if there is no high profit support, to continue to develop is clearly impossible. But we need pay attention to the high cost.

Haier's operation ability is good, Accounts receivable cash recovery faster, Inventory cycle time gave also is faster, there are not a lot of unsalable products, these are important to an Appliance Enterprise, The main industry, and refrigerator steady grew under the incentive competition. Operating income year-on-year growth of 22%, the proportion of the income is 49%, the product structure promoted step by step, the related party procurement transactions decreased. Newly formed the Haida Rui purchasing pilot specific parts procurement, procurement amount of related party transactions accounted for the proportion of operating costs has been reduced to 79%.

Haier's short-term solvency and long-term solvency are very good, Current ratio and quick ratio are reasonable, can repay debts when at the maturity date, asset-liability ratio is low, and relatively low ratio of fixed assets, have a good Liquidity, but at this way you can pay a low interest, and the utilization of the assets is not too high, so Haier's assets structure can be better.

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## List of Abbreviation

AQSIQ	Administration of Quality Supervision, Inspection and Quarantine
DOH	Days of inventory on hand
DSO	Days sales outstanding
EBIT	Earning before tax
OEC	Overall Every Control and Clear
R&D	Research and development
ROA	Return on assets
ROE	Return on equity
WTO	World Trade Organization

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## List of annexes

Annexes 1	Balance sheet of Haier Company from 2006-2010
Annexes 2	Income statement of Haier Company from 2006-2010
Annexes 3	Cash flow of Haier Company from 2006-2010
Annexes 4	Ratios of Haier Company from 2006-2010

**Annexes 1:****Balance sheet (Unit 1000RMB) Part 1**

Balance sheet					
Report date	2010/12/31	2009/12/31	2008/12/31	2007/12/31	2006/12/31
<b>Current assets</b>					
Monetary funds	10,098,100	6,282,450	2,461,590	2,420,830	1,755,630
Notes receivable	7,060,550	3,505,030	2,512,220	1,675,340	1,365,710
Accounts receivable	2,141,520	1,204,650	794,570	578,904	1,746,380
Advance payments	555,731	97,289	168,607	94,249	67,365
Interest receivable	43,625	-	-	-	-
Dividend receivable	12,666	-	-	-	-
Other accounts receivable	101,888	63,095	73,437	92,855	88,008
Inventory	3,557,070	1,742,540	1,852,920	2,928,670	1,689,790
Other current assets	-	-	-	13	41
<b>Total current assets</b>	<b>23,571,150</b>	<b>12,895,054</b>	<b>7,863,344</b>	<b>7,790,861</b>	<b>6,712,923</b>
<b>Non-current assets</b>					
Available for sale financial assets	13,562	10,893	5,493	20,384	-
Long-term equity investments	1,078,320	1,527,260	1,383,560	600,494	532,247
Investment real estate	20,800	-	-	-	-
Fixed assets original value	6,627,900	4,846,660	4,580,920	4,228,700	4,009,850
Accumulated depreciation	3,442,960	2,384,530	2,112,350	1,854,310	1,617,020
Net fixed assets	3,184,940	2,462,130	2,468,570	2,374,390	2,392,830
Fixed assets depreciation reserves	12,650	12,650	12,650	15,350	15,350
Project under construction	644,717	261,914	204,025	189,163	118,070
Intangible assets	363,255	197,918	134,944	146,417	124,572
Long-term prepaid expenses	391	1,160	615	1,075	384
Deferred income tax assets	402,659	153,465	182,709	81,530	18,863
Total non-current assets	5,695,990	4,602,090	4,367,260	3,398,100	3,171,610
<b>Total assets</b>	<b>29,267,200</b>	<b>17,497,200</b>	<b>12,230,600</b>	<b>11,189,000</b>	<b>9,884,540</b>

