

VSB – TECHNICAL UNIVERSITY OF OSTRAVA
FACULTY OF ECONOMICS

DEPARTMENT OF FINANCE

Zhodnocení finanční pozice vybrané společnosti
Evaluation of Financial Position of Chosen Company

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Ostrava 2020

VŠB - Technical University of Ostrava
Faculty of Economics
Department of Finance

Bachelor Thesis Assignment

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Study Programme: B6202 Economic Policy and Administration

Study Branch: 6202R010 Finance

Title: **Evaluation of Financial Position of a Chosen Company**
Zhodnocení finanční pozice vybrané společnosti

The thesis language: **English**

Description:

1. Introduction
2. Description of the Financial Analysis Methodology
3. Profile of the Company
4. Evaluation of Financial Position of the Company
5. Conclusion

Bibliography
List of Abbreviations
Declaration of Utilisation of Results from the Bachelor Thesis
List of Annexes
Annexes

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Extent and terms of a thesis are specified in directions for its elaboration that are opened to the public on the web sites of the faculty.

Supervisor: **Ing. Ingrid Petrová, Ph.D.**

Date of issue: 22.11.2019

Date of submission: 07.05.2020



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1 Introduction

Financial analysis is very important for a company. Financial analysis should be based on value, and the range of value is very wide. Value is based on the business. The foothold is the good and bad of the business, to judge whether the current business development is good or bad, and how to maintain or improve it in the future. The results of the analysis can make investors know more clearly whether this company is worth investing in.

The goal of the thesis is to analyze and evaluate Evergrande Group's financial performance, based on data from Evergrande Group's financial statements from 2014 to 2018.

This thesis is divided into five chapters. The first and the last chapter is introduction and conclusion of the thesis.

The second chapter is devoted to financial analysis methodology, we will describe meaning and goal of financial analysis and financial statement as a basic tool for analysis. In the part of the financial statement, we introduce the balance sheet, income statement and cash flow statement. And it includes the methods of financial analysis, which introduces the common-size analysis, financial ratio analysis, pyramidal decompositions and influence quantification. Finally, it includes sensitivity analysis.

The third chapter includes the overview of Evergrande Group, social responsibility of Evergrande Group and Evergrande Group's main competitors. In these parts, we also introduced the company's major decisions, major events and so on.

The fourth part is the most important part of the thesis. We will calculate and analyze the results of financial analysis. And in this chapter, we will mainly use the theory and formula of the second chapter to do our operation. This part includes profitability, liquidity, solvency and asset management ratios. At last, we use DuPont analysis.

2 Description of the Financial Analysis Methodology

The financial analysis is based on the financial statement, the statement data is further processed, sorted, compared and analyzed, with an emphasis on the interpretation and evaluation of whether the company's financial status is sound and its operating results are good.

The purpose of financial analysis is to evaluate the financial status and financial results of the company, check the implementation of the financial plan objectives, find out the problems and causes in the financial operation, and provide useful information for future financial forecasts, decisions and plans. It can be said that modern financial analysis is the use of statements at all levels and in various aspects, such as internal management personnel, business owners, creditors, business relations, relevant state departments, etc., providing multi-level and all-round financial information, especially It is information required by managers, owners, creditors, etc. to make various financial decisions.

In this chapter, we will focus on the theoretical methodology of financial statement, the introduction of the balance sheet, the income statement and the cash flow statement will be introduced. Based on the financial statement, we will describe the method of financial analysis through formulas and graph, including the common-size analysis, the financial ratio analysis, pyramidal decomposition and influence quantification. This chapter mainly comes from pyramidal decomposition.

2.1 The introduction of financial analysis

Financial analysis is based on accounting and statement data and other related information. It uses a series of specialized analysis techniques and methods to analyze the profitability of past and present financial organizations, investment activities, business activities, distribution activities, and other economic organizations. Economic management activities for analysis and evaluation of operating capacity, debt servicing capacity and growth capacity. It is an economic application discipline that provides accurate information or basis for investors, creditors, operators and other organizations or individuals concerned about the enterprise to understand the past of the enterprise, evaluate the current status of the enterprise, and predict the correct decision of the enterprise in the future (Whitehurst, 2003).

There are many methods and tools for financial analysis, and the specific application should be based on the purpose of the analyst. The most commonly used is single-index, multi-index comprehensive analysis around financial indicators, plus borrowing some reference values, such as budget, target and so on and using some analytical methods, such as rates, trends, structures, factors, etc. for analysis. It is then presented to users in an intuitive and user-friendly format.

2.2 Financial statements

Financial statements are reports prepared by company management to show financial performance and status at a point in time. Financial statements usually include balance sheet, income statement and cash flow statement. For decision makers, financial statements are mostly the main source of financial information. Decision makers can use financial statements to decide how the company will finance and how it will grow in the future (Zmeškal, 2004).

2.2.1 Balance sheet

The balance sheet reflects the company's financial situation. And it also shows the assets owned by the company, the assets owed, and the amount of investment made by shareholders in a given period of time.

The balance sheet follows the following equation, with assets on one side and on the other side is liabilities plus shareholder equity.

$$\textit{Total assets} = \textit{Tatal liabilities} + \textit{Total equity} \quad (2.1)$$

The formula is well understood that a company must borrow money or collect money from investors to pay all the assets it owns. We can see the application of this formula in Tab. 2.1.

Table 2.1: An example of balance sheet:

ASSETS	EQUITY+LIABILITIES
LONG-TERM ASSETS	EQUITY
Tangible assets	Capital contributed by owners
Intangible assets	Share premium (paid in capital)
Financial investments	Retained earnings
CURRENT ASSETS	LIABILITIES
Cash and cash equivalents	a) Current liabilities
Accounts receivable	Accounts payable
Inventories	Current borrowings
Other current assets	Another short-term liability
	b) Long-term liabilities
	Long-term bank loans
	Bonds issued

Source: Whitehurst (2003)

The content of the balance sheet:

- a) Fixed assets;
- b) Current assets;
- c) Equity;
- d) Liabilities (debt).

Fixed assets usually are long-term assets. These assets are typically used for more than a year. These assets have low liquidity and large unit values. It includes tangible assets, intangible assets and financial investments.

A tangible asset is an asset that exists in a specific physical form. It includes both production and non-production tangible assets. Production tangible assets include equipment, buildings and so on. Non-production tangible assets include land and so on.

Intangible assets are a kind of non-monetary assets owned by enterprises without physical or form. Intangible assets include trademark, patents, goodwill and so on.

Financial investments are mainly used to buy investment activities such as stocks, bonds, and

other financial assets, so as to obtain expected returns.

Current assets usually are short-term assets. And it has high liquidity. This means current assets are in the form of cash or can be relatively quickly converted into cash. It includes accounts receivable, inventories and cash equivalents.

Equity represents the amount of money that would be returned to a company's shareholders if all the assets were liquidated and all of the company's debt was paid off. The capital belonging to the owners or shareholders of the company. It includes common and preferred shares, share premium and retained earnings. The registries capital can be calculated as follow.

$$\text{Registered capital} = \text{sum of shares outstanding} \cdot \text{Face value} \quad (2.2)$$

Liabilities represents money that has been borrowed and must be repaid back at some predetermined date. Liabilities is the current obligation assumed by an enterprise and is formed by past transactions or events. It includes current liabilities and long-term liabilities.

Current liabilities include borrowed money that must be paid back within 12 months. Such as accounts payable, accrued expenses and short-term notes.

The long-term liabilities is large, and the repayment period is long. The repayment period is usually more than 12 months. It includes loans from bank, issued bonds and so on.

2.2.2 Income statement

The income statement is one of a company's core financial statements that shows their profit and loss over a period of time. The profit or loss is determined by taking all revenues and subtracting all expenses from both operating and non-operating activities.

Basic equation underlying the income statement is

$$\text{Net} \frac{\text{income}}{\text{Loss}} = \text{Revenues} - \text{Costs and Expenses} \quad (2.3)$$

The revenues are amounts charged for the delivery of goods or services in the ordinary activities of the company. The costs and expenses are amounts that must be spent in the ordinary activities of the company.

Two main subtotals are usually calculated.

Operating activity are calculated as a difference between the sum of operating revenues and operating costs and expenses. The operating income/loss is the result given by comparing of operating revenues and operating costs and expenses. The operating revenues is from sale of

products, goods, and services. The operating costs and expenses are the money that must be spent in the production process, such as raw material consumption, electricity consumption, depreciations and so on.

Financing activity is that people can compare financial costs and expenses and financial revenues here. Financial revenues are the interest, rent, and other such income earned in owning or renting an asset or property. Financial costs are interest paid, coupons paid and so on.

$$\text{Operating income} + \text{Financing income} = \text{EBT} \quad (2.4)$$

where $\text{EBT} = \text{earnings before tax}$.

So, the company's tax is calculated by applying corporate tax rate:

$$T = \text{EBT} \cdot t \quad (2.5)$$

where $T = \text{tax}$, $t = \text{tax rate}$.

2.2.3 Cash flow statement

The cash flow statement is a financial statement that summarizes the amount of cash and cash equivalents that enter and exit the company. And it can explain the differences between beginning and ending balance of cash of a company.

Cash inflows and outflows are summarized in operating activities, investing activities, financing activities.

Cash flow from operating activities includes all inflows and outflows related to the company's daily activities. It includes transactions related to calculating net income, which have the following formula

$$\begin{aligned} \text{Net cash flow from operating activities} = \\ \text{Operating inflows} - \text{Operating outflows} \end{aligned} \quad (2.6)$$

Cash flow from financing activities is that all inflows and outflows are transactions between the company and its owners and creditors, which have the following formula

$$\begin{aligned} \text{Net cash flow from financing activities} = \\ \text{Financing inflows} - \text{Financing outflows} \end{aligned} \quad (2.7)$$

Cash flow from investing activities involves all inflows and outflows associated with purchasing and selling of long-term assets, which have the following formula

$$\begin{aligned} \text{Net cash flow from investing activities} = \\ \text{Investing inflows} - \text{Investing outflows} \end{aligned} \quad (2.8)$$

The sum of cash flows for these three activities can be calculated as follow

$$\begin{aligned} & \text{Net cash flow} = \\ & \text{CF from operating activities} + \text{CF from investing activities} \\ & \quad + \text{CF from financing activities} \end{aligned} \quad (2.9)$$

$$\text{End balance of cash} = \text{Beginning balance of cash} \pm \text{Net cash flow} \quad (2.10)$$

2.3 The methods of financial analysis

In this chapter, it is the introduction of the methods of financial analysis. We usually have four main methods of financial analysis. They are common-size analysis, financial ratio analysis, pyramidal decompositions and influence quantification and sensitivity analysis.

2.3.1 Common-size analysis

Common size analysis is a method of evaluating financial information by expressing each item in a financial statement as a percentage of a base amount for the same time period. A company can use this analysis on its financial statement. This analysis helps to understand the impact of each item in the financial statements. The types of common-size analysis are horizontal common-size analysis and vertical common-size analysis.

Horizontal common-size analysis generally refers to the situation and reasons of changes in financial statement of different companies in the same period. Generally, these companies belong to the same industry. However, in the commonly used horizontal common-size analysis process, it is easy to ignore some key issues. Several key issues that should be grasped in the horizontal common-size analysis of financial statement information are the criteria for selecting comparable objects, the summary method in horizontal common-size analysis, and the availability of data in horizontal common-size analysis.

Horizontal common-size analysis is generally calculated by the following formula

$$\% \Delta I_t = \frac{I_t - I_{t-1}}{I_{t-1}} \quad (2.11)$$

where I_t is amount of the item in comparison year, I_{t-1} is the number of items in base year.

Vertical common-size analysis refers to an analysis method that considers the enterprise, and

forms all the value formation and transfer links from the most basic raw material input to the formation of end-user products. Key issues of vertical common-size analysis of financial statement information: structural changes, changes in accounting methods, accounting classification, and treatment of extreme observations.

Vertical common-size analysis is generally calculated by the following formula

$$\text{Percentage of base} = \frac{\text{Amount of individual item}}{\text{Amount of base}} \cdot 100\% \quad (2.12)$$

2.3.2 Financial ratios analysis

The financial ratios analysis is to calculate the ratio based on the relationship between two or more items in the financial statements of the same period to evaluate the financial status and operating results of the enterprise.

There are four main groups of financial ratios, they are profitability ratios, liquidity ratios, solvency ratios, asset management ratios.

Profitability ratio indicators usually use net sales margin and sales gross margin. Net asset interest rate and return on equity can be evaluated on the profitability of an enterprise by analyzing the above indicators. There are many indicators reflecting corporate profitability. The commonly used ones are operating profit margin, net profit margin, return on assets and return on equity.

a) The operating profit margin is calculated as

$$OPM = \frac{EBIT}{Revenue} \left(\text{or} \frac{OP}{Revenue} \right) \quad (2.13)$$

where OPM = operating profit margin, $EBIT$ = earnings before interests and taxes, OP = operating profit.

Operating margin refers to the ratio of a company's operating profit to operating income. From the formula, we can see how much the net profit brought by sales income, which represents the level of sales revenue.

b) The net profit margin is calculated as

$$NPM = \frac{EAT}{Revenue} \quad (2.14)$$

where NPM = net profit margin, EAT = earnings after taxes.

From the formula, we can see the higher the operating profit margin, the better the company's cost control.

c) The return on assets is calculated as

$$ROA = \frac{EBIT}{A} \left(\text{or } \frac{OP}{A} \right) \quad (2.15)$$

where $ROA = \text{return on assets}$, $EBIT = \text{earnings before interests and taxes}$, $A = \text{assets}$.

Return on assets is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It is commonly defined as net income divided by total assets. The rate of return on assets is one of the most widely used indicators to measure the profitability of banks in the industry. The higher the index, the better the effectiveness of the company's asset utilization, indicating that the company has achieved good results in increasing income and saving funds.

d) The return on equity is calculated as

$$ROE = \frac{EAT}{Equity} \quad (2.16)$$

where $ROE = \text{return on equity}$, $EAT = \text{earnings after taxes}$.

Return on equity is a measure of financial performance calculated by dividing net income by shareholders' equity. ROE can be viewed as the rate of return on net assets because shareholders' equity is equal to the company's assets less its liabilities.

Liquidity ratios are an important class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. Current liabilities are analyzed in relation to liquid assets to evaluate the coverage of short-term debts in an emergency. Liquidity ratios measure a company's ability to pay debt obligations and its margin of safety through the calculation of metrics including the current ratio, quick ratio and cash ratio (Zmeškal 2004).

a) The current ratio is calculated as

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} \quad (2.17)$$

The current ratio is the ratio of current assets to current liabilities. It is used to measure the ability of a company's current assets to become cash for debt repayment before short-term debts mature. Although the higher the current ratio, the greater the liquidity of the corporate assets, but a

large ratio indicates that the current assets occupy more, which will affect the operating capital turnover efficiency and profitability.

b) The quick ratio is calculated as

$$\text{Quick Ratio} = \frac{\text{Current assets} + \text{Accounts receivable}}{\text{Current liabilities}} \quad (2.18)$$

Quick ratio refers to the ratio of a company's quick assets to current liabilities. Quick assets are the balance of a company's current assets minus inventory and prepayments, and mainly include cash, short-term investments and accounts receivable.

c) The cash ratio is calculated as

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Marketable securities}}{\text{Current liabilities}} \quad (2.19)$$

The cash ratio is an indicator used when examining the company's ability to realize cash when a large number of accounts receivable are formed due to a large number of credit sales. This ratio is also called the liquidation ratio. In addition, the turnover rate of deposits and receivables can also be used as supplementary indicators to reflect the short-term debt-paying capacity of an enterprise.

Solvency ratio is a measure of a company's debt and ordinary operating income to reflect the company's ability to fulfill its debt. Sometimes also called leverage ratio. It usually measures company's ability to meet its long-term obligations. Investors only need to invest a small amount of capital, and they will have the opportunity to obtain a return that is similar to or even higher than the investment in the stock. The basic types of ratios are debt ratio, debt-to-equity ratio and interest coverage.

a) The debt ratio is calculated as

$$\text{Debt Ratio} = \frac{\text{Total liabilities}}{\text{Total assets}} \quad (2.20)$$

The debt ratio is the ratio of a company's total debt to all funding sources and is used to indicate the proportion of a company's debt to total funds. The debt ratio refers to the relationship between debt and assets and net assets. It reflects the ability of an enterprise to repay the principal of debt and interest on debt.

b) The debt-to-equity ratio is calculated as

$$\text{Debt to Equity} = \frac{\text{Total debt}}{\text{Equity}} \quad (2.21)$$

The debt-to-equity ratio reflects the degree to which the owner's equity protects the creditor's equity. Reflect the long-term solvency of the enterprise from another angle.

c) The interest coverage is calculated as

$$\text{Interest Coverage} = \frac{\text{EBIT}}{\text{Interest paid}} \left(\text{or } \frac{\text{OP}}{\text{Interest paid}} \right) \quad (2.22)$$

where $\text{EBIT} = \text{earnings before interests and taxes}$, $\text{OP} = \text{operating profit}$.

Interest repayment ratio refers to the ratio of the sum of interest expenses, profit before taxation and the amount of interest expenses of a certain period of time. This ratio shows the ability of a company to pay interest on borrowings from the proceeds of its operations.

Asset management ratio is a financial ratio used to measure the efficiency of a company's asset management, that is, an indicator used to measure the company's asset turnover. Including business cycle, inventory turnover rate, accounts receivable turnover rate, current assets turnover rate and total assets turnover rate. The basic types of this ratio are average collection period, accounts receivable turnover, inventory turnover and total assets turnover.

a) The average collection period is calculated as

$$\text{ACP} = \frac{\text{Accounts receivable}}{\text{Revenues}} \cdot 360 \quad (2.23)$$

where $\text{ACP} = \text{average collection period}$.

