

The Impact of Long-term Over-allocation of Financial Assets by Apparel Enterprises on Company Performance

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ABSTRACT. *The real economy is the basis for the survival and development of human society and the starting point and foothold of the virtual economy. To solve the major structural problems in China---the real economy's "Transformation from real to virtual", the root cause is to address the development problems of the real economy. The key breakthrough for developing the real economy with high quality is to develop enterprises with high quality and provide enterprises with a high-quality external environment. In the case of a large "bubble" in the financial market, as a domestic clothing giant, Youngor has been "marginalized" in the clothing business for more than a decade, focusing on the real estate industry and financial investment, which led to brand aging, market visibility and market position decline, young customer groups loss and low return on equity. This case starts from the study of the asset allocation results of Youngor Group Co., LTD., explores the influence of excessive investment in financial assets by non-financial enterprises represented by the apparel industry on the long-term development of the enterprise, and puts forward some targeted advice for such enterprises.*

KEYWORDS: *financial assets, Youngor, corporate financialization*

1. Introduction

In recent years, overcapacity and unsalable products in China's real economy have led to a general rise in costs and a decline in the return on investment of industrial enterprises. China's enterprises are generally facing financing constraints, especially small and medium-sized enterprises, facing financing difficult and financing expensive situation. Among them, financial enterprises, especially the banking industry, have always had relatively high returns by virtue of their unique status and interest rate control policies. In 2016, McKinsey research report said that

the economic profit of China's financial sector accounted for more than 80% of the overall economic profit of China. In the past two decades, the rapid rise of housing prices has made more enterprises eager to increase the proportion of corporate financial assets and real estate. For example, Youngor, a former clothing giant, is one of them. It has to be said that in this context, sharing high returns through financial investment activities has become one of the important choices for many enterprises.

This also makes the development of China's real economy and the imbalance between the real economy and the virtual economy more serious. The real economy is difficult to support the virtual economy, especially the manufacturing industry cannot support the financial real estate industry. Since finance cannot obtain sufficient income from the real economy, it can only increase leverage and create price differentials through financial transactions again. This "Capital Idling" led to artificially "Creating" large financial bubbles on the basis of the weaker real economy, which brought huge risks to the whole economy. In addition, asymmetric information and pricing problems also increase the risk of "Capital idling" and the more times of capital idling, the greater the risk will be. Since the 18th National Congress of the CPC, the CPC Central Committee with Comrade Xi Jinping at its core has attached great importance to the development and growth of the real economy and made a series of major decisions and planned to revitalize the real economy. From the propose of "The focus of economic development must be placed on the real economy", to the deployment of "Supply-side structural reform should focus on the revitalization of the real economy", and then to require "Finance should serve the real economy as its starting point and end point", we take the determination of "Insist Aoyama do not relax" to revitalize the real economy, strongly promote the economy development and vigorously promote high-quality economic development in China. The key breakthrough of developing real economy with high quality lies in developing enterprises with high quality and providing them with high-quality external environment.

Many scholars have studied the motivation of non-financial enterprises to buy financial assets, discussing whether it is a "Reservoir" purpose or a "Speculative Arbitrage" with a precautionary motive. For example, the paper '*Corporate Transactional Financial Asset Allocation: Capital Reserves or Speculation?*', '*Corporate Financialization: Earnings Management or Financial Arbitrage?*', '*Financial Asset Allocation and Corporate Financial Risk: "Take precautions" or "Attend to trifles and neglect the essentials"*' and so on. In my opinion, the motivation of non-financial enterprises to purchase financial assets is not a black-and-white issue, but a tendentious one. Non-financial enterprises' activities of buying financial assets are more preferential of the motivation behind. Whether enterprises are financialized or not, different degrees of financialization tend to be different.

In the past 15 years, when there was a big "Bubble" in the financial market, Youngor changed from a textile and garment enterprise to a comprehensive enterprise in the field of real estate and investment gradually. These sideline

businesses have become the main source of revenue for Youngor, while the original clothing business has become a sideline.