## Balance sheet (Unit 1000RMB) Part 2

<b>Current liabilities</b>					
Current liabilities	861,136	-	174,700	97,000	223,000
Short-term debt	4,437,090	2,614,970	638,770	460,115	163,000
Notes payable	6,399,530	3,156,890	1,614,060	2,367,970	2,122,330
Accounts payable	1,912,290	989,386	1,025,260	803,657	129,823
Advance payments	639,175	294,790	90,110	67,286	78,150
Meet the staff pay	819,300	130,960	-93,315	-258,495	100,317
Payable taxes and fees	16,935	-	-	-	-
Interest payable	352,826	280,940	267,269	-	-
Dividends payable	3,235,060	1,190,300	687,883	199,861	192,971
Other Payables	-	39,800	39,800	-	-
Due within one year of the non-current liabilities	-	-	-	305,824	183,728
<b>Total current liabilities</b>	<b>18,673,342</b>	<b>8,698,036</b>	<b>4,444,537</b>	<b>4,043,218</b>	<b>3,193,319</b>
<b>Non-current liabilities</b>					
Long-term debt	-	-	79,400	79,400	39,800
Expected non-current liabilities	1,011,190	-	-	-	-
Deferred income tax liability	10,097	1,449	639	3,447	-
Other non-current liabilities	83,734	45,428	4,962	6,766	-
Total non-current liabilities	1,105,020	46,877	85,001	89,613	39,800
<b>Total liabilities</b>	<b>19,778,362</b>	<b>8,744,913</b>	<b>4,529,538</b>	<b>4,132,831</b>	<b>3,233,119</b>
<b>Owners ' equity</b>					
Paid-up capital (or share capital)	1,339,960	1,338,520	1,338,520	1,338,520	1,196,470
Capital reserve	1,780,900	3,030,530	3,005,770	3,016,380	3,144,720
Surplus reserve	1,461,580	1,231,760	1,160,770	1,133,290	1,075,310
Undistributed profits	2,429,020	2,119,930	1,268,950	820,927	426,470
Balance of foreign currency statement translation	8,466	-	-	-	-
Attributable to the parent company's shareholders ' equity total	7,019,920	7,720,730	6,774,010	6,309,110	5,842,970
Minority interests	2,468,860	1,031,510	927,052	747,016	808,449
Owners ' equity (or equity) together	9,488,790	8,752,240	7,701,060	7,056,130	6,651,420
Liabilities and shareholders ' equity total	29,267,200	17,497,200	12,230,600	11,189,000	9,884,540

**Annexes 2:****Profit/Loss (Unit 1000RMB)**

Profit/Loss					
Report date	2010/12/31	2009/12/31	2008/12/31	2007/12/31	2006/12/31
Operating income	60,588,200	32,979,400	30,408,000	29,468,600	23,214,300
the total operating cost	57,865,355	31,516,000	29,392,400	28,634,200	22,434,100
Business cost	46,420,000	24,263,100	23,376,000	23,867,800	19,481,600
Sales tax and extra charges	160,226	134,738	95,454	65,856	43,031
Sales charge	7,815,460	4,984,190	4,074,590	3,502,460	1,997,320
Management costs	3,416,660	2,116,220	1,691,190	1,187,480	910,135
Financial cost	6,658	-7,966	103,655	47,971	3,110
Asset impairment losses	46,350	25,662	51,491	-37,384	-1,053
Investment income	263,666	167,072	151,058	64,868	50,619
the operating profit	2,986,540	1,630,500	1,166,730	899,294	830,794
Non-operating income	737,471	116,134	34,345	47,229	27,115
Non-expenditure	11,709	6,485	63,949	66,408	51,508
Loss of disposal of fix assets	3,893	-	-	-	-
Total profit	3,712,310	1,740,150	1,137,130	880,115	806,400
Income tax expense	888,022	365,542	158,428	125,829	168,635
net profit	2,824,280	1,374,610	978,699	754,286	637,765
Attributable to the owners of the parent company's net profit	2,034,590	1,149,470	768,178	643,632	556,079
Minority interest income	789,690	225,134	210,521	110,654	81,686