The ratio of accounts receivable balance to average daily sales. It is used to measure the length of the company's overall accounts receivable in a certain year. Usually expressed in days. For companies with obvious seasonal sales, this indicator is relatively large (Zmeškal 2004).

b) The accounts receivable turnover is calculated as

$$\text{ART} = \frac{\text{Revenues}}{\text{Accounts receivable}} \quad (2.24)$$

where $\text{ART} = \text{accounts receivable turnover}$.

Accounts receivable turnover rate is the ratio of net sales of credit sales to the average balance of accounts receivable within a certain period of time. It is an indicator to measure the turnover

speed and management efficiency of corporate receivables (Whitehurst, 2003). Accounts receivable turnover rate is the ratio that reflects the company's accounts receivable turnover rate. It shows the average number of times a company's receivables are turned into cash during a certain period.

c) The inventory turnover is calculated as

$$IT = \frac{\text{Costs of goods sold}}{\text{Average inventory}} \quad (2.25)$$

where $IT = \text{inventory turnover}$.

It is the ratio of a company's operating costs to the average inventory balance over a period of time. It is used to reflect the turnover speed of the inventory, that is, the liquidity of the inventory and the reasonable use of the inventory funds, to promote the company to ensure the continuity of production and operation, improve the efficiency of the use of funds, and enhance the short-term debt solvency of the enterprise. Inventory turnover rate is a supplementary explanation of the turnover rate of current assets, and it is a comprehensive index to measure the enterprise's production, inventory management level and sales recovery ability.

d) The total assets turnover is calculated as

$$TAT = \frac{\text{Revenues}}{\text{Total assets}} \quad (2.26)$$

where $TAT = \text{total assets turnover}$.

The total asset turnover rate is the ratio of the company's net sales income to the average total assets in a certain period of time. It is an indicator that measures the ratio of asset investment scale to sales level. When using the total asset turnover analysis to evaluate the efficiency of asset use, it must also be analyzed in conjunction with sales profits. The non-current assets in the total assets shall be calculated and analyzed. The higher the total asset turnover rate, the stronger the company's sales capacity and the better the benefits of asset investment (Whitehurst, 2003).

2.3.3 Pyramidal decompositions and influence quantification

In this part, based on the financial ratios we mentioned, we will introduce the pyramidal decomposition method and the influence quantification. In order to find out the order in which the basic ratio changes.

Pyramidal decompositions is that in order to better analyze the factors in the financial ratio, and which factors have the greatest impact. We often use pyramidal decomposition to solve problems. The principle is to express selected ratio as a product of component ratios. The basic example of pyramidal decompositions is the DuPont analysis.

The most significant feature of the DuPont model is that several ratios used to evaluate the operating efficiency and financial status of an enterprise are organically combined according to their internal connections to form a complete index system, which is finally reflected by the return on equity. By adopting this method, the level of financial ratio analysis is clearer and more structured, and it is convenient for report analysts to comprehensively and carefully understand the operation and profitability of the enterprise.

For example, ROE ratio is decomposed by three components, like the formula

$$ROE = \frac{EAT}{Equity} = \frac{EAT}{Revenues} \cdot \frac{Revenues}{Total\ assets} \cdot \frac{Total\ assets}{Equity} \quad (2.27)$$

where $ROE = \text{return on equity}$, $EAT = \text{earnings after taxes}$.

It can be seen that ROE is decomposed into net profit margin, assets turnover and financial leverage.

Net profit margin refers to the percentage of net profit from operations or the percentage of invested capital. This percentage can comprehensively reflect the operating efficiency of an enterprise or an industry. From the level of profit, we can predict the development trend of the economy. As profits increase, the number of employed people and income will generally increase, while the decline in profits will reduce the number of employed people and income.

Asset turnover is an important financial ratio to measure the efficiency of enterprise asset management, and it plays an important role in the financial analysis index system. The turnover rate of total assets is a very important indicator for investigating the efficiency of an enterprise's asset operations. It reflects the transfer speed of all assets from input to output during the operation of the enterprise and reflects the management quality and utilization efficiency of all assets of the enterprise.

Financial leverage refers to the phenomenon that the change in earnings per share of ordinary shares is greater than the change in earnings before interest and taxes due to the existence of fixed debt interest and preferred stock dividends. It is called positive financial leverage; if it makes the company's profit per share decline, it is usually called negative financial leverage.

Influence quantification is to express some non-specific and fuzzy factors with specific data

to achieve the purpose of analysis and comparison. This method can quantify some ratios to analyze which ratio has the most influence on the basic ratio. We have three basic methods for quantification of influence. They are method of gradual changes, logarithmic decomposition method and functional decomposition method.

a) Method of gradual changes

This method works with absolute changes in component ratios. In the case of decomposition with three component ratios

$$\begin{aligned}\Delta X_{a_1} &= \Delta a_1 \cdot a_{2,0} \cdot a_{3,0} \\ \Delta X_{a_2} &= a_{1,1} \cdot \Delta a_2 \cdot a_{3,0} \\ \Delta X_{a_3} &= a_{1,1} \cdot a_{2,1} \cdot \Delta a_3\end{aligned}\tag{2.28}$$

From the formula X is basic ratio, ΔX is absolute change in the basic ratio, a_i is component ratio, Δa is absolute change in the component ratio, ΔX_{a_1} is absolute change in the basic ratio caused by the change in the first component ratio.

The advantage of this method is that it can be applied regardless of positive or negative values in component ratio or basic ratio. By contrast, disadvantage consists in the fact that the strength of the influences of particular indicators depends on the ranking of indicators in the calculation. In spite of this fact, this method is widely applied in practice. Thus, it is especially necessary to keep the identical methodology, which means the sequence of indicators, for different analyses (Zmeškal, 2004).

b) Logarithmic decomposition method

This method is characterized by the decomposition of influences without a residue. The impact of the $i - th$ component ration on the change in the basic ratio is calculated as follows

$$\Delta X_{a_i} = \frac{\ln I_{a_i}}{\ln I_x} \cdot \Delta X\tag{2.29}$$

From the formula, X is basic ratio, ΔX is absolute change in the basic ratio, $I_x = \frac{X_1}{X_0}$ is the index of change in basic ratio, $I_a = \frac{a_{i,1}}{a_{i,0}}$ is the index of change in component ratio.

The advantage of the logarithmic method is that it can reflect simultaneous change of all analyzed indicators and there are no problems of the indicator ranking and arising of residues. The

exponential operation can be applied, as well. The fact, that this method is based on the calculation of index logarithm, hence, the obligatory condition to apply the method is that all indexes must be positive, is a disadvantage. Fortunately, this condition is usually met in real applications. If it is not the case, the solution can be to apply the gradual change method, or the method of functional analysis for the relevant part of the branch (Zmeškal, 2004).

c) Functional decomposition method

This method works with the relative changes in basic and component ratios. It is applicable regardless of the signs of the relative changes

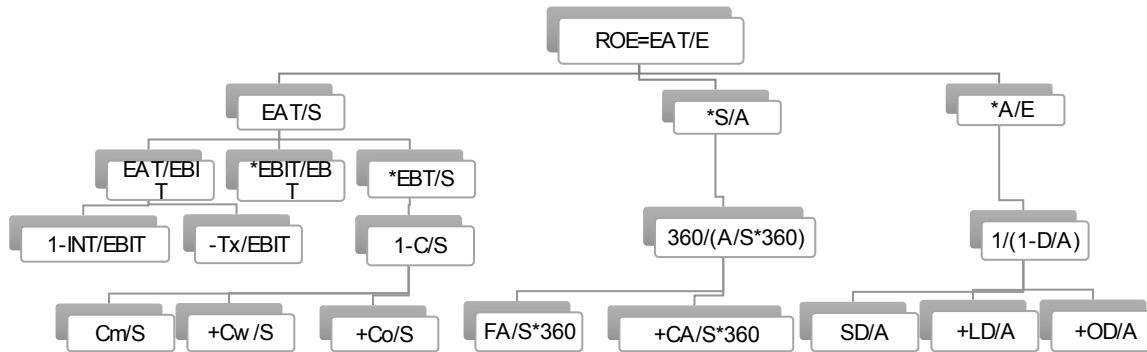
$$\Delta X^{relat.} = R_x = \frac{X_1 - X_0}{X_0} \quad (2.30)$$

Impact of the component ratio on the basic ratio

$$\begin{aligned} \Delta X_{a_1} &= \frac{1}{R_x} \cdot R_{a_1} \cdot \left(1 + \frac{1}{2} \cdot R_{a_2} + \frac{1}{2} \cdot R_{a_3} + \frac{1}{3} \cdot R_{a_2} \cdot R_{a_3} \right) \cdot \Delta X \\ \Delta X_{a_2} &= \frac{1}{R_x} \cdot R_{a_2} \cdot \left(1 + \frac{1}{2} \cdot R_{a_1} + \frac{1}{2} \cdot R_{a_3} + \frac{1}{3} \cdot R_{a_1} \cdot R_{a_3} \right) \cdot \Delta X \\ \Delta X_{a_3} &= \frac{1}{R_x} \cdot R_{a_3} \cdot \left(1 + \frac{1}{2} \cdot R_{a_1} + \frac{1}{2} \cdot R_{a_2} + \frac{1}{3} \cdot R_{a_1} \cdot R_{a_2} \right) \cdot \Delta X \end{aligned} \quad (2.31)$$

In comparison with the logarithmic method, discrete returns are applied by the method of the functional analysis. The advantages are similar to the logarithmic method. Furthermore, the problem of negative values of indicators does not occur. It is possible to show, that for positive indexes the decompositions are close to the logarithmic method. Notice, that for two components both, the functional method and the decomposition method with equal decomposition of residuals give identical results (Zmeškal,2004).

Figure 2.1: Pyramidal decomposition of the ROE:



Source: Zmeškal 2004

From this figure, we can see that first ROE is divided into three parts and multiplied together, they are “EAT/S”, “S/A” and “A/E”. And “EAT/S” is also divided into three parts and multiplied together, they are “EAT/EBIT”, “EBIT/EBT” and “EBT/S”. We represent “EAT/EBIT” as “1-INT/EBIT-Tx/EBIT”. “EBT/S” is equal to “1-C/S”, and it represented as “Cm/S+Cw/S+Co/S”. As for “S/A”, it is equal to “360/(A/S*360)”, and it is obtained by adding “FA/S*360” and “CA/S*360”. “A/E” is equal to “1/(1-D/A)”. And it is represented as “SD/A+LD/A+OD/A”.

2.3.4 Sensitivity analysis

Sensitivity analysis is one of the commonly used methods to analyze uncertainty in the economic evaluation of investment projects. From the multiple uncertain factors, one by one, find out the sensitive factors that have an important impact on the economic benefit indicators of investment projects, and analyze and measure their impact and sensitivity on the economic benefit indicators of the project, and then judge the project's ability to bear risks. If a small change in a parameter can cause a large change in the economic benefit index, this parameter is called a sensitive factor, otherwise it is called a non-sensitive factor. The disadvantage of this analysis method is that only one factor is allowed to change at a time while other factors are assumed to be unchanged, which may not be consistent with the actual situation.

Sensitivity analysis refers to a kind of uncertain analysis technology that studies the influence of certain factors on a certain index or a group of key indicators from the perspective of quantitative analysis. Its essence is to explain the law that the key indicators are affected by the changes of these factors by changing the values of related variables one by one.

Sensitive factors are generally selected for analysis by the main parameters (such as sales revenue, operating costs, production capacity, initial investment, life cycle, construction period, production period, etc.).

Sensitivity analysis of profit refers to a sensitivity analysis method that specifically studies the impact of profit-related factors on changes in profit under specific conditions. The main purpose of profit sensitivity analysis is to calculate the profit sensitivity index of related factors, reveal the relative relationship between profit and related factors, and use the sensitivity index to make profit prediction (Zmeškal, 2004).

3 Profile of the Company

In this chapter, we mainly introduce the companies involved in this paper. In order to better understand the Evergrande Group, we mainly describe from overview of Evergrande group and social responsibility of Evergrande group.

In the part of overview of Evergrande group, we select the main business of Evergrande group, the development process of Evergrande group and development strategy of Evergrande group to know more details about the company.

In the part of social responsibility of Evergrande group, we will describe poverty alleviation, public welfare charity and develop sports about the Evergrande group.

Through these aspects, we can better complete the company's financial analysis.

3.1 Overview of Evergrande Group

Evergrande Group is a Fortune 500 enterprise group based on Minsheng Real Estate, with cultural tourism, health, and wellness as its two wings, and new energy vehicles as its leader. At present, Evergrande has total assets of 2.2 trillion-yuan, annual sales of more than 600 billion-yuan, cumulative tax payment of more than 260 billion yuan, charitable donations of more than 15.4 billion people, 140,000 employees, and more than 2.6 million jobs annually. The world's top 500 ranks 138th. By the end of 2020, Evergrande will be included in the Fortune Global 100 list, as it will have RMB 3 trillion in total assets, RMB 800 billion in annual sales and RMB 150 billion in annual profits and tax payment.

3.1.1 Main business of Evergrande Group

Evergrande Real Estate has more than 810 projects in more than 280 cities in China, strategically cooperates with more than 860 well-known companies around the world, implements high-quality strategies, creates high-quality, cost-effective products, and creates the industry's "full fine decoration and delivery" and "no reason" "Check out" first, let more than 6 million owners realize the dream of livability.

Evergrande New Energy Automobile adheres to the development orientation of "core technology must be world-leading and product quality must be world-class", and has built new energy covering the fields of vehicle manufacturing, motor electronic control, power battery, car sales, smart charging, and shared travel. The entire automotive industry chain has the world's top core technology in every key link. Implement a global integrated R & D model and coordinate R & D in China, Sweden, Germany, the United Kingdom, the Netherlands, Austria, Italy, Japan, South Korea, and other countries.

Evergrande Tourism Group builds a comprehensive cultural tourism framework, focusing on the construction of the "Evergrande Fairyland" and the "Evergrande Water World", filling the market gaps in the world. Evergrande is also building the "Ocean Flower Island" in Hainan, China, a cultural destination appealing to global tourists. There are 28 commercial areas, including a fairyland, a snow mountain kingdom, an ocean paradise, a rare plant park and top hotels. It will be opened in 2020. Evergrande is also the builder of "Evergrande Hi-tech Agriculture", a benchmark for national agricultural modernization and sightseeing agriculture, with world-leading high technology.

Insisting on the "Healthy China" strategy, Evergrande Health Group has created the pioneering "Evergrande Health Valley" in China, a key product for providing health-preservation and elderly care services. Twenty-three Evergrande Health Valleys have been opened nationwide, and 50 more will be distributed and opened in three years. Boao Evergrande International Hospital is the only overseas affiliated hospital of Brigham and Women's Hospital, a teaching hospital, providing leading oncology focused medical services.

3.1.2 The development process of Evergrande Group

From the foundation of the first project to the comprehensive expansion of more than 810 projects in more than 280 cities across the country, from solid and strong real estate main business to pioneering and innovative diversified development, the company has always upheld the corporate tenet of "quality brand and integrity". Through scientific and forward-looking strategic planning and efficient implementation of the strategy, we ensure that the company creates brilliant achievements unique to the Chinese business community.

1996-1999

Pioneer an enterprise with painstaking efforts, to develop by leaps and bounds. After three years of hard work, Evergrande Real Estate Group Limited stood out in 1999 from over 2,000 local real estate businesses and became one of the top 10 real estate developers in Guangzhou.

2000-2002

Practice internal capacity to consolidate the foundation. Since 2000, the Company has further consolidated its foundation by focusing on resource integration, process standardizing and management improvement.

2003-2005

Start a new undertaking to achieve leaping development. Since 2003, Evergrande has implemented the compact group management model, adopted the standardized operation model of "unified planning, bidding, procurement and distribution", and established the positioning of the real estate for people's livelihood by delivering all the houses with fine decoration.

2006-2008

Expand to nationwide and worldwide. At the end of 2008, Evergrande witnessed an over-regular increase by 10~20 times in its core economic indicators compared to those of 2006, creating a miracle of leaping development.

2009-2011

Moderate operate to reach new heights. By the end of 2011, the Company had developed over 200 projects in more than 120 major cities in China; its major economic indicators in land reserving, under-construction area, sales area, completed area and profit index were ranked first in the industry; its brand value exceeded RMB 21 billion; and it realized a leapfrog development in its scale and brand.

2012-2014

Strengthen the management for steady growth into the future. At the end of 2014, the Company's core indicators in sales volume, sales area, net profit, construction area and completion area achieved an average growth rate of more than 30% for five consecutive years, recreating a new record of rapid growth.

2015-2017

Consolidate the foundation for diversified development. At the end of 2016, the Company completed the diversified industrial layout, successfully transforming from "real estate" to "real estate + service". In 2017, the Company launched strategic transformation. In the development

model, has changed from "Scale Type" to "Scale + Benefit Type"; in management model, changed from "Three Highs and One Low" to "Three Lows and One High"

2018-2020

Deepening the transformation and improving efficiency. The year 2018 marked the first year of Evergrande's eighth "Three-Year Plan". In that year, Evergrande began to implement the major strategy of "New Evergrande, New Strategy and New Blueprint". In 2019, it finished the diversified industry layout, forming a business pattern based on real estate for people's well-being.

3.1.3 Development strategy of Evergrande Group

Having undergone three strategic stages over the last two decades, Evergrande now develops in a scientific, forward-looking and effective way, aiming to achieve a miracle of leapfrog development and serve the ordinary people and the economic society.

First major strategic decision

The first staff assembly was convened in the Xiqiao Mountain on March 1st 1997, which defined Evergrande mission of "building the brand with quality and establishing the enterprise with integrity", Evergrande spirit of "hard work, unselfish contribution, diligent fighting and aggressive exploration" and Evergrande style of "meticulous planning, strict execution, efficient working", forming unique corporate culture and becoming the magic weapon for the rapid and healthy development of the Company.