This paper focuses on Youngor group as a classic case study. It is hoped that its business direction, development process and operation results can provide enlightenment and warning for Non-financial enterprises in China on how to control the investment proportion and investment duration of financial assets, reduce the troubles caused by enterprise financialization to some extent, and promote the solid development of China's real economy. The content of the paper is arranged as follows: The second part is literature review; The third is the background and introduction of the case; The fourth part is the case of financial analysis and analysis of the impact of corporate performance; The fifth part are the conclusions and recommendations.

2. Literature review

At a macro level, from the perspective of the uncertainty of economic policies, the increased uncertainty of economic policies will increase the operational risks of enterprises, enhance the incentive of precautionary saving and promote the financialization of enterprises. On the other hand, the increased uncertainty of economic policies may also increase the difficulty of enterprise financing, inhibit the source of enterprise capital, aggravate the financial market volatility, inhibit the liquidity of financial assets, and thus inhibit the financialization of enterprises. From the point of view of the relationship between the real economy and the virtual economy, Zhang Chengsi and Zhang Butan (2016) analyzed the impact of financialization on the entity investment rate through building an enterprise investment decision model in the financial environment. The study found that the financialization of enterprises will significantly reduce the entity investment rate, and weaken the effect of monetary policy, make the money back into the financial system from the real economy, lead to excessive expansion of the virtual economy and increase systemic risks. At the same time, the financialization of non-financial enterprises will lead to the increase of risk linkage between the real economy and the virtual economy and the accumulation of systemic financial risks, which is not conducive to the stability of the macroeconomic environment (Cheng Siwei, 2015). And the excessive expansion of the virtual economy will inevitably cause the instability of the system, which will lead to economic crisis. From the perspective of the economic consequences of financial asset allocation, Stockhammer (2004) pointed out that the financialization made the virtual economy not only fail to provide the necessary funds for the real economy, but also suck away the funds for the development of the real economy, resulting in the imbalance of regional economic development and widening the unemployment rate and social income gap. Similarly, Ortiz et al. put forward the view that financialization is like a deadly virus, which can achieve self-replication and reinforcement by occupying the internal resources of the economy, thus limiting the development space of other sectors.

At a micro level, from the perspective of financialization and financing constraints, Zhang Jun et al. tested the impact of financial liberalization on

enterprise investment behavior by using the research samples of 547 listed companies from 1992 to 2005, and found that the reform of financialization alleviated the external financing constraints of enterprises and promoted the investment of enterprises. Luan Tianhong et al. concluded in '*Enterprises financialization, Financing constraints and Capital investment*' that financialization has a crowding out effect on capital investment, and the crowding out effect of long-term financial asset investment is more obvious than that of short-term financial asset investment. When enterprises face low financing constraints, they are more inclined to use long-term financial assets for speculative arbitrage, so as to reduce their capital investment. From the perspective of the impact of enterprise financialization on enterprise innovation, financialization makes real enterprises deviate from their main business, and overfinancialization intensifies the contradiction between "Deindustrialization" and asset bubbles, weakens the development foundation of manufacturing industry, and leads to "Hollowing out" of industry, crowding out enterprise innovation investment and physical capital investment such as fixed assets, thus inhibiting enterprise innovation capacity (Orhangazi, 2008 ; Seo et al., 2012 ; Tori and Onaran, 2017 ; Xie Jiazhi, 2014). Song Jun and Lu Yang (2016) used the Penman-Nissim method to separate financial assets and financial income from assets and income, and the study found that non-financial enterprises have a U-shaped relationship between their non-monetary financial assets and their operating returns, which is manifested as a "Substitution Effect" for low-performing companies and a "Surplus Effect" for high-performing companies. Yang Zheng et al. (2017) further examined and found that there is an inflection point in enterprise innovation driven by enterprise financialization. When the degree of entity financialization exceeds 23%, the relationship between the two gradually begins to show a positive correlation, which is manifested as "Promotion Effect".