**Annexes 3:****Cash flow (Unit 1000RMB) Part 1**

<b>Reporting period</b>	2010/12/31	2009/12/31	2008/12/31	2007/12/31	2006/12/31
<b>The cash flows from operating activities</b>					
Cash received from sale of goods and provision of services	56,590,400	23,858,900	17,071,400	31,106,500	7,446,760
Receiving tax returns	275,620	124,475	261,732	88,230	104,829
Cash receipts relating to other business activities	825,201	232,136	157,133	184,821	86,788
<b>Subtotal, cash flows from operating activities</b>	57,691,200	24,215,500	17,490,300	31,379,500	7,638,380
Cash purchases, receive services	39,223,200	12,576,100	10,034,300	25,129,200	3,901,460
Cash payments to and on behalf of employees	4,004,260	2,040,330	1,899,500	1,328,840	455,149
All tax payments	2,630,240	1,937,190	1,432,990	990,062	654,177
Relating to the payment of other operating activities cash	6,249,910	3,035,620	2,805,860	2,652,590	1,249,400
<b>Sub-total cash outflow from operating activities</b>	52,107,600	19,589,200	16,172,700	30,100,700	6,260,190
<b>Net cash flow from operating activities</b>	5,583,600	4,626,300	1,317,600	1,278,800	1,378,190

## Cash flow (Unit 1000RMB) Part 2

<b>The cash flows from investing activities:</b>					
Cash received from investment recovery	1,027	-	242	-	-
Investment income received in cash	259,350	26,370	25,914	108	8,596
Disposal of fixed assets, intangible assets and other long-term assets to recover the net cash	5,361	285	2,869	34,919	55,750
Disposal subsidiary and other business units to net the cash received	1,956	-	-	-	-
Cash received from disposal of subsidiaries and other business units NET	-	-	1,581	2,415	75,174
<b>Subtotal, cash flows from investing activities</b>	267,694	26,655	30,606	37,441	139,520
To acquire fixed assets, intangible assets and other long-term assets to pay cash	1,264,220	262,808	402,091	327,341	306,756
Cash investments	2,533,910	-	682,599	10,800	-
Made of subsidiaries and other business units net cash payments	-	-	1,756	589	-
<b>Cash outflow from investing activities total</b>	3,798,130	262,808	1,086,450	338,730	306,756
<b>Net cash flow from investing activities</b>	-3,530,436	-236,153	-1,055,844	-301,289	-167,236



### Cash flow (Unit 1000RMB) Part 3

The cash flows from financing activities:					
Cash received from investments	135,095	-	2,450	-	61,379
Obtain borrowing the cash received	-	-	-	-	800
Cash received from issuance of bonds	2,170,900	189,946	179,500	185,600	232,800
<b>Subtotal, cash inflow from financing activities</b>	<b>2,306,000</b>	<b>189,946</b>	<b>181,950</b>	<b>185,600</b>	<b>294,179</b>
Cash repayment of debt	1,868,830	444,046	62,000	272,000	255,360
Distribution of dividends, profits or interest payments of cash	608,297	315,142	342,944	225,968	205,296
Cash payments relating to other financing activities	-	-	-	-	31,839
<b>Sub-total cash outflow from financing activities</b>	<b>2,477,130</b>	<b>759,188</b>	<b>404,944</b>	<b>497,968</b>	<b>492,495</b>
<b>Net cash flows from financing activities</b>	<b>-171,130</b>	<b>-569,242</b>	<b>-222,994</b>	<b>-312,368</b>	<b>-198,316</b>