Second major strategic decision

In 2004, the Company made a major strategic decision to build fine products, continuously realized the upgrading of the products, ensured the high quality, cost-effective people's wellbeing housing products covering the whole country, Evergrande brand deeply rooted in people's minds, and laid the foundation for the development of the whole country.

Third major strategic decision

In 2006, the Company started its nationwide layout and international development, rapidly expanding from Guangzhou to more than 20 major cities in China, and meanwhile, successfully introducing international investors like Temasek, Deutsche Bank and Merrill Lynch.

Fourth major strategic decision

In 2007, the Company made major decision and was successfully listed on the Hong Kong main board on November 5, 2009, providing strong impetus to the Company's development.

Fifth major strategic decision

In 2013, Board chairman Hui Ka Yan proposed "Great Wisdom, Great Strategy, Great Development, Great Victory" at the annual working meeting and formulated the goal that "By 2020, sales 550 billion will be achieved, land reserves exceed 300 million square meters, and employment exceeded 2 million." This goal has been achieved three years ahead of schedule.

Sixth major strategic decision

In 2017, the Company launched strategic transformation. In the development model, has changed from "Scale Type" to "Scale + Benefit Type"; in management model, changed from "Three Highs and One Low" (high liabilities, high leverage, high turnovers and low costs) to "Three Lows and One High" (low liabilities, low leverage, low costs and high turnovers). In 2017, the Company realized core business profit of RMB 40.51 billion, increased by 94.7% on a year-on-year basis, the net profit of 37.05 billion, increased by 110.3% on a year-on-year basis, the turnover of RMB 311.02 billion, increased by 47.1% on a year-on-year basis, total assets of RMB 1,761.8 billion, increased by 30.4% on a year-on-year basis, and cash balance of RMB 287.7 billion, multiple core data are the first in the industry. At the same time, the net-liability ratio fell nearly 60%. The effect of strategic transformation is remarkable.

Seventh major strategic decision

In 2018, the Company began to implement major strategic decision of "New Evergrande, New Starting Point, New Strategy and New Blueprint". It unswervingly implemented the development pattern of "Scale + Benefit Type" as well as the business model of "Three Lows and One High" including low liabilities, low leverage, low costs and high turnovers, and positively explored the high-tech industry based on the industrial layout, gradually forming the industrial pattern with people's livelihood real estate as the foundation, with cultural tourism and health preservation as its two wings and with high-tech industry as the leading.

3.2 Social Responsibility of Evergrande Group

Offering mutual support and assistance in times of adversity is a traditional virtue of the Chinese nation; never forgetting its origin, and returning the society are the due social responsibilities that a private enterprise should take.

Since its inception, the Company continues to assume its community responsibility, and has made more than 100 donations worth 15.4 billion yuan to public benefit causes including livelihood,

poverty alleviation, education, environmental protection and sports, and makes due contributions to the accumulation of social wealth, job creation and promotion of economic and social development.

The Company has received many honors including National Award for Fighting against Poverty, China's Best Enterprise Citizen Award, National Charity Contribution Award and Chinese Real Estate Enterprise with the Greatest Sense of Community Responsibility, and won the "China Charity Award" for 7 consecutive times, the highest governmental award in China charity field.

3.2.1 Poverty alleviation

Evergrande Group actively responded to the call of the Party Central Committee, and with the encouragement and support of the National Committee of the Chinese People's Political Consultative Conference, from December 1, 2015, the pair helped Dafang County, Bijie City, with free investment of 3 billion yuan.

Poverty alleviation through industrial development

Evergrande invested 4.5 billion yuan to help Bijie build two bases in southwest China region - one is the largest vegetable and fruit base and the other is the largest cattle breeding base, helping 700,000 people of 200,000 households in poverty turn to characteristic industries like vegetable planting, cattle breeding, TCM herbs, and economic and fruit forests. Besides, leading enterprises from both upstream and downstream sectors of the chain were also introduced. On the basis of all above, we finally built up a supporting mode of "leading enterprise + cooperative + poor households + base", and achieved an operating mode that integrates "supply, production and sale" together to guarantee continuous income increase and in-site poverty reduction.

Poverty alleviation through relocation

Evergrande plans to invest 5.7 billion yuan to build 17 resettlement communities and 50 new villages in 10 counties and districts of Bijie. The purpose of doing so is to help 221,800 poor households of Bijie to move out from their original places that are featured in bad living conditions, and at the same time, help to construct supporting facilities of education and business, and foster industries appropriate for the employment of the poor people.

Poverty alleviation through employment

Evergrande has organized vocational skills training for the poor, aiming at achieving employment for 80,000 people. Up to now, it has provided training to 113217 persons of the city

and recommended 75462 people of the city to be employed in local or other places. The per capita annual income there reaches 42,000 yuan, which indicates the realization of “one person employed, the whole family gets rid of poverty”.

3.2.2 Public welfare Charity

In recent years, Evergrande has donated RMB 1.65 billion for poverty alleviation by industry, education and social welfare in Zhoukou City, Henan. It has built schools, hospitals and industrial parks, improving the level of local elementary and secondary education and medical care; in Shaanxi Province, it has also donated RMB 1 billion to build about 40 elementary schools and kindergartens in poor counties and key areas lack of educational infrastructure.

Donating Money for Education

Evergrande has donated nearly RMB 100 million to support Guangdong's education. It has donated RMB 30 million to Jinan University to facilitate its building into a world-famous university, and RMB 20 million to South China Normal University in edu-aid projects. And it also donated RMB 30 million through Guangdong Glory Work Promotion Association to help build 100 minority elementary schools, helping 50,000 children of ethnic minorities enter schools, and RMB 6 million through Guangzhou Education Foundation to subsidize destitute students and in-service teachers with financial difficulties in Guangzhou. Moreover, Evergrande has donated RMB 20 million to Northwest A&F University and RMB 10 million to Chinese Academy of Sciences.

Earthquake Relief

Evergrande has successively donated over RMB 83 million to affected areas, including RMB 5 million for flood relief in 1998, RMB 4 million to rainstorm affected areas in Guangdong in July 2006, RMB 10 million in cash and in kind to the people affected by snow and ice disasters in January 2008, and over RMB 50 million after the earthquakes in Wenchuan and Ya'an in Sichuan and Zhaotong in Yunnan.

Fight the epidemic

Since the outbreak of the New Coronary Pneumonia, it has donated more than 1.2 billion yuan to fight the epidemic, including donating 200 million yuan in cash and 5,000 tons of fresh vegetables to Wuhan City in the first time; donating 100 million yuan in cash to the Chinese Academy of Medical Sciences to support innovative drug research and development; The team of Nanshan Zhong and Harvard University carried out scientific research, and Evergrande provided

800 million yuan in scientific research funds; donated 100 million yuan to the Chinese Red Cross to support the development of international anti-epidemic humanitarian assistance, and used practical actions to help win this epidemic prevention and control battle.

3.2.3 Develop sports

Founded in March 2010, Guangzhou Evergrande Taobao Football Club has won 17 championships in nine years, including two AFC Champions League titles and eight Chinese Super League titles, with a highest ranking of 30th in the world, making it one of the most successful and influential professional football clubs in Asia.

On December 1, 2019, Guangzhou Evergrande Taobao defeated Shanghai Shenhua 3-0 and won the league, and became the first winner of championship for the eighth time, creating a record in the history of the Chinese Super League.

In 2011, Evergrande Group established the world's largest new-type football school with first-class hardware facilities in Qingyuan City, Guangdong. In September 2012, Evergrande Football School was opened and in October 2014, a Spanish branch was established. Aiming at "revitalizing Chinese football and cultivating football stars", Evergrande Football School adopts the world-leading youth training model, introduces the top coaching team from Real Madrid, and builds a high level international competition platform to cultivate excellent football talent aged from 9 to 18.

Evergrande Football School adopts one-stop youth training model featuring five-year special training in China and 5-year further training overseas. Elite students can receive training, competition, study, food, clothing and housing free of charge. Students aged 9-13 receive special training by foreign teachers from Real Madrid. Every year, 25 outstanding students over 13 years old will be selected to the Spanish branch, with 25 members for each age group from 13 to 18. The Spanish branch has 125 elites. Since 2019, the "Evergrande Cup" Madrid Football Championship will be held every year in Spain, inviting top Premier League teams of the same age groups in Madrid, to ensure that the students at all ages at Spanish branch can attend the high-quality, high-level and high-intensity games every week.

3.3 Evergrande Group's Main Competitors and Comparison

Now that the economy is developing rapidly, many companies will focus on the same industries. Because of this situation, the competing relationship between enterprises has occurred, so Evergrande Group is no exception. Then we will introduce the main competitors of Evergrande Group and introduce the differences between the group and its competitors.

3.3.1 Evergrande Group and Country Garden

Country Garden Holdings Co., Ltd., headquartered in Shunde, Guangdong, is China's largest developer of new urbanized housing. It adopts a centralized and standardized operation model, and its business includes property development, construction and installation, decoration, property management, property investment, hotel development and management, etc. The real estate industry with Evergrande Group is in a competitive relationship.

As the leading real estate company, Evergrande and Country Garden relied on their strong resource advantages to harvest a large number of land projects in 2017. As of the end of 2017, the land reserves of the two housing companies reached 312 million square meters and 282 million square meters respectively, far ahead of other housing companies.

In 2017, Evergrande's land reserve projects reached 766, and the average soil storage volume of a single project was 407,000 square meters, which was significantly higher than Country Garden's 194,000 square meters, and it increased by 3.3% compared with 2016. The increase in the average soil storage volume of Evergrande's single project is related to the addition of multiple large-scale cultural tourism projects in hot third-tier cities in 2017. Compared with Evergrande, Country Garden's average volume of single projects in 2017 was slightly lower and showed a downward trend year by year. In 2017, the number of projects (domestic) signed or delisted by Country Garden reached 1456, a significant increase of more than 100% from the 722 at the end of 2016, and the average volume of single projects decreased by 15.8% from 2016 to 194,000 square meters. In addition, after excluding many large-scale cultural tourism projects of Evergrande, in 2017, the average soil storage volume of Evergrande's pure residential land reserve city reached 1.112 million square meters, which was significantly lower than that of Country

Garden. The average soil storage volume of a single project is still higher than that of Country Garden.

3.3.2 Evergrande Group and China Vanke

Vanke Enterprise Co., Ltd. is a professional residential development company, established in May 1984, listed on the Shenzhen Stock Exchange in 1991, headquartered in Vanke Center, No. 33 Huanmei Road, Dameisha, Yantian District, Shenzhen, China. The current chairman of the board is Liang Yu. The company's core businesses include residential development, property services, and rental housing.

In terms of the scale and growth rate of total assets, Vanke was compared. In 2015, Evergrande's total assets began to surpass Vanke and become the industry's first. In 2016, it grew rapidly to a rate of 1.35 trillion with a growth rate of 78%, and it entered the trillion scale for the first time. Vanke's asset growth rate in the past three years was less than half of Evergrande. In terms of shareholders' equity of listed companies, Vanke is still the strongest. The rapid growth of Evergrande's assets has not brought about a substantial increase in the shareholders' equity of listed companies. In 2016, it has shrunk by 13%. Of the total assets of 1.35 trillion, the shareholders' equity of listed companies is only 44.2 billion, accounting for only 3%.

Evergrande's business strategy is relatively aggressive. It has borrowed a lot of land and accelerated development. Its asset scale has ranked first in China and its income scale is also comparable to that of Vanke. Vanke's operations have been very stable. In recent years, various indicators such as asset scale, income scale, and profitability have steadily increased. The performance is solidly supported by reliable cash flow, the debt ratio is low, and the financial risk is not large.

3.3.3 Evergrande Group and Wanda Group

Wanda Group Co., Ltd. is a large-scale multinational enterprise group focusing on modern service industry, including four major industries of commerce, culture, real estate and finance. It was founded by Wang Jianlin in Dalian, Liaoning Province in 1988. The company's business scope mainly includes commercial real estate, high-end hotel, tourism investment, cultural industry and chain department store five major industries.

From the perspective of real estate, Evergrande is undoubtedly bigger. In 2016, Evergrande's development area was nearly five times that of Wanda. The total income is also above Wanda. But now it depends on who is bigger depends on their diversified industrial structure. Evergrande's core industries are raw materials, FMCG and real estate.

Wanda has already adjusted the real estate from the core position within the group, commercial real estate has also entered light assets, and the proportion of finance, Internet, culture and hotel industry is also increasing. So, from the perspective of real estate, Evergrande is bigger, but from the perspective of enterprise scale, it should be considered quite

4 Evaluation of Financial Position of the Company

After description, the theoretical part and the profile of Evergrande Group, we will continue to introduce the evaluation of financial situation of the Evergrande Group. Firstly, we will use common-size analysis. Secondly, we will use financial ratio analysis. This part includes profitability ratio, liquidity ratio, solvency ratio and asset management ratio. Finally, we will use DuPont analysis of Evergrande Group. All the data we use in this chapter is from the Evergrande Group's annual report financial statement from 2014 to 2018. And we know that the financial statement is reported in millions of RMB.

4.1 Common-size Analysis of Evergrande Group

In this chapter, we will use horizontal common-size analysis and vertical common-size analysis to analyze the data of Evergrande Group.

4.1.1 Horizontal common-size analysis

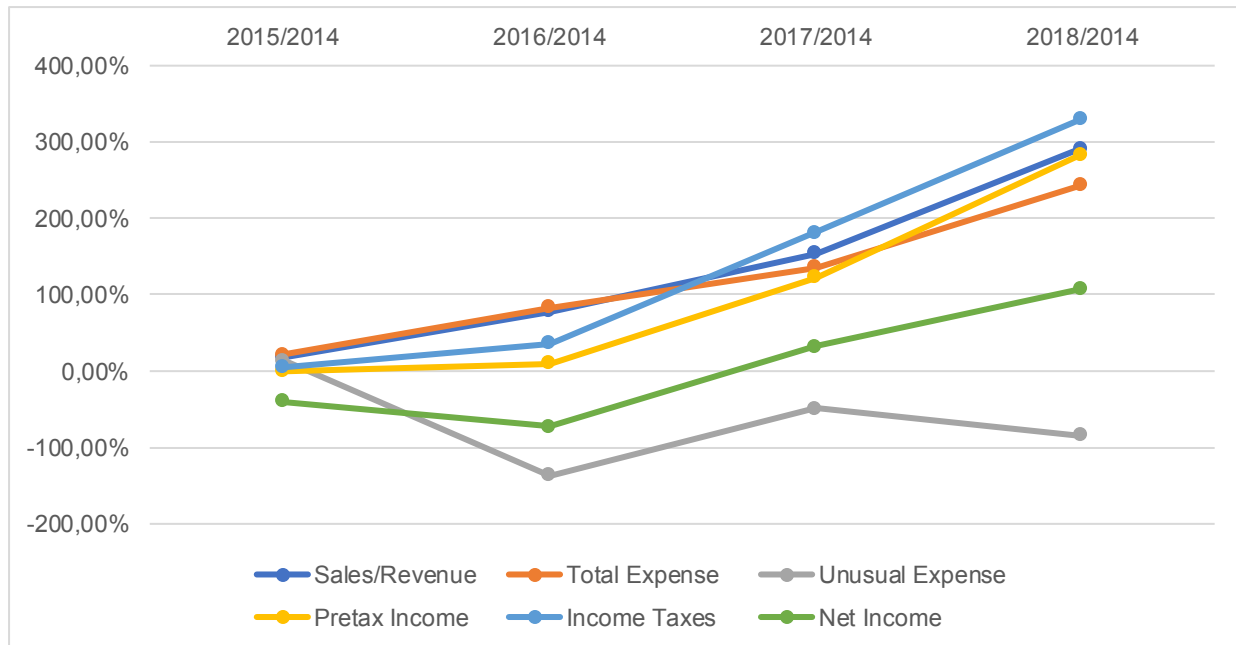
In this part, we use formula (2.11) to calculate horizontal common-size analysis of financial statements, i.e. income statement, balance sheet and cash flow. And we will use 2014 as the base year for the calculation. We will start with the horizontal analysis of income statement, see Tab. 4.1 and Fig. 4.1.

Table 4.1: Horizontal common-size analysis of income statement

	2015/2014	2016/2014	2017/2014	2018/2014
Revenue	17.77%	78.22%	154.01%	291.92%
Total Expense	21.77%	83.93%	135.07%	243.46%
Unusual Expense	14.58%	-137.17%	-49.45%	-84.32%
Pretax Income	-0.29%	9.96%	122.71%	283.85%
Income Taxes	4.93%	35.61%	181.12%	330.16%
Net Income	-39.49%	-72.11%	31.80%	107.70%

Source: Own calculation

Figure 4.1: Percentage change of horizontal common-size analysis of income statement



Source: Own elaboration

From Tab. 4.1 and Fig. 4.1, we can see the horizontal common-size analysis of the company. We use the revenues, total expense, income and other items' data of 2014 as the basic data, so we can see the changes clearly from them. Firstly, we focus on the revenues. Let us look at the income data, we can see that income has been increasing. The company's revenue percentage was increased from 17.77% in 2015 to 291.92% in 2018, which can be said to grow by leaps and bounds. This growth has a huge relationship with Evergrande Group's major strategic decisions, which were also mentioned in the chapter three. From the growth of revenue, we can know that the company will inevitably have expenditures, so we can see that the total expenses are also increasing year by year. From 21.77% at the beginning to 243.46% in 2018. It is not difficult to see from this data that both income and expenses are increasing, but at the beginning the expenses will be greater than the percentage of income, and the percentage of expenses will be smaller than the income in 2017. This is because the company must invest more to develop the company in the early stage. Once the company develops well, the income will increase more, so if the investment is the same, the return will become larger. This can also explain the data in the line of pretax income. As can be seen from the Fig. 4.1, the period of 2014 to 2018 witnesses an increase in the number of pretax incomes, rising to 283.85% in 2018. Because income is increasing, the income tax payable every year is also increasing. So, the final net income is also increasing. Although it was negative from 2014 to 2015, but the number of net incomes increased to 107.70% in 2018. From these data, we can see that

Evergrande Group has mainly been profitable in the past few years. Explain that the development strategy they have formulated is quite effective, and the essence of the strategy can be retained in the future.