3. Case background and introduction

Youngor Group Co., LTD., founded on June 25, 1993, was listed in Shanghai Stock Exchange in November, 1998. In 1999, Youngor first got involved in financial investment. The first investment was 320 million yuan, and it participated in the establishment of Citic Securities and obtained 9.61% of the shares of Citic Securities. After Citic Securities was successfully listed, Youngor made a profit of about 8 billion yuan. From 1999 to 2005, Youngor successively invested in Citic Securities, Guangbo Shares, Yke Technology (later renamed Hanma industry, Lianchuang Electronics), Bank of Ningbo, etc. In 2005, the reform of shareholder structure was launched and the capital market entered a period of rapid development. The market value of financial assets held by Youngor increased rapidly, exceeding 20 billion yuan at one time. In 2007, Youngor put forward the development strategy of "Three Carriages".

In July 2012, Li Rucheng said publicly that the company would strictly control the investment in real estate, adjust the investment scale, concentrate resources on brand clothing and return to the main business of clothing. In 2016, Li Rucheng

announced that he would make "Youngor" a top brand in the domestic market and rebuild another new "Youngor" in the next following five years. But its effect is not very obvious from the annual report data of Youngor in recent years. The operating income of Youngor clothing sector has been maintained at about 4 billion yuan since its decline in 2012, and finally exceeded 5 billion yuan in 2018.

According to the annual report, Youngor's clothing revenue in 2016 was 4.274 billion yuan, accounting for only 28% of the total revenue. In 2017, the revenue of Youngor's clothing business was 4.891 billion yuan, accounting for 48.97% of the total revenue. Youngor has indeed invested more in its clothing business since 2019. In the first three quarters of 2019, Youngor spent 77,941,000yuan on R&D, up 247.90 percent from the same period last year. However, the net profit of its investment business still reached 1.392 billion yuan, accounting for 45.24% of the company's overall net profit. On the other hand, compared with the fashion clothing and real estate sector, the operating income was 4.235 billion yuan and 2.634 billion yuan respectively, and the net profit attributable to the owner of the parent company was 775 million yuan and 910 million yuan respectively. Investment business and real estate sector are still the main contributors to the net profit. Financial assets and real estate have a high premium and large profit space, so it is easier for them to make profits in a short time. But is the long-term impact on the company as optimistic as the short-term profit ?

From 2014 to 2018, Youngor achieved revenue of 15.903 billion yuan, 14.527 billion yuan, 14.895 billion yuan, 9.84 billion yuan and 9.635 billion yuan respectively, and net profit of 3.162 billion yuan, 4.371 billion yuan, 3.685 billion yuan, 297 billion yuan (mainly due to the provision for asset impairment of Citic Shares in the current period of 3.308 billion yuan) and 3.677 billion yuan respectively. In May 2019, Youngor's chairman Li Rucheng said at the shareholders' meeting that the company was giving up the investment sector. First, China Securities Regulatory Commission imposed restrictions on the withdrawal of equity investment, making it increasingly difficult to withdraw, which gave Youngor a lot of pressure. Second, due to the implementation of the new accounting standards, the profit and loss of investment business is greatly affected by the stock price fluctuations of financial assets held. Third, it is difficult to do a good job in cash supervision of the investment team. Youngor has repeatedly called for a return to its clothing business, and it is clear that the sale of its financial assets is linked to its "Return to The Main Business", but selling assets is not the same as returning to business. Judging by Youngor's apparel performance, its goal of returning to its main business has not yet to be achieved. More significantly, Youngor's sales of financial assets failed to stem the downward trend in overall performance.

From 2012, when Youngor first proposed to control the real estate investment, adjust the investment scale, concentrate resources on brand clothing investment, and return to the main clothing industry, to 2019, it indicated that the company was abandoning the investment sector. We can see from the data that Youngor's textile and garment business is still not very optimistic, which shows that the so-called "Return to The Main Business" is not so simple as imagined in the case of long-term

over-investment in financial assets. The development of Youngor is shown in Figure 1.