## Cash flow (Unit 1000RMB) Part 4

	Note				
Effect of exchange rate changes on cash and cash equivalents	-64,091	-	-	-	-
Net cash and cash equivalents increased	1,817,970	3,820,870	38,754	665,201	1,012,630
Opening balance of cash and cash equivalents	7,811,240	2,459,590	2,420,830	1,755,630	742,999
Balance of cash and cash equivalents at the end	9,629,210	6,280,450	2,459,590	2,420,830	1,755,630
Net profit	2,824,280	1,374,610	978,699	754,286	637,765
Asset impairment	46,350	25,662	51,491	-37,384	-1,053
Fixed asset depreciation, depletion of oil and gas assets, depreciation of productive material	432,257	343,656	313,955	303,981	314,576
Amortization of intangible assets	16,423	13,251	11,564	10,253	7,113
Amortization of long-term prepaid expenses	769	395	12,709	463	1,694
Disposal of fixed assets, intangible assets and other long-term assets losses	3,041	2,396	4,358	-2,994	-2,540
Financial expenses	100,343	12,404	16,718	25,702	10,843
Investment losses	-263,666	-167,072	-151,058	-64,868	-50,619
Decrease in deferred income tax assets	-214,076	29,244	-101,179	-62,667	59
Increase in deferred tax liabilities	-	-	-2,808	3,447	-
Reduction in inventory	-1,461,950	107,956	1,059,060	-1,238,870	-470,801
Business receivable items reduced	-1,914,410	-1,342,270	-1,117,810	1,586,250	1,179,180
Operating the increase in Payables	5,919,460	4,226,040	241,892	1,268	1,179,180
Other	94,791	-	-	-	-
Net cash flow from operating activities	5,583,630	4,626,260	1,317,590	1,278,860	1,378,180
Cash at end of the period	9,629,210	6,280,450	2,459,590	2,420,830	1,755,630
Cash balances	7,811,240	2,459,590	2,420,830	1,755,630	742,999
Amount of net increase in cash and cash equivalents	1,817,970	3,820,870	38,754	665,201	1,012,630

## Annexes 4:

### Ratios

Year	Dec-10	Dec-09	Dec-08	Dec-07	Dec-06
Current ratio	1.262	1.483	1.769	1.927	2.65
Quick ratio	1.072	1.282	1.352	1.203	2.01
Cash ratio	54.078	72.228	55.385	59.874	77.191
Return on equity prepayment rate	28.983	14.888	11.34	10.2	5.43
Total assets income rate	10.869	9.248	8.358	7.159	4.674
Main revenue gross margin	23.38	26.43	23.13	19.01	14.04
Operating margin	83.167	39.75	29.739	83.705	50.109
Cost margins	6.438	5.55	3.888	3.077	2.434
The accounts receivable turnover ratio	29.412	32.992	44.279	25.346	16.472
Accounts receivable recovery period (days)	12	11	8	14	22
Current assets turnover ratio	2.921	3.177	3.885	4.064	4.162
Fixed asset turnover ratio	19.306	13.446	12.631	12.443	11.835
Inventory turnover	22	27	37	35	24
Total assets turnover ratio	2.332	2.219	2.597	2.797	2.573
Debt to asset ratio	67.579	49.979	37.034	36.937	25.325
Net tangible assets of Debt-to-GDP ratio	204.627	101.68	58.743	58.515	33.738
current liabilities ratio	94.413	99.464	98.123	97.832	98.146
Main business growth	83.715	8.456	3.188	50.175	18.763
Growth in net profit	105.461	40.453	29.752	111.594	49.075
Expansion rate of total assets	28.917	43.06	9.309	13.197	25.072
Net assets growth rate (%)	-2.314	13.65	9.14	6.085	4.552
NET operating cash flow per share (RMB)	1.357	2.855	0.029	0.497	0.846
NET operating cash flow to debt ratio	28.231	52.902	29.089	30.944	64.199
Net assets per share	5.24	5.77	5.06	4.71	4.84
Earnings per share	1.52	0.859	0.574	0.481	0.262
Net cash flow from operating activities per share	4.171	3.46	0.98	0.96	1.03
Share capital surplus	1.3291	2.2641	2.2456	2.2535	2.4524