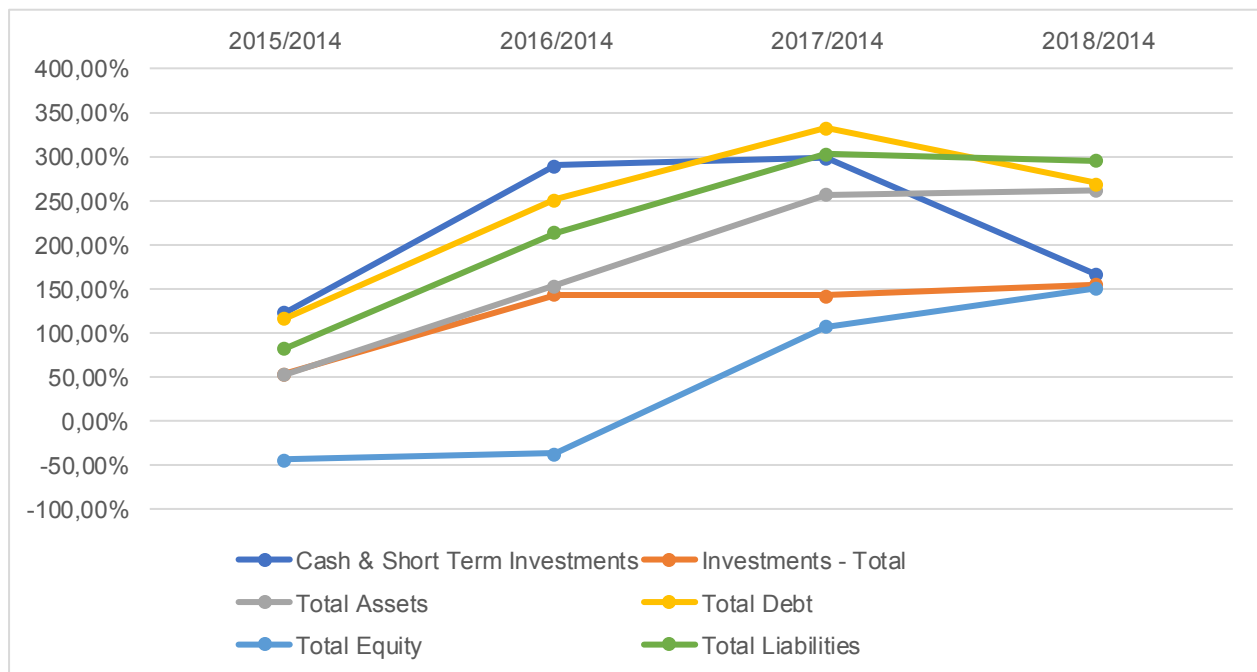
Now, we will continue the calculation of horizontal common-size analysis of balance sheet. Please see Tab. 4.2 and Fig. 4.2.

Table 4.2: Horizontal common-size analysis of balance sheet

	2015/2014	2016/2014	2017/2014	2018/2014
Cash & Short-Term Investments	122.73%	290.13%	298.60%	165.97%
Investments - Total	53.65%	143.15%	142.52%	154.44%
Total Assets	52.35%	154.12%	256.60%	261.49%
Total Debt	116.15%	250.77%	332.46%	268.86%
Total Equity	-43.58%	-36.79%	106.99%	150.55%
Total Liabilities	82.12%	213.37%	303.04%	295.93%

Source: Own calculation

Figure 4.2: Percentage change of horizontal common-size analysis of balance sheet



Source: Own elaboration

In the Tab. 4.2 and Fig. 4.2, we still use the 2014 data as basic data. It is not difficult to see the changes through Tab. 4.2. As for cash and short-term investments, the number of it increased from 122.73% in 2015 to 298.60% in 2017, and then it decreased to 165.97% in 2018. But the

number of total investments has been rising. However, it can be seen from the line chart in Fig. 4.2 that the rise is relatively flat. This shows that in addition to the investments we said before, Evergrande Group also has certain investments in other areas. An increase was found in the number of total assets, rising to 261.49% in 2018. The increase from 2017 to 2018 is small. This is also due to the company's effective investment, which has obtained corresponding returns. From Fig. 4.2, the total debt and total equity are rising generally. After increasing to 332.36% in 2017, the number of total debts decreased to 268.86%. Because of this, total liabilities fell to 295.93% in 2018 after rising to 303.04% in 2017. But it can be seen from the line chart that this decline is not obvious. This data reflects that the company should expand the scope of development in a more reasonable way in the future and cannot blindly lend or engage in other activities to increase the company's debt too much.

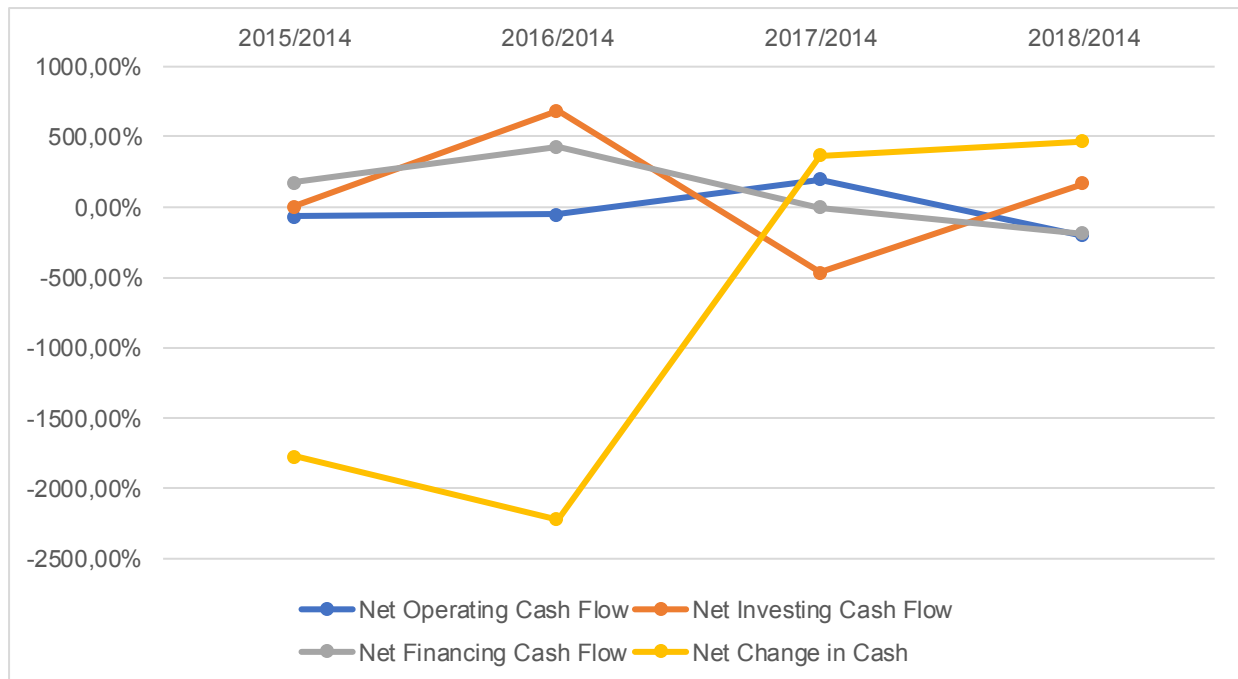
Now, we will continue the calculation of horizontal common-size analysis of cash flow. Please see Tab. 4.3 and Fig. 4.3.

Table 4.3: Horizontal common-size analysis of cash flow

	2015/2014	2016/2014	2017/2014	2018/2014
Net Operating Cash Flow	-63.56%	-49.42%	194.95%	-203.57%
Net Investing Cash Flow	3.25%	686.72%	-461.66%	171.81%
Net Financing Cash Flow	174.28%	429.66%	-4.20%	-189.40%
Net Change in Cash	-1769.39%	-2222.71%	371.28%	466.81%

Source: Own calculation

Figure 4.3: Percentage change of horizontal common-size analysis of cash flow



Source: Own elaboration

From Fig. 4.3, it is apparent that these data are constantly fluctuating. Especially the net change in cash. The number from 2016 to 2017 rises dramatically from -2222.71% to 371.28%. Because in these two years, the company has developed a new plan. In 2015, it not only strengthened the main business of real estate, but also expanded diverse industries such as cultural tourism and health care. In 2016, Evergrande Group became a Fortune 500 company, and property sales also became number one.

The number of net operating cash flow increased to 194.95% in 2017. Over the next one year, it decreased to -203.57% in 2018. And as for net financing cash flow, the number increased to 429.66% in 2016, but decreased to -189.40% in 2018. It can be seen from the comparison that the amount of the company's operations after 2016 is decreasing. The second most volatile data is the net investing cash flow. After increasing to 686.72% sharply in 2016, the number of it decreased to -461.66% in 2017, but in the end, the number increased to 171.81%. Because Evergrande Group did not focus on investment from 2016 to 2017 but focused on expanding its own industry.

4.1.2 Vertical common-size analysis

In this part, we will use vertical common-size analysis to analyze balance sheet and income statement and will use formula (2.12) to calculate. As for vertical common-size analysis of balance sheet, we take total assets and total liabilities and equities as benchmarks respectively. And for income statement, we use the revenue as a benchmark. Vertical common-size analysis allows us to better understand the changes in the proportions in the financial statements. From Fig. 4.4 it is possible to see the composition of the asset and from Fig. 4.5 the composition of the liabilities and equity and from Fig. 4.6 the composition of the revenues.

Next, we observe Tab. 4.4 and Fig. 4.4.

Table 4.4: Vertical common-size analysis of assets

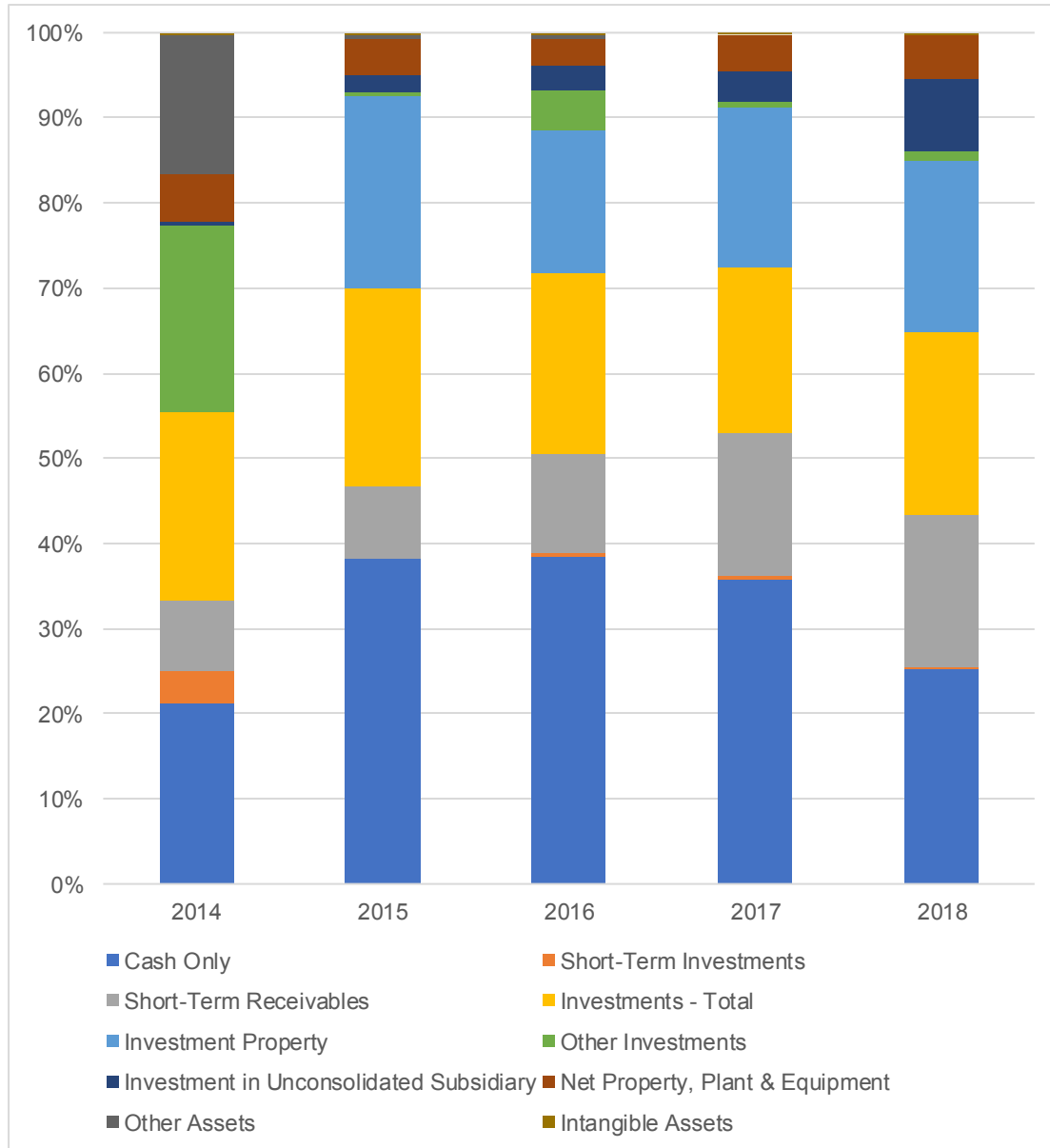
Year	2014	2015	2016	2017	2018
Cash Only	12.54%	21.67%	22.53%	16.33%	10.86%
Short-Term Investments	2.31%	0.04%	0.27%	0.27%	0.06%
Short-Term Receivables	4.95%	4.83%	6.92%	7.63%	7.65%
Investments - Total	13.06%	13.18%	12.50%	8.88%	9.19%
Investment Property	-	12.83%	9.77%	8.62%	8.63%
Other Investments	13.06%	0.34%	2.72%	0.26%	0.56%
Investment in Unconsolidated Subsidiary	0.22%	1.13%	1.80%	1.72%	3.57%
Net Property, Plant and Equipment	3.34%	2.38%	1.75%	1.94%	2.26%
Other Assets	9.70%	0.26%	0.37%	-	-
Intangible Assets	0.18%	0.17%	0.12%	0.09%	0.11%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

From Tab. 4.4, it can be seen that the overall trend is declining. Especially the short-term investments and other investments. But there are good situations, such as total investments, net property and intangible assets have declined from 2016 to 2017, but both have rebounded in 2018, which is inseparable from Evergrande Group's strategic decision. There are two other data that have been on the rise, that is short-term receivables and investment in unconsolidated subsidiary. It is worth mentioning that there is no investment property in 2014, and there are no other assets in

2017 and 2018. This shows that during the past five years, Evergrande Group has mainly focused on developing subsidiaries, thereby reducing other investments.

Figure 4.4: Vertical common-size analysis of assets



Source: Own elaboration

According to Fig. 4.4, we can see that cash is for the largest proportion of total assets from 2015 to 2017. So, in these three years cash is the most important part, although the ratio has been decreasing. Opposite of this, the smallest proportion of total assets is the short-term investments over the five years. Interestingly, in 2014 the proportion of cash, total investments and other investments are almost the same. And in 2018, the proportion of investment property, total

investments, short-term investments and short-term receivables are nearly the same. Besides, from the figure the second important proportion is the total investments.