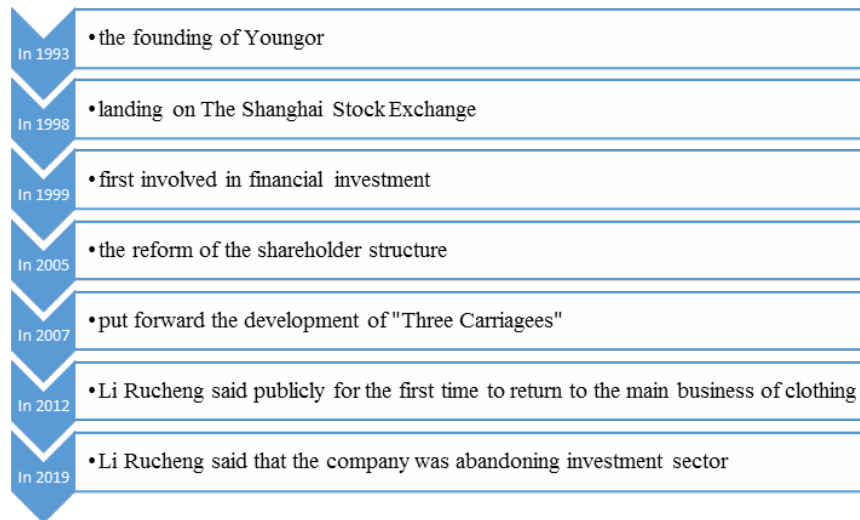


Figure. 1 The development of Youngor

4. Financial analysis and corporate performance analysis

When evaluating the impact of Youngor's long-term excessive financial asset allocation on corporate performance, this paper adopts a vertical and horizontal comparison through various financial data and indicators. Because this case may have certain particularity, it is not a large sample, so it is not suitable for empirical analysis.

4.1 Vertical comparison

Based on the annual report of Youngor Group Co., Ltd. from 2014 to 2018, this paper makes a horizontal analysis of Youngor in terms of financial asset allocation, R&D expenses and operating profit of brand clothing. The following table shows Youngor's comparative balance sheet over the last 5 years.

Table 1 Youngor's comparison of balance sheets over the last 5 years

| Youngor's comparative balance sheet | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| 2014-2018 | | | | | |
| Unit: Million Yuan | | | | | |
| Item | 2014 | 2015 | 2016 | 2017 | 2018 |
| Assets | | | | | |
| Current assets | | | | | |
| Monetary capital | 3,461.30 | 6,127.94 | 8,983.67 | 7,163.93 | 10,708.06 |
| Financial assets measured at fair value and whose changes are booked into current profits and losses | | | | 2,240.46 | 2,970.86 |
| Derivative financial assets | | | | | |
| Notes receivable | 3.13 | 2.28 | 0.71 | 4.19 | 32.78 |
| Receivables | 310.36 | 244.68 | 264.60 | 310.34 | 346.73 |
| Interest receivable | 2.00 | 10.16 | 0.57 | 13.59 | 1.27 |
| Dividends receivable | | | 0.33 | | |
| Other receivable | 1,914.58 | 2,195.28 | 691.53 | 1,971.67 | 1,470.17 |
| Inventory | 17,803.30 | 14,030.31 | 11,713.33 | 10,965.69 | 14,520.58 |
| Total current assets | 26,019.84 | 27,127.25 | 26,613.92 | 30,645.61 | 33,713.82 |
| Non-current assets | | | | | |
| Available-for-sale financial assets | 10,090.78 | 26,070.12 | 24,074.27 | 20,128.10 | 20,448.55 |
| Held-to-maturity investment | | | | | |
| Long-term equity investment | 6,063.52 | 7,227.57 | 6,576.61 | 8,520.85 | 13,307.59 |
| Investment real estate | 451.37 | 444.02 | 334.83 | 406.54 | 390.88 |
| Total assets | 47,623.72 | 66,277.28 | 63,911.83 | 66,918.84 | 75,612.00 |
| Total current liability | 27,640.36 | 26,956.65 | 21,859.00 | 40,759.41 | 30,976.94 |
| Liabilities in total | 30,879.82 | 45,908.53 | 41,020.27 | 42,490.20 | 47,230.71 |
| Total owners' equity | 16,743.90 | 20,368.75 | 22,891.56 | 24,428.64 | 28,381.29 |

4.1.1 Financial assets

It can be found from Table 1 that the financial assets of Youngor were on the rise from 2014 to 2018, especially in 2015, when the growth rate of financial assets was as high as 90%. While Youngor says they are selling off a lot of financial assets, they are also buying back a lot of them, at least on paper, and its main for-profit sectors are still real estate and investments.