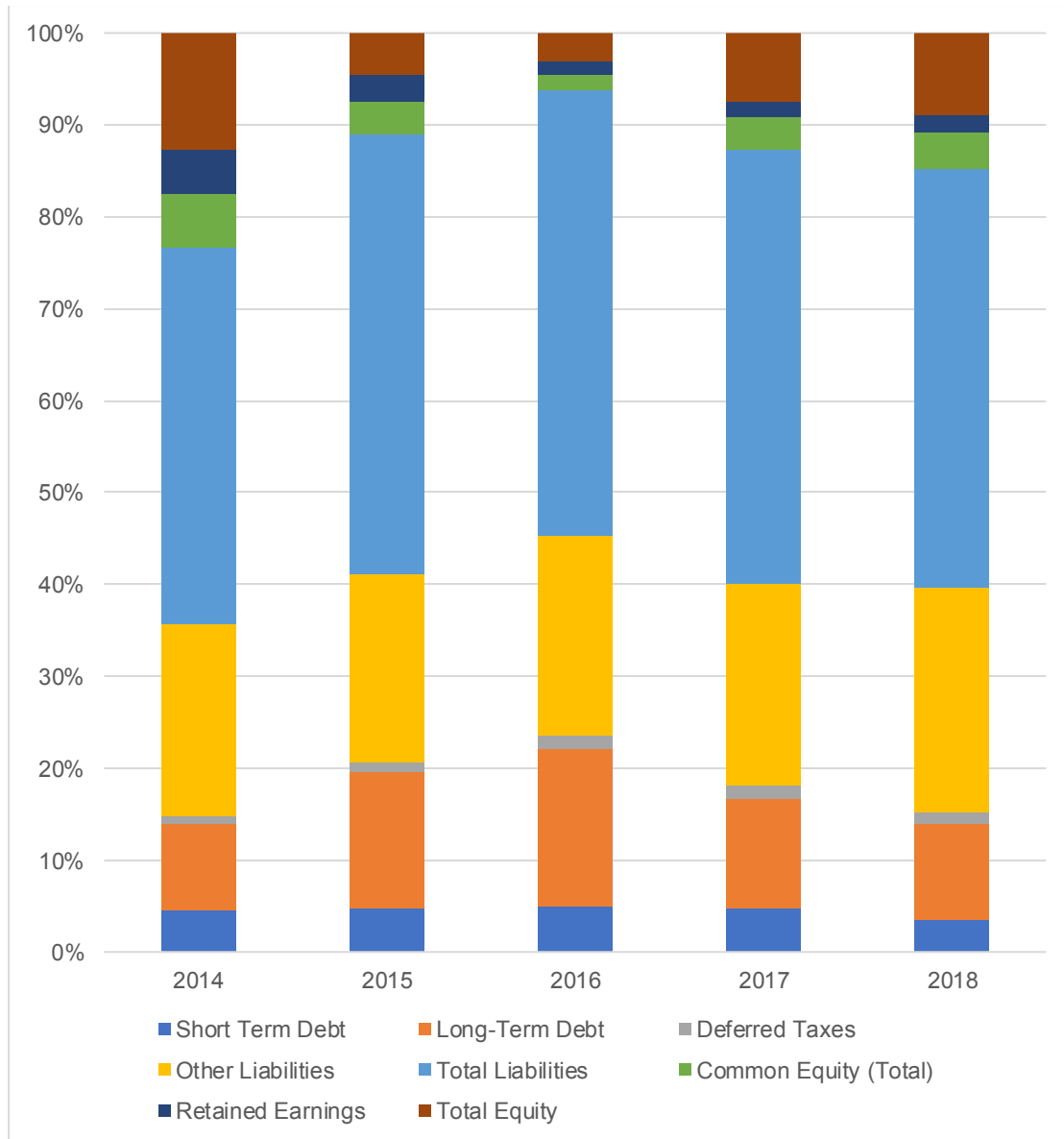
Table 4.5: Vertical common-size analysis of liabilities and equity

Year	2014	2015	2016	2017	2018
Short-Term Debt	8.48%	8.84%	9.65%	8.80%	6.39%
Long-Term Debt	17.56%	28.57%	33.36%	21.58%	18.96%
Deferred Taxes	1.65%	1.96%	2.55%	2.71%	2.42%
Other Liabilities	38.80%	38.75%	42.47%	40.46%	44.86%
Total Liabilities	76.31%	91.23%	94.11%	86.25%	83.58%
Common Equity (Total)	10.77%	6.74%	3.27%	6.51%	7.07%
Retained Earnings	9.12%	5.47%	2.78%	3.13%	3.45%
Total Equity	23.69%	8.77%	5.89%	13.75%	16.42%
Total Liabilities and Equity	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

The Tab. 4.5 is the vertical common-size analysis of liabilities and equity. Firstly, we focus on the short-term debt, long-term debt and total liabilities. These three projects increased from 2014 to 2016, are 9.65%, 33.36% and 94.11%. But in the next two years, a downward trend began. Secondly, we focus on the total common equity, retained earnings and total equity. Contrary to the previous, these three projects showed a downward trend in the previous three years. They all reached the lowest ratio in 2016. Then it started to improve from 2017 to 2018. And they reached 7.07%, 3.45% and 16.42% in the end. The proportion of the remaining projects fluctuated, but the fluctuations were not large. Therefore, the overall development of the company is relatively stable, and all aspects are relatively balanced.

Figure 4.5: Vertical common-size analysis of liabilities and equity



Source: Own elaboration

Now, we continue to analyze results in Fig. 4.5. Obviously, in the five years, total liabilities proportion is the largest. So, it is the most important ratio. The proportion of deferred taxes is the smallest, and each year the proportion is similar. Other liabilities also account for a similar percentage in each year. In general, other than total equity, other changes are not obvious from 2014 to 2018.

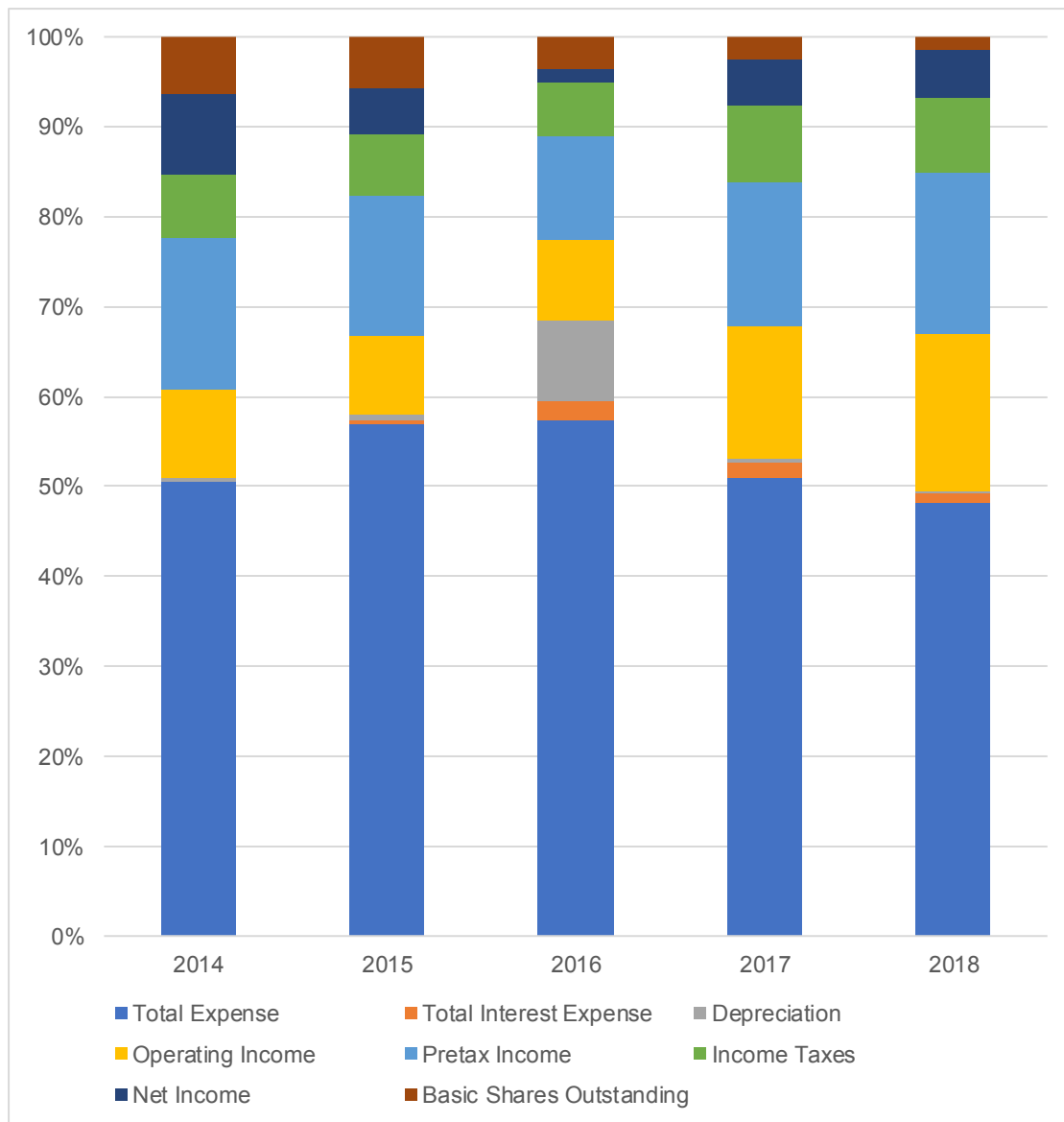
Table 4.6: Vertical common-size analysis of income statements

Year	2014	2015	2016	2017	2018
Total Expense	83.73%	86.58%	86.41%	77.49%	73.38%
Total Interest Expense	0.01%	0.60%	2.96%	2.54%	1.79%
Depreciation	0.87%	0.94%	13.64%	0.57%	0.45%
Operating Income	16.27%	13.42%	13.59%	22.51%	26.62%
Pretax Income	27.81%	23.55%	17.16%	24.38%	27.24%
Income Taxes	11.71%	10.43%	8.91%	12.96%	12.85%
Net Income	15.06%	7.74%	2.36%	7.81%	7.98%
Basic Shares Outstanding	10.42%	8.79%	5.42%	3.70%	2.36%
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

According to the Tab. 4.6, we can see the vertical common-size analysis of the income statement. We used revenue as a base to calculate other data in this table. In the table, most proportions are on the rise, although they will decline in the middle of the year. Such as operating income, pretax income, income taxes and net income. However, the pretax income and net income have rebounded in 2018, which is not as good as in 2014. The most dramatic is depreciation, it increased to 13.64% in 2016 but decreased to 0.45% in 2018. The decline is so obvious because the company may be cleaning up fixed assets. Total expense is also decreasing, but the decrease is not obvious.

Figure 4.6: Income statement vertical common-size analysis



Source: Own elaboration

From Fig. 4.6, we can clearly see the proportion of these proportions from 2014 to 2018. We can see that the proportion of total expense is particularly large, accounting for half of the total proportion almost every year. In addition to the volatility mentioned above, it can also be seen from the figure that the net income volatility is also relatively large. It decreased to 2.36% in 2016 but increased to 7.98% in 2018. Pretax income and income taxes are less volatile and relatively flat.

4.2 Financial Ratio Analysis of Evergrande Group

In this chapter, we will use financial ratio analysis to analyze Evergrande Group's financial situation from 2014 to 2018, i.e. profitability ratio, liquidity ratio, solvency ratio and asset management ratio. The data comes mainly from Evergrande Group's financial statements.

4.2.1 Profitability ratios

This part we will calculate the operating profit margin, net profit margin, return on assets and return on equity. After calculating these, we can analyze, and comment Evergrande Group's profitability ratios based on the financial statements from 2014 to 2018. And we will use formula (2.13), (2.14), (2.15) and (2.16) to calculate.

Operating Profit Margin

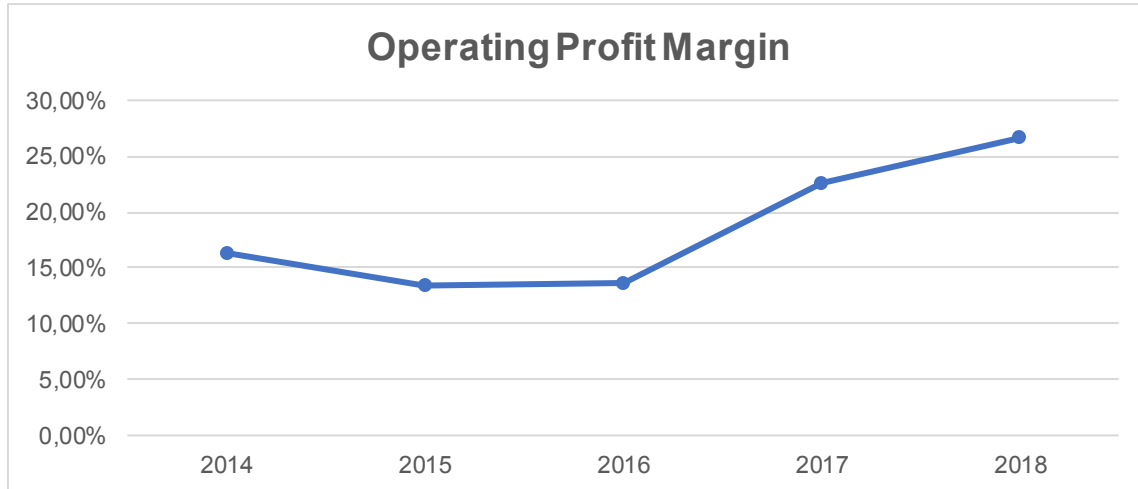
The results of the operating profit margin can be seen in Tab. 4.7 and Fig. 4.7.

Table 4.7: Operating profit margin of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Operating Income	23037	22378	34295	80978	147745
Total Revenues	141614	166775	252390	359716	555011
Operating Profit Margin	16.27	13.42	13.59	22.51	26.62

Source: Own calculation

Figure 4.7: Trend of operating profit margin from 2014 to 2018



Source: Own elaboration

As we can see from Tab. 4.7 and Fig. 4.7, Evergrande Group's net income is volatile. It has shown a downward trend from 2014 to 2015 and began to rise again from 2015 to 2018. So, this trend indicates that the business benefits of Evergrande Group decreased from 2014 to 2015, and subsequently increased from 2015 to 2018, and increased significantly from 2016 to 2017. It has increased from 13.59% to 22.51%. At the same time, the net profit development trend is the same. It can also prove that in these five years, the company's operating income is greater than operating expenses. At the same time, it does not rule out other circumstances that make the operating profit margin show such fluctuations, such as changes in taxation or expansion of other industries.

Operating profit margin is an index to measure the operating efficiency of an enterprise, and it reflects the ability of enterprise managers to obtain profits through operation, considering operating costs. Therefore, we analyze and comment that the profitability and operating efficiency of Evergrande Group from 2014 to 2015 are far inferior to those from 2015 to 2018. But the overall situation in these five years is still relatively positive.

Net Profit Margin

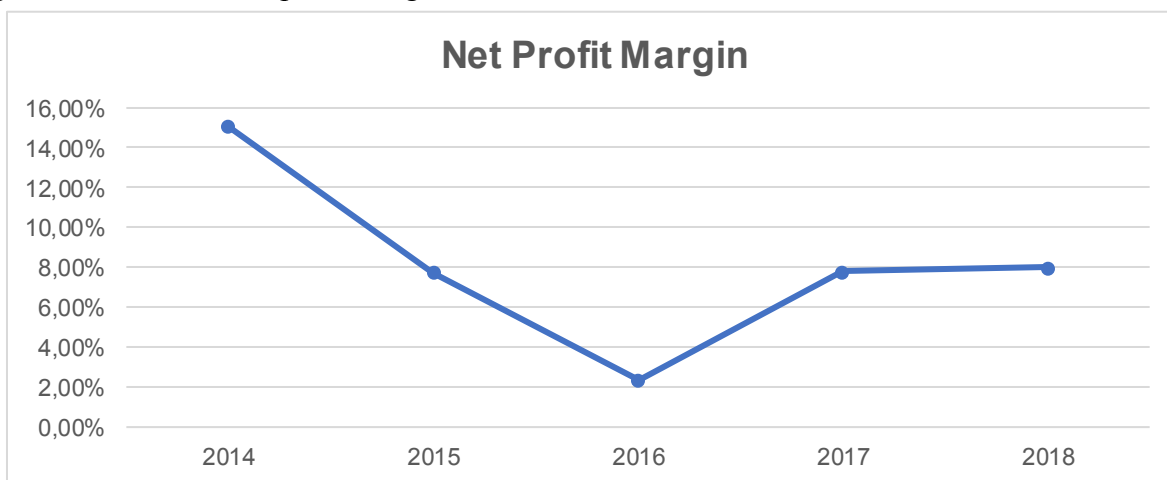
The results of the net profit margin can be seen in Tab. 4.8 and Fig. 4.8.

Table 4.8: Net profit margin of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Net Income	21323	12902	5948	28103	44287
Total Revenues	141614	166775	252390	359716	555011
Net Profit Margin	15.06	7.74	2.36	7.81	7.98

Source: Own calculation

Figure 4.8: Trend of net profit margin from 2014 to 2018



Source: Own elaboration

According to the Tab. 4.8 and Fig. 4.8, we can see that the fluctuation of net profit margin is more dramatic from 2014 to 2018. Obviously, 2016 was a turning point for Evergrande Group. The highest point of net profit margin is 15.06% in 2014, then it dropped to 2.36% in 2016. This difference is almost 12.7%. By 2017 and 2018, the trend is much flatter, with little change. From the formula, the reason is that compare to other four years, the net income in 2016 is very small.

Based on what we have learned that net profit margin is the profit margin after deducting all costs, expenses and corporate income tax. Net profit margin is usually bigger the better Evergrande Group's main business revenue growth rate in 2014 is the slowest, and net profit growth rate is the fastest. In 2016, it is the opposite.

Therefore, in order to improve the net profit, the company can reduce costs and expenses, or leave it unchanged. It can also reduce or maintain operating costs.

Return on Assets

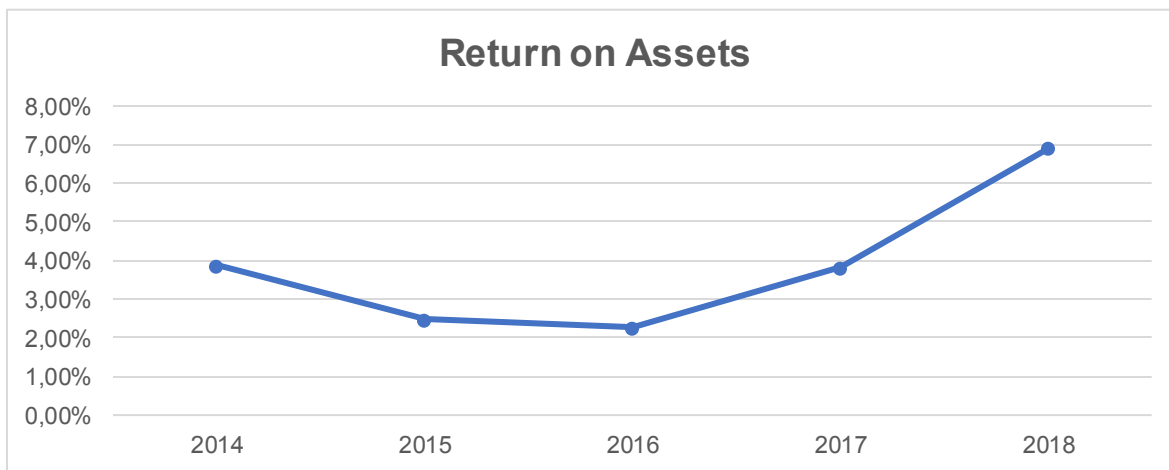
The results of the return on assets can be seen in Tab. 4.9 and Fig. 4.9.

Table 4.9: Return on assets of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Operating Income	23037	22378	34295	80978	147745
Total Assets	593066	903526	1507084	2114887	2143903
Return on Assets	3.88	2.48	2.28	3.83	6.89

Source: Own calculation

Figure 4.9: Trend of return on assets from 2014 to 2018



Source: Own elaboration

From Tab. 4.9 and Fig. 4.9, we can see that the volatility is not too large, and the line chart is an arc, with 2016 being the lowest point. The return on assets fell by 1.6% from 2014 to 2016. The most volatile part was from 2017 to 2018, from 3.83% to 6.89%. Because the operating income has increased the most during these two years and total assets has increased the least.

As we mentioned in the theoretical definition, return on assets is an indicator used to measure how much net profit is created per unit of assets. The rate of return on assets is one of the most widely used indicators for measuring profitability. The higher the index, the better the effect of asset utilization. Therefore, according to Tab. 4.9 and Fig. 4.9, from 2016 to 2018, Evergrande Group has been developing in a good direction in terms of increasing revenue and saving capital.

Return on Equity

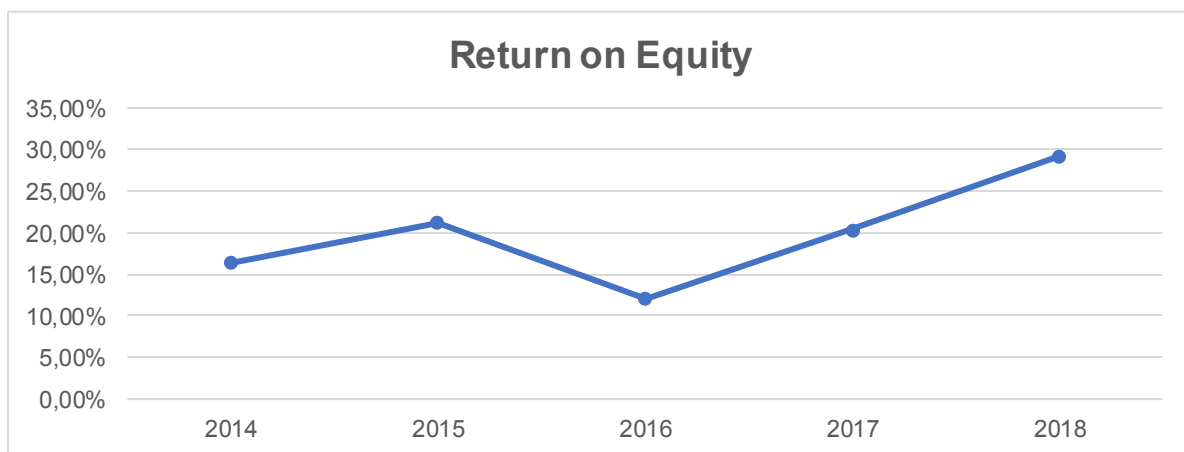
The results of the return on equity can be seen in Tab. 4.10 and Fig. 4.10.

Table 4.10: Return on equity of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Net Income	21323	12902	5948	28103	44287
Total Equity	129962	60876	49356	137778	151662
Return on Equity	16.41	21.19	12.05	20.40	29.20

Source: Own calculation

Figure 4.10: Trend of return on equity from 2014 to 2018



Source: Own elaboration

As is clearly reflected by the Tab. 4.10 and Fig. 4.10, same as before, the fluctuations are great. The line chart shows a zigzag shape. Similarly, the return on equity of 2016 is the smallest. From 2014 to 2015, the increase of return on equity is large. However, from 2015 to 2016, the ROE experienced the most dramatic change, dropping from 16.41% to 12.05% during this time. But in 2015 it reached to 21.19%. The good situation is that after falling to the bottom in 2016, the return on equity continued to rise in 2017 and 2018. Between 2016 and 2018, there was an increase of nearly 17.15%. The main reason for this phenomenon of return on equity is that the net income of Evergrande Group in 2016 was the lowest in five years. And compared with 2014, the total equity has also declined in 2016. It is worth mentioning that the total equity here refers to shareholders' equity.

Based on the knowledge in Chapter 2, because shareholder equity equals company assets minus debts, ROE can be regarded as the rate of return on net assets. Evergrande Group's ROE increase after 2016 may be due to the long life of the project, the rapid depreciation of books, and

so on. The return on equity of fast-growing companies is generally low. According to the development strategy of Evergrande Group, we know that the company does have certain development between 2015 and 2016.

4.2.2 Liquidity ratios

This part we will calculate the current ratio, quick ratio and cash ratio. After calculating these, we can analyze, and comment Evergrande Group's liquidity ratios based on the financial statements from 2014 to 2018. The higher the ratio, the stronger the liquidity of the company's assets and the stronger the short-term solvency. Therefore, we will analyze and draw conclusions about Evergrande Group's asset management efficiency and whether it maximizes shareholders' return on investment.

Current Ratio

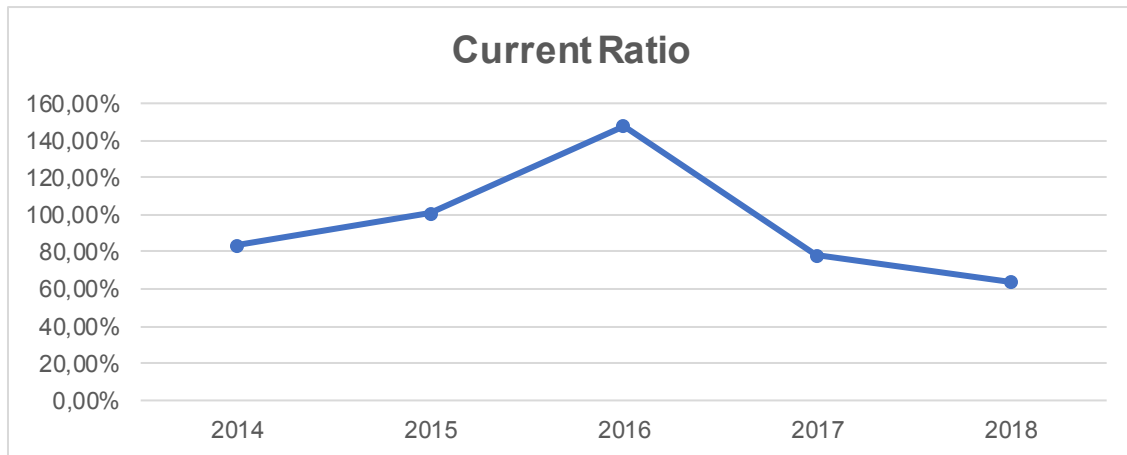
The results of the current ratio can be seen in Tab. 4.11 and Fig. 4.11.

Table 4.11: Current ratio of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Current Asset	88058	196128	343542	351001	234209
Current Liability	105500	195053	232653	450247	366887
Current Ratio	83.47	100.55	147.66	77.96	63.84

Source: Own calculation

Figure 4.11: Trend of current ratio from 2014 to 2018



Source: Own elaboration

From Tab. 4.11 and Fig. 4.11, we can see that the year with the most current assets and current liabilities is in 2017. But the most current ratio is 147.66% in 2016. The current ratio in 2016 was nearly 83.82% higher than the lowest current ratio. From the perspective of the two years, the biggest difference of current ratio is from 2016 to 2017, which is a difference of nearly 69.7%. The least difference of current ratio is from 2017 to 2018, a difference of 14.12%.

According to the theoretical definition, we know that the current ratio is an indicator that reflects the company's ability to pay in the short term. The highest current ratio indicates that the company's liquidity is stronger. However, the current ratio is too high, that is, the current assets are too much relative to the current liabilities, which may be an inventory backlog or too much cash. Therefore, the reason for the high current ratio of Evergrande Group in 2016 may be that there is more inventory, or it may be that there are more cash holdings.

Quick Ratio

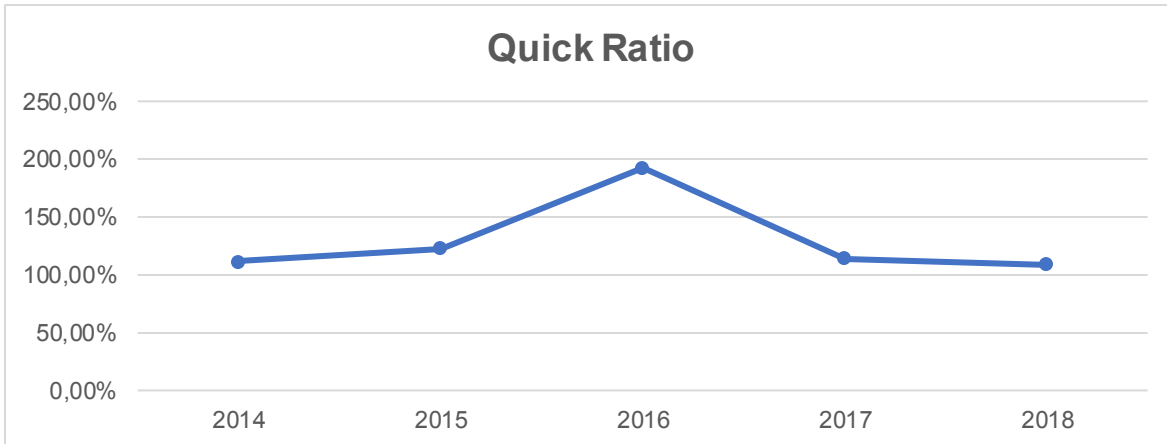
The results of the quick ratio can be seen in Tab. 4.12 and Fig. 4.12.

Table 4.12: Quick ratio of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Current Asset	88058	196128	343542	351001	234209
Accounts Receivable	29376	43645	104247	161264	164067
Current Liability	105500	195053	232653	450247	366887
Quick Ratio	111.31	122.93	192.47	113.77	108.56

Source: Own calculation

Figure 4.12: Trend of quick ratio from 2014 to 2018



Source: Own elaboration

As is clearly reflected by the Tab. 4.12 and Fig. 4.12, except for 2016, the changes in the other four years are not significant. The largest quick ratio is also in 2016. The entire line chart is symmetrical with 2016 as the boundary. The quick ratio has increased from 111.31% to 122.93% from 2014 to 2015. And it has decreased from 113.77% to 108.56% from 2017 to 2018 because of the increase of current asset and accounts receivable.

Quick ratio is also an indicator that reflects a company's short-term solvency. The higher the ratio, the stronger the short-term solvency. The higher the quick ratio, the company may also have the problem of inventory backlog and most of the cash held. Therefore, in 2016, Evergrande Group is likely to have to have the problems that companies are not good at financial management, inefficient use of funds and poor management of the company.

Cash Ratio

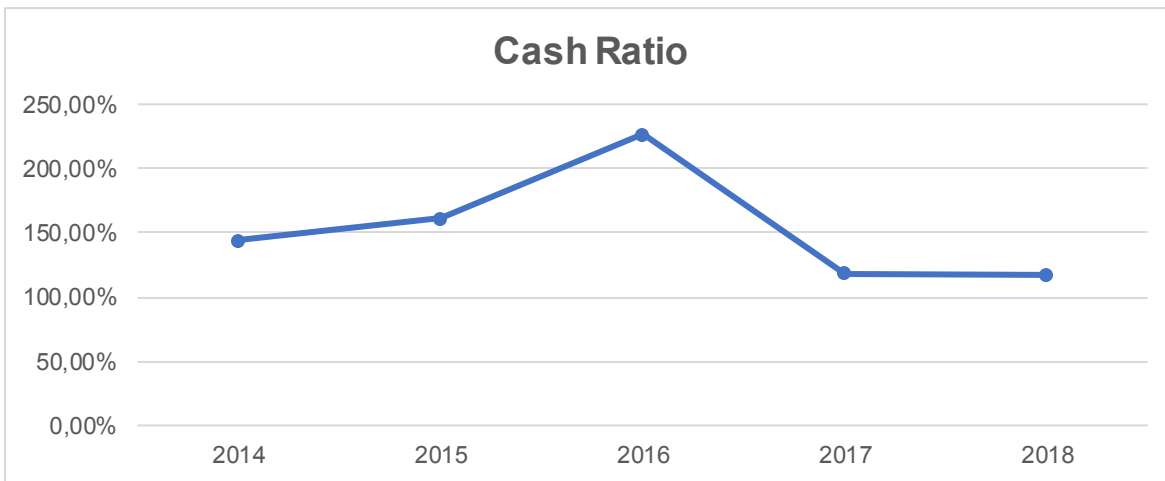
The results of the cash ratio can be seen in Tab. 4.13 and Fig. 4.13.

Table 4.13: Cash ratio of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Cash	74371	195761	339522	345395	232871
Marketable Securities	77473	119041	188376	187888	197119
Current Liability	105500	195053	232653	450247	366887
Cash Ratio	143.93	161.39	226.90	118.44	117.20

Source: Own calculation

Figure 4.13: Trend of cash ratio from 2014 to 2018



Source: Own elaboration

It is not difficult to see from Tab. 4.13 and Fig. 4.13 that the development trend of the cash ratio is roughly the same as that of the previous two ratios. The ratio in 2016 is still the largest, and it is 226.90%. From 2017 to 2018, the ratio differed by almost 1.24%. This is because cash, securities and current liabilities have not changed much. From 2017 to 2018, the ratio differed by almost 1.24%. This is because cash, marketable securities and current liabilities have not changed much.

From the theoretical knowledge we have learned, the cash ratio is an index used when investigating the profitability of a company when a large amount of credit causes a large amount of accounts receivable. The higher the cash ratio, the higher the liquidity. Therefore, it is not difficult to conclude that Evergrande Group has the highest ability to directly pay current liabilities in 2016. The cash ratio in 2016 was nearly 109.7% higher than the lowest cash ratio in 2018.

4.2.3 Solvency ratios

This part we will calculate the debt ratio, debt-to-equity ratio and interest coverage. After calculating these, we can analyze, and comment Evergrande Group's solvency ratios based on the financial statements from 2014 to 2018. And we will use formula (2.20), (2.21), (2.22) to calculate.

Debt Ratio

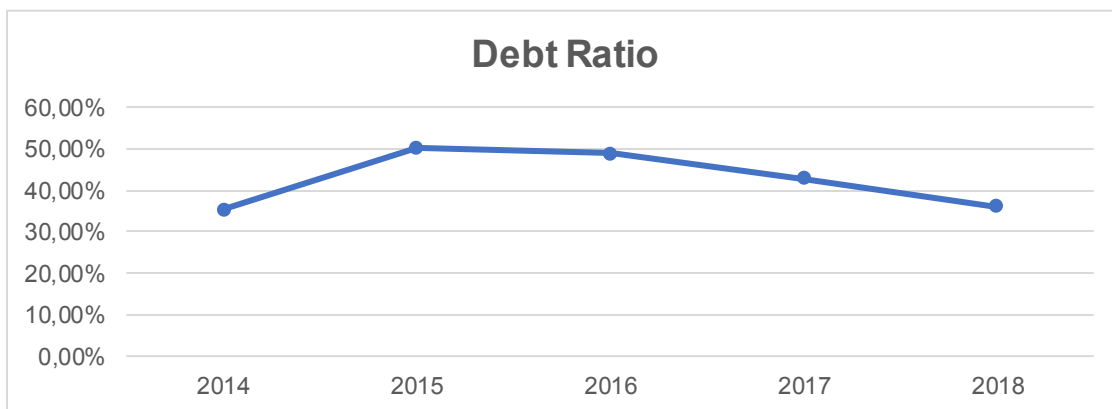
The results of the debt ratio can be seen in Tab. 4.14 and Fig. 4.14.

Table 4.14: Debt ratio of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Total Debt	209648	453153	735385	906647	773310
Total Assets	593066	903526	1507084	2114887	2143903
Debt Ratio	35.35	50.15	48.80	42.87	36.07

Source: Own calculation

Figure 4.14: Trend of debt ratio from 2014 to 2018



Source: Own elaboration

As it can be seen from Tab. 4.14 and Fig. 4.14, the debt ratio's development trend is relatively flat. And the highest point is 50.15% in 2015. There was a big increase from 2014 to 2015, which was up by almost 14.8%. We know that the development trend of debt ratio is similar to total debt. However, according to the Tab. 4.14 and Fig. 4.14, we find that the development trend of Evergrande Group's debt ratio does not match the development trend of total debt. It is universally admitted that the Evergrande Group's total assets rose much faster than total debt. Therefore, the total debt has been declining since 2015. By 2018 it had dropped to 36.07%.

According to the theoretical part, we know that the debt ratio reflects how much of your total assets is covered by borrowing and can also measure the extent to which a company protects the interests of its creditors during liquidation. Therefore, it is not difficult to find from Tab. 14 and Fig. 4.14 that the borrowing required by Evergrande Group in 2015 is gradually decreasing.

Debt-to-equity Ratio

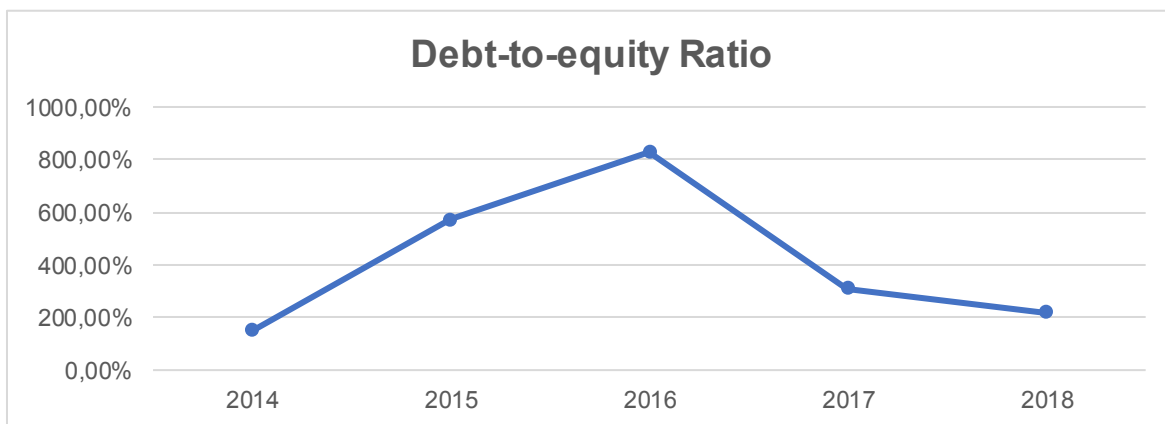
The results of the debt-to-equity ratio can be seen in Tab. 4.15 and Fig. 4.15.