4.1.2 R&D expenses and brand clothing operating profit

Generally speaking, we believe that higher R&D investment will lead to business innovation, which is conducive to reducing production costs, saving money and increasing operating profit. According to the mini-graph of the R&D input table drawn from Youngor's annual report from 2015 to 2018, Youngor increased its investment in R&D in 2018, and the variation ratio of R&D expenses was as high as 138.63%. The most intuitive data is that we can see in the case of increasing the investment in R&D, Youngor successfully realized the use of fewer R&D personnel proportion to achieve a basically equal clothing brand gross margin. To a certain extent, we believe that higher R&D costs are conducive to the promotion and development of Youngor brand clothing business. At present, due to long-term investment in business and real estate sector, those old-established clothing

enterprises like Youngor has lost many of its younger customers in the clothing sector and has a low level of market sensitivity and market share ; On the other hand, as a clothing production enterprise, Youngor will consider the development of the enterprise based on the perspective of production in most of the time. However, clothing production and clothing retail are actually two different eras. Now what these enterprises need to do most is to change from clothing manufacturers to clothing retailers, so as to keenly grasp the needs of customers, better meet their needs, and at the same time reduce costs, expand sales and increase profits.

Table 2 Youngor's R&D investment in 2015-2018

| Year\ Items | Brand clothing revenue (Unit:Million Yuan) | Brand clothing operating cost (Unit: Million Yuan) | Brand clothing operating profit (Unit: Million Yuan) | Gross profit of brand clothing (%) | R&D expenses (Unit: Million Yuan) | Proportion of change in R&D expenses (%) | Proportion of Total R&D investment in operating income (%) | The proportion of R&D personnel in the total number of employees in the company (%) |
|-------------|--|--|--|------------------------------------|-----------------------------------|--|--|---|
| 2015 | 4,233.13 | 1,486.81 | 2,746.31 | 64.88 | 24.19 | -32.06 | 0.17 | 3.43 |
| 2016 | 4,274.37 | 1,541.52 | 2,732.85 | 63.94 | 13.18 | -45.5 | 0.09 | 1.32 |
| 2017 | 4,818.81 | 1,732.52 | 3,086.29 | 64.05 | 19.45 | 47.53 | 0.2 | 1.47 |
| 2018 | 5,115.49 | 1,755.13 | 3,360.36 | 65.69 | 46.42 | 138.63 | 0.48 | 1.84 |

4.2 Horizontal comparison

This paper selects three similar companies in the same industry in the past five years from 2014 to 2018. They are Youngor, Heilan Home and Semir respectively. Youngor was taken as the experimental group, and Heilan Home and Semir were taken as the control group. The selection of these two companies as the control group is based on : First, these two companies are large domestic clothing enterprises ; Second, these two companies have a certain degree of comprehensiveness, and their brand establishment time has a certain history ; Third, men's wear is an important part of both companies' clothing business.

4.2.1 From the perspective of the proportion of financial asset allocation under the enterprise's asset structure

Table 3 Financial asset allocation for Younger and the control group

| Item(Unit: Million Yuan) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-----------|-----------|-----------|-----------|-----------|
| Youngor | | | | | |
| Financial assets | 22,297.05 | 42,322.06 | 40,927.12 | 40,759.67 | 49,676.88 |
| Total assets | 47,623.72 | 66,277.28 | 63,911.83 | 66,918.84 | 75,612.00 |
| The ratio of financial assets to total assets | 0.47 | 0.64 | 0.64 | 0.61 | 0.66 |
| Semir | | | | | |
| Financial assets | 5,896.94 | 5