Table 4.15: Debt-to-equity ratio of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Total Debt	209648	453153	735385	906647	773310
Total Equity	140470	79255	88792	290757	351944
Debt-to-equity Ratio	149.25	571.77	828.21	311.82	219.73

Source: Own calculation

Figure 4.15: Trend of debt-to-equity ratio from 2014 to 2018



Source: Own elaboration

From Tab. 4.15 and Fig. 4.15, it can be seen that the fluctuation of debt-to-equity ratio is obvious. The debt-to-equity ratio was the highest in 2016, and the lowest was in 2014, at 828.21% and 149.25%, respectively. And the debt-to-equity ratio fell sharply from 2016 to 2017. There was also a large increase from 2014 to 2015. The sudden drop from 2016 to 2017 is because the difference between total equity and total debt in 2016 is much larger than the difference between total equity and total debt in 2017. And the principle of the rise from 2014 to 2015 is similar to the previous one.

As we have mentioned before, the debt-to-equity ratio can reflect the degree to which the owner's equity is protected from the creditor's equity. If the debt-to-equity is too high, the capital risk will be too high, so in 2016 Evergrande Group was in a relatively dangerous state.

Interest Coverage

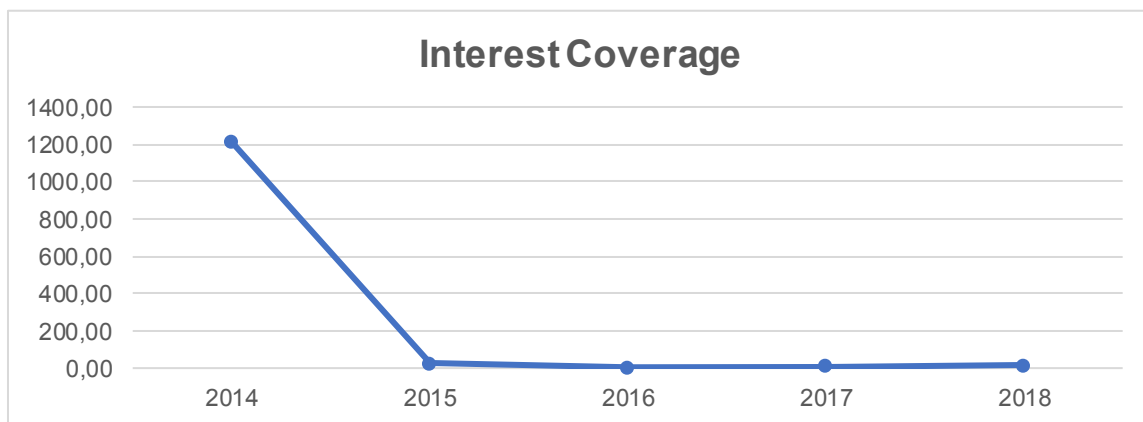
The results of the interest coverage can be seen in Tab. 4.16 and Fig. 4.16.

Table 4.16: Interest coverage of Evergrande Group from 2014 to 2018

	2014	2015	2016	2017	2018
Operating Profit	23037	22378	34295	80978	147745
Interest Paid	19	995	7469	9129	9925
Interest Coverage	1212.47	22.49	4.59	8.87	14.89

Source: Own calculation

Figure 4.16: Trend of interest coverage from 2014 to 2018



Source: Own elaboration

According to the Tab. 4.16 and Fig. 4.16, the fluctuation of interest coverage is very dramatic. The cliff-shaped decline that occurred between 2014 and 2015, which fell from 1212.47 to 22.49. The reason is that interest has suddenly increased by 976 million. From 2015 to 2016, the interest coverage has also dropped more, but it is not worth mentioning compared to the previous ones. The interest coverage in 2016 was the least, only 4.59. And the EBIT and interest paid continue to rise from 2014 to 2018.

Considering from theory, the interest coverage is used to measure the ability to repay loan interest. To maintain normal solvency, the interest coverage should be at least 1, and the larger the better. So, we can know from the Tab. 4.16 and Fig. 4.16 that the Evergrande Group had the strongest long-term solvency, and the weakest in 2016.

4.2.4 Asset management ratios

This part we will calculate the average collection period, account receivable turnover, inventory turnover and total assets turnover. After calculating these, we can analyze, and comment Evergrande Group's asset management ratios based on the financial statements from 2014 to 2018. Asset management ratio is an indicator used to measure the company's asset turnover rate. And we will use formula (2.23), (2.24), (2.25), (2.26) to calculate.

Average Collection Period

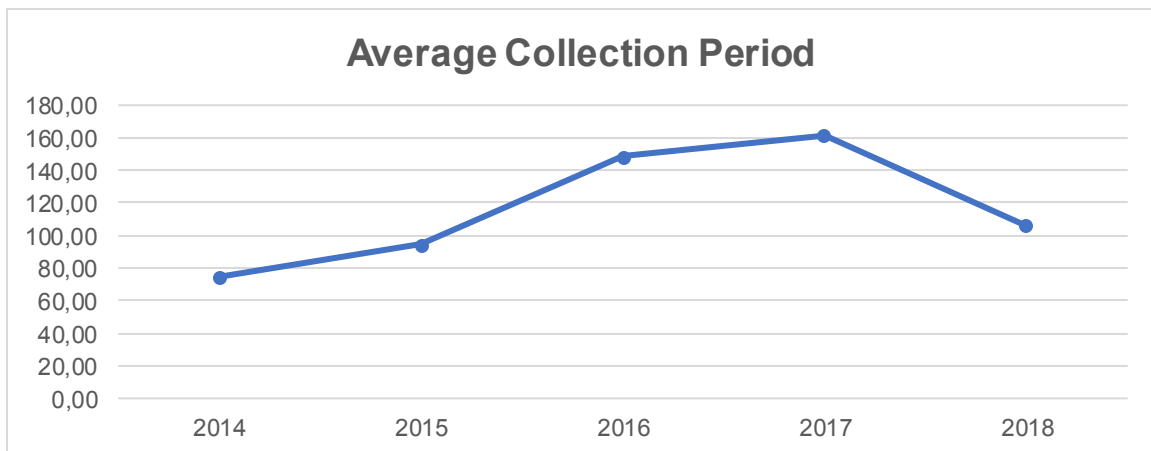
The results of the average collection period can be seen in Tab. 4.17 and Fig. 4.17.

Table 4.17: Average collection period of Evergrande Group from 2014 to 2018

	2014	2015	2016	2017	2018
Accounts Receivable	29376	43645	104247	161264	164067
Total Revenues	141614	166775	252390	359716	555011
Average Collection Period	74.68	94.21	148.69	161.39	106.42

Source: Own calculation

Figure 4.17: Trend of average collection period from 2014 to 2018



Source: Own elaboration

It can be seen from the Tab. 4.17 and Fig. 4.17 that the average collection period showed an upward trend from 2014 to 2017, an increase of about 86.71. The average collection period measures the quality of debtors. This data can help the company obtain higher credit. From Tab. 4.17 and Fig. 4.17, we can see that there is a large landslide from 2017 to 2018. Judging from the

change in each adjacent two years, the change in these two years is the largest, with a decrease of 54.97. The reason is that total revenue increased from 2017 to 2018 more than in previous years. The reason why Evergrande Group has a long average collection period is because of the business it is engaged in.

As we know, a short payback period means that the debtor pays immediately. It reduces the chance of bad debts. Similarly, a longer collection time means too free and inefficient credit collection performance. So, the decline from 2017 to 2018 is actually a good thing. It shows that Evergrande Group solved the problem of inefficient credit collection in a timely manner.

Account Receivable Turnover

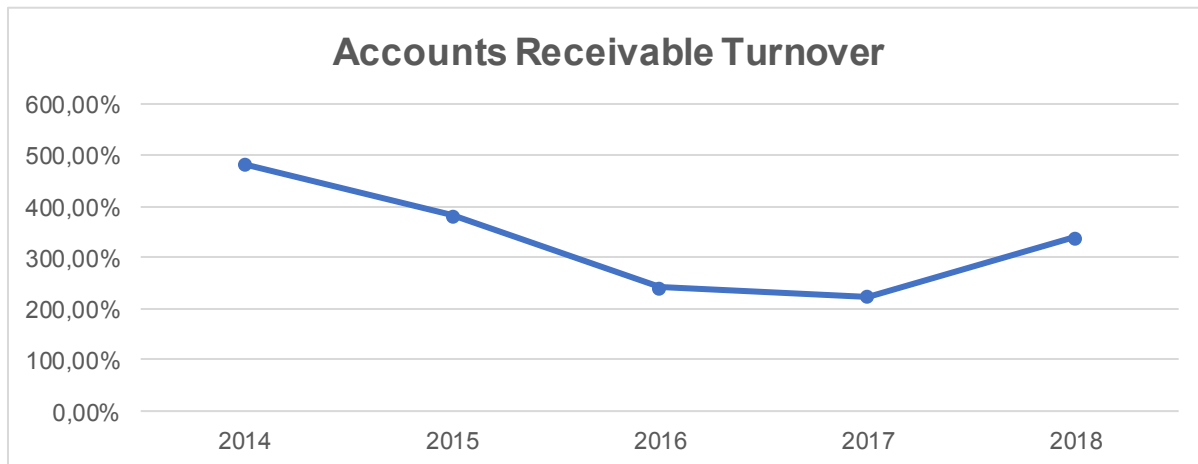
The results of the account receivable turnover can be seen in Tab. 4.18 and Fig. 4.18.

Table 4.18: Account receivable turnover of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Total Revenues	141614	166775	252390	359716	555011
Accounts Receivable	29376	43645	104247	161264	164067
Accounts Receivable Turnover	482.07	382.12	242.11	223.06	338.28

Source: Own calculation

Figure 4.18: Trend of account receivable turnover from 2014 to 2018



Source: Own elaboration

From Tab. 4.18 and Fig. 4.18, we can see that the accounts receivable turnover and the average collection period of housing exhibition trends are exactly the opposite. From 2014 to 2017 there was a downward trend, from 482.07% to 223.06%. It picks up by 2018, to 338.28%. It is also because of a rebound in total revenue in 2018. From the perspective of each adjacent two years,

the changes on each adjacent side are approximately the same. There was a breakthrough in accounts receivable from 2015 to 2016.

As we know from the theoretical part, under normal circumstances, the higher the bond yield ratio, the higher the turnover ratio indicates credit rate, fast collection, short aging, strong bond liquidity, short-term debt settlement ability, and bad debt loss. And less. Therefore, the amount of accounts receivable of Evergrande Group increased year by year from 2014 to 2017, but the turnover rate of accounts receivable decreased year by year, which shows that the company has the financial risk of huge bad debts due to credit. Subsequently, the situation of Evergrande Group improved in 2018.

Total Assets Turnover

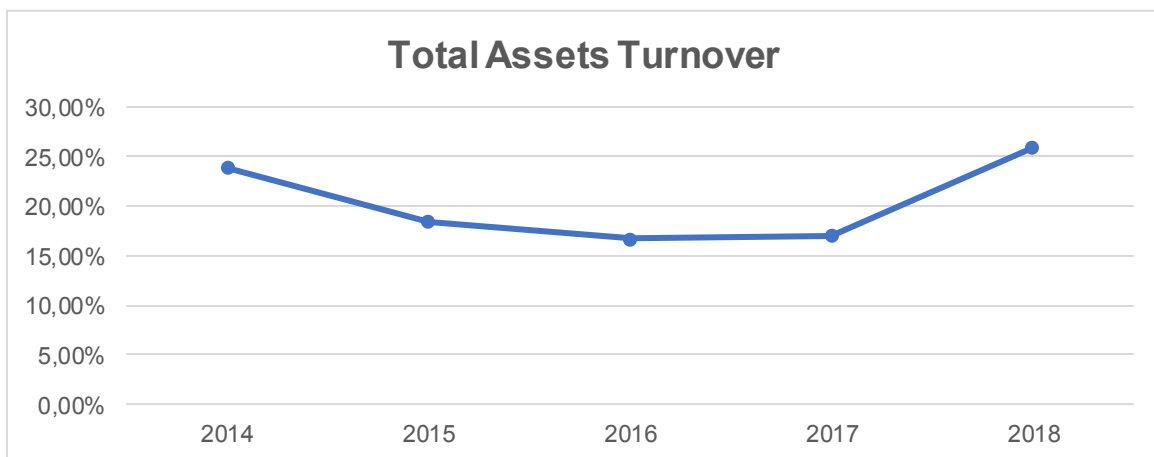
The results of the total assets turnover can be seen in Tab. 4.19 and Fig. 4.19.

Table 4.19: Total assets turnover of Evergrande Group from 2014 to 2018 (%)

	2014	2015	2016	2017	2018
Total Revenues	141614	166775	252390	359716	555011
Total Assets	593066	903526	1507084	2114887	2143903
Total Assets Turnover	23.88%	18.46%	16.75%	17.01%	25.89%

Source: Own calculation

Figure 4.19: Trend of total assets turnover from 2014 to 2018



Source: Own elaboration

According to the Tab. 4.19 and Fig. 4.19, the total asset turnover rate showed an arc with 2016 as the lowest point, which is 16.75%. The highest total asset turnover is 25.89% in 2018. The reason for the lowest in 2016 is that the increase in total revenue is much smaller than the increase in total

assets, and the highest reason for 2018 is the opposite.

Considering from theory, the total asset turnover is an indicator that measures the matching between the scale of investment in assets and the level of sales. And the bigger the better. Therefore, in 2016, Evergrande Group did not make full use of existing assets or there are excess and idle assets. In 2018, Evergrande Group's ability to operate assets has become stronger.

4.3 DuPont analysis of Evergrande Group

In this part, we will use DuPont analysis to analyze the profitability of Evergrande Group. As we said in the theoretical part, DuPont analysis uses the net asset return rate as the core financial indicator. Through the internal connection of financial indicators, the company's profitability is systematically and comprehensively analyzed. DuPont analysis helps corporate management to see the determinants of the return on equity capital more clearly, as well as the correlation between the net profit margin of sales, total asset turnover, and financial leverage. So, in this part, our main analysis data are net profit margin, asset turnover and financial leverage. Therefore, we will analyze and draw conclusions about Evergrande Group's asset management efficiency and whether it maximizes shareholders' return on investment. And we will use the methods of gradual changes to calculate.

According to the chapter two, we will use formula (2.27) and (2.28) to calculate what we need.

Table 4.20: The value of each items in decomposition of ROE

	2014	2015	2016	2017	2018
Net Profit Margin	0.151	0.077	0.024	0.078	0.080
Assets Turnover	0.239	0.185	0.167	0.170	0.259
Financial Leverage	4.222	11.400	16.973	7.274	6.092
ROE	0.152	0.163	0.067	0.097	0.126
Absolute Change		0.0110	-0.0958	0.0297	0.0292

Source: Annual Report of Evergrande Group, Own calculation

As we learned before, the formula of absolute change is to use the ROE of the next year minus the ROE of the previous year. So, we need to use the value of ROE in the following year minus the value of ROE in the previous year.

Table 4.21: Gradual changes of ROE between 2014 and 2015

	2014	2015	2014/2015(Δa)	ΔX_{a_i}	Oder
Net Profit Margin (a_1)	0.151	0.077	-0.0732	-0.0738	3
Assets Turnover (a_2)	0.239	0.185	-0.0542	-0.0177	2
Financial Leverage (a_3)	4.222	11.400	7.1782	0.1025	1
Sum				0.0110	

Source: Own calculation

$$\Delta X_{a_1} = (-0.0732) \cdot 0.239 \cdot 4.222 = -0.0738$$

$$\Delta X_{a_2} = 0.077 \cdot (-0.0542) \cdot 4.222 = -0.0177$$

$$\Delta X_{a_3} = 0.077 \cdot 0.185 \cdot 7.1782 = 0.1025$$

We can comment that the sum of gradual changes is equal to the absolute change of ROE between 2014 and 2015.

Table 4.22: Gradual changes of ROE between 2015 and 2016

	2015	2016	2015/2016(Δa)	ΔX_{a_i}	Oder
Net Profit Margin (a_1)	0.077	0.024	-0.0538	-0.1132	3
Assets Turnover (a_2)	0.185	0.167	-0.0171	-0.0046	2
Financial Leverage (a_3)	11.400	16.973	5.5730	0.0220	1
Sum				-0.0958	

Source: Own calculation

$$\Delta X_{a_1} = (-0.0538) \cdot 0.185 \cdot 11.400 = -0.1132$$

$$\Delta X_{a_2} = 0.024 \cdot (-0.0171) \cdot 11.400 = -0.0046$$

$$\Delta X_{a_3} = 0.024 \cdot 0.167 \cdot 5.5730 = 0.0220$$

We can comment that the sum of gradual changes is equal to the absolute change of ROE between 2015 and 2016.

Table 4.23: Gradual changes of ROE between 2016 and 2017

	2016	2017	2016/2017(Δa)	ΔX_{a_i}	Oder
Net Profit Margin (a_1)	0.024	0.078	0.0546	0.1551	1
Assets Turnover (a_2)	0.167	0.170	0.0026	0.0035	2
Financial Leverage (a_3)	16.973	7.274	-9.6995	-0.1289	3
Sum				0.0297	

Source: Own calculation

$$\Delta X_{a_1} = 0.0546 \cdot 0.167 \cdot 16.973 = 0.1551$$

$$\Delta X_{a_2} = 0.078 \cdot 0.0026 \cdot 16.973 = 0.0035$$

$$\Delta X_{a_3} = 0.078 \cdot 0.170 \cdot (-9.6995) = -0.1289$$

We can comment that the sum of gradual changes is equal to the absolute change of ROE between 2016 and 2017.

Table 4.24: Gradual changes of ROE between 2017 and 2018

	2017	2018	2017/2018(Δa)	ΔX_{a_i}	Oder
Net Profit Margin (a_1)	0.078	0.080	0.0017	0.0021	2
Assets Turnover (a_2)	0.170	0.259	0.0888	0.0515	1
Financial Leverage (a_3)	7.274	6.092	-1.1821	-0.0244	3
Sum				0.0292	

Source: Own calculation

$$\Delta X_{a_1} = 0.0017 \cdot 0.170 \cdot 7.274 = 0.0021$$

$$\Delta X_{a_2} = 0.080 \cdot 0.0888 \cdot 7.274 = 0.0515$$

$$\Delta X_{a_3} = 0.080 \cdot 0.259 \cdot (-1.1821) = -0.0244$$

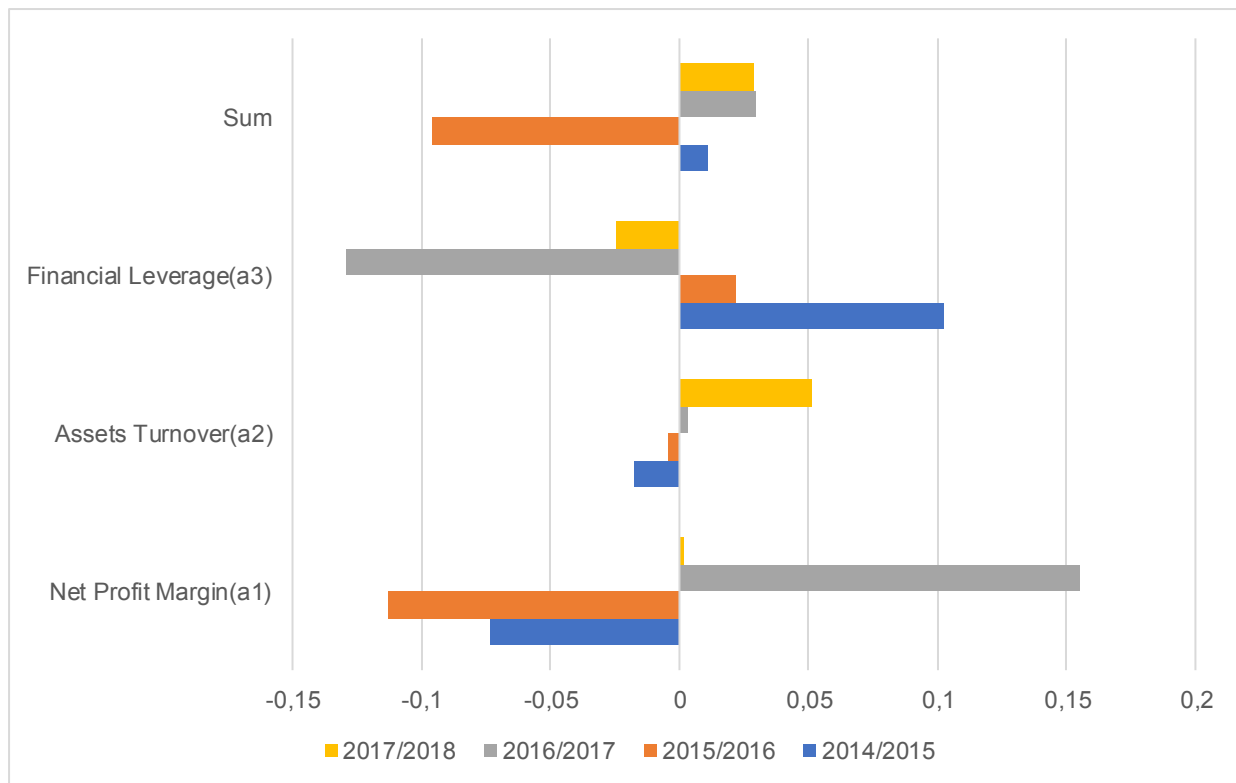
We can comment that the sum of gradual changes is equal to the absolute change of ROE between 2017 and 2018.

Table 4.25: Gradual changes of ROE between 2014 and 2018

	2014/2015	2015/2016	2016/2017	2017/2018
Net Profit Margin (a_1)	-0.0738	-0.1132	0.1551	0.0021
Assets Turnover (a_2)	-0.0177	-0.0046	0.0035	0.0515
Financial Leverage (a_3)	0.1025	0.022	-0.1289	-0.0244
Sum	0.0110	-0.0958	0.0297	0.0292

Source: Own calculation

Figure 4.20: Gradual changes of ROE between 2014 and 2018



Source: Own elaboration

After the calculation, from Fig. 4.20, we analyze and comment that net profit margin and financial leverage are almost as important ratio of the components which affect ROE. However, the largest ratio of net profit margin is negative, and the largest ratio of financial leverage is positive. And even we can find that these data are all positive and negative in the past five years.

We can comment that ROE is the result of multiple factors interlacing, not the result of a single factor.

5 Conclusion

The goal of this thesis was to use data from Evergrande Group's financial statements from 2014 to 2018 to analyze and evaluate Evergrande Group's financial performance.

The first chapter an introduction to the overall structure of the thesis

In the second chapter, we generally introduced what financial analysis is, and also introduced the methods of financial analysis, which includes common-size analysis, financial ratio analysis, pyramidal decompositions and sensitivity analysis. And we introduce the financial statement, which includes balance sheet, income statement and cashflow statement. In the third chapter, we introduce the overview of Evergrande Group, social responsibility of Evergrande Group and Evergrande Group's main competitors. In the chapter four, we analyze and comment on the financial situation of the Evergrande Group from 2014 to 2018. It is the most important part of this thesis. We use the methods of financial analysis to analyze and use the specific formula in chapter two to calculate. We analyzed and understood Evergrande Group's asset share, operating efficiency, solvency, profit and loss situation in the past five years.

Judging from the current market situation, Evergrande Group has become one of the best companies in China, and it has a certain reputation in the world. Among them, the real estate industry of Evergrande Group is the largest and has the best development prospects.

Firstly, we comment on the results of common-size analysis. We can observe that total assets, total expense, and income tax have increased significantly in these five years. Sometimes the total debt will increase rapidly. From 2014 to 2018, Evergrande Group basically showed an upward trend. However, there is a downward trend in investment. From the perspective of various data, 2016 can be said to be a turning point for Evergrande Group. Many data have been gradually rising since this year.

Secondly, we comment on the financial ratio analysis. We can see from the drawn line chart that in the past five years, Evergrande Group's profitability ratios has generally been on the rise. And basically, all fell in the previous two years, and began to pick up in 2016. The overall liquidity ratios showed a downward trend. Interestingly, these data began to fall in 2016. Solvency ratio also showed a downward trend overall. Most of asset management ratios shows an upward trend. These trends are all related to Evergrande Group's development strategy and operational efficiency.

Finally, from DuPont analysis, we learned about the changes in ROE of Evergrande Group

from 2014 to 2018 and observed that financial leverage has a greater impact on ROE. At the same time, I also know that ROE is not the result of a single factor, but the result of multiple factors interleaving.

In general, Evergrande Group has experienced some fluctuations in its development over the past five years, but overall, it is relatively stable. By 2018, all the trends are better. Therefore, we can probably predict that the development of Evergrande Group will become better and better in the future.

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List of Abbreviations

A - Asset

ACP - Average collection period

ART - Account receivable turnover

NPM - Net profit margin

OPM - Operating profit margin

OP - Operating profit

REV - Revenue

ROA - Return on assets

ROE - Return on equity

TAT - Total assets turnover

EAT - Earning after taxes

EBIT - Earning before interest and taxes

EBT - Earning before taxes

IT - Inventory turnover

TR - Tax rate

TL - Total liabilities

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List of Annexes

Annex 1: Balance sheet of Evergrande Group from 2014 to 2018

Annex 2: Income statement of Evergrande Group from 2014 to 2018

Annex 3: Cash flow statement of Evergrande Group from 2014 to 2018

Annex 1: Balance sheet of Evergrande Group (Amounts in millions RMB)

	2014	2015	2016	2017	2018
ASSETS					
Cash & Short-Term Investments	88058	196128	343542	351001	234209
Cash Only	74371	195761	339522	345395	232871
Total Short-Term Investments	13687	366	4020	5606	1338
Cash & Short-Term Investments Growth	-	122.72%	75.16%	2.17%	-33.27%
Short-Term Receivables	29376	43645	104247	161264	164067
Short Term Receivables Growth	-	48.57%	138.85%	54.69%	1.74%
Investments - Total	77473	119041	188376	187888	197119
Investment Property	-	115944	147315	182408	185105
Other Investments	77473	3097	41061	5480	12014
Investment in Unconsolidated Subs.	1328	10240	27193	36465	76456
Net Property, Plant & Equipment	19823	21490	26315	40935	48432
Other Assets (Including Intangibles)	373948	509696	812910	1332686	1418616
Other Assets	57551	2364	5515	-	-
Intangible Assets	1068	1500	1833	1987	2302
Total Assets	593066	903526	1507084	2114887	2143903
Total Assets Growth	-	52.35%	66.80%	40.33%	1.37%
Return on Average Assets	-	-	-	-	2.08%
LIABILITIES&SHAREHOLDERS'EQUITY					
Total Debt	209648	453153	735385	906647	773310

ST Debt & Current Portion LT Debt	105500	195053	232653	450247	366887
Short-Term Debt	50277	79837	145450	186182	137028
Current Portion of Long-Term Debt	55223	115216	87203	264066	229860
Long-Term Debt	104148	258099	502733	456400	406423
LT Debt excl. Capitalized Leases	104148	258099	502733	456400	406423
Total Debt Growth	-	116.15%	62.28%	23.29%	-14.71%
Total Debt / Total Assets	35.35%	50.15%	48.80%	42.87%	36.07%
Deferred Taxes	9779	17684	38365	57242	51898
Deferred Taxes - Credit	12838	20969	42867	61890	56903
Deferred Taxes - Debit	3059	3285	4503	4648	5005
Other Liabilities	230110	350150	640040	855592	961746
Other Liabilities (excl. Deferred Income)	230110	251016	422534	534407	750112
Deferred Income	-	99134	217507	321185	211634
Total Liabilities	452596	824271	1418293	1824130	1791959
Total Liabilities Growth	-	82.12%	72.07%	28.61%	-1.76%
Preferred Stock (Carrying Value)	66064	-	-	-	-
Non-Redeemable Preferred Stock	66064	-	-	-	-
Common Equity (Total)	63899	60876	49356	137778	151662
Common Stock Par/Carry Value	1276	1159	1075	1114	1054
Additional Paid-In Capital/Capital Surplus	-	-	47	411	320
Retained Earnings	54079	49425	41847	66293	73902
ESOP Debt Guarantee	415	-	-	-	-
Cumulative Translation	-	-	932	401	683

Adjustment/Unrealized For. Exch. Gain					
Other Appropriated Reserves	7986	9186	12195	15552	27898
Unappropriated Reserves	-	1105	-6740	54007	47805
Treasury Stock	144	-	-	-	-
Common Equity / Total Assets	0.11%	0.07%	0.03%	0.07%	0.07%
Total Shareholders' Equity	129962	60876	49356	137778	151662
Total Shareholders' Equity / Total Assets	21.91%	6.74%	3.27%	6.51%	7.07%
Return on Average Total Equity	-	-	-	-	30.60%
Accumulated Minority Interest	10507	18379	39436	152980	200282
Total Equity	140470	79255	88792	290757	351944
Total Liabilities and Equity	593066	903526	1507084	2114887	2143903

Annex 2: Income statement of Evergrande Group (Amounts in millions RMB)

	2014	2015	2016	2017	2018
Total Revenues	141614	166775	252390	359716	555011
Interest Income	657	-	3350	-	-
Sundry Revenue/Income	140775	9210	10055	10106	17338
Sales Growth	-	17.77%	51.34%	42.52%	54.92%
Total Expense	118577	144397	218095	278738	407266
Total Interest Expense	19	995	7469	9129	9925
Selling, General & Admin. Expenses	15741	22970	28701	32677	37396
Depreciation & Amortization Expense	1430	1793	2295	2299	2780
Depreciation	1237	1576	34417	2043	2511
Amortization of Intangibles	193	217	386	256	269
Other Operating Expense	1757	1328	3111	6456	6134
Operating Income	23037	22378	34295	80978	147745
Operating Income Growth	-	-2.86%	53.26%	136.12%	82.45%
Operating Income Margin	-	-	-	-	26.62%
Non-Operating Income (Expense)	-202	-2071	2860	-1,628	842
Non-Operating Interest Income	-	-	-	4702	4600
Miscellaneous Non-Operating Expense	-202	-2071	2860	-6330	-3758
Unusual Expense	-16551	-18964	6152	-8367	-2595
Pretax Income	39386	39270	43307	87716	151183
Pretax Income Growth	-	-0.29%	10.28%	102.54%	72.35%
Pretax Margin	-	-	-	-	27.24%
Income Taxes	16581	17398	22486	46612	71325
Income Tax - Current - Domestic	13656	12662	22713	47827	75233
Income Tax - Deferred - Domestic	2925	4737	-227	-1214	-3908
Equity in Affiliates	-131	-484	-237	1617	-1035
Other After-Tax Income (Expense)	-	-6276	-12439	-	-

Consolidated Net Income	22674	15113	8145	42721	78822
Minority Interest Expense	1351	2210	2197	14618	34535
Net Income	21323	12902	5948	28103	44287
Net Income Growth	-	-39.49%	-53.90%	372.45%	57.59%
Net Margin	-	-	-	-	7.89%
Net Income After Extraordinaries	21323	12902	5948	28103	44287
Preferred Dividends	5460	-	-	-	-
Net Income Available to Common	15863	12902	5948	28103	44287
EPS (Basic)	1.07	0.88	0.43	2.11	3.37
EPS (Basic) - Growth	-	-18.17%	-50.57%	386.22%	59.64%
Basic Shares Outstanding	14762	14667	13683	13296	13125
EPS (Diluted)	1.07	0.87	0.43	2.07	3.28
EPS (Diluted) Growth	-	-18.86%	-50.61%	383.33%	58.26%
Diluted Shares Outstanding	14848	14884	13893	13580	13631

Annex 3: Cash flow statement of Evergrande Group (Amounts in millions RMB)

	2014	2015	2016	2017	2018
OPERATING ACTIVITIES					
Funds from Operations	-2358	-6730	-7469	17303	73242
Funds from Operations Growth	-	-185.45%	-10.98%	331.86%	323.28%
Changes in Working Capital	-49025	-11993	-18521	-168858	-20026
Receivables	-20863	5135	-71636	-106678	12907
Inventories	-60422	-904	-185	-234984	-106486
Accounts Payable	32260	82055	179256	172804	73553
Other Assets/Liabilities	-	-98279	-125957	-	-
Net Operating Cash Flow	-51383	-18723	-25989	-151555	53216
Net Operating Cash Flow Growth	-	63.56%	-38.81%	-483.15%	135.11%
INVESTING ACTIVITIES					
Capital Expenditures	-11505	-19472	-19079	-17060	-12259
Capital Expenditures (Fixed Assets)	-10605	-19247	-18677	-16569	-11604
Capital Expenditures (Other Assets)	-899	-224	-402	-491	-655
Capital Expenditures Growth	-	-69.25%	2.02%	10.58%	28.14%
Net Assets from Acquisitions	-1378	-4792	-59529	-81896	-31660
Sale of Fixed Assets & Businesses	96	755	26377	137860	52135
Purchase/Sale of Investments	-3464	7081	-74959	30454	-52387
Purchase of Investments	-12648	-18274	-90277	-81151	-124308
Sale/Maturity of Investments	9185	25355	15318	111605	71921
Other Uses	-	-352	-660	-12609	-
Other Sources	-	-	-	2024	-
Net Investing Cash Flow	-16251	-16779	-127850	58773	-44172

FINANCING ACTIVITIES					
Cash Dividends Paid - Total	-7977	-8575	-6404	-278	-32790
Common Dividends	-7977	-8575	-6404	-278	-32790
Cash Dividend Growth	-	-7.50%	25.32%	95.66%	- 11699.62%
Change in Capital Stock	28145	-4845	-738	-5854	-3109
Repurchase of Common & Preferred Stk.	-5800	-10196	-806	-6431	-3455
Sale of Common & Preferred Stock	33945	5351	68	577	346
Proceeds from Stock Options	33945	4478	-	-	-
Other Proceeds from Sale of Stock	-	873	68	577	346
Issuance/Reduction of Debt, Net	44383	184759	279127	71037	-74159
Change in Current Debt	-	-	-	-17248	-3122
Change in Long-Term Debt	44383	184759	279127	88285	-
Issuance of Long-Term Debt	148152	346967	591540	604938	-
Reduction in Long-Term Debt	-103769	-162208	-312413	-516653	-
Other Funds	-4648	-7032	45301	-7517	56503
Other Uses	-13557	-8539	-12365	-11741	-14735
Other Sources	8910	1507	57666	4224	71238
Net Financing Cash Flow	59904	164307	317285	57388	-53555
Net Financing Cash Flow Growth	-	174.29%	93.11%	-81.91%	-193.32%
Exchange Rate Effect	7	122	491	-1003	736
Net Change in Cash	-7723	128927	163937	-36397	-43775
Free Cash Flow	-61988	-37970	-44666	-168124	41612
Free Cash Flow Growth	-	38.75%	-17.64%	-276.40%	124.75%
Free Cash Flow Yield	-	-	-	-	2.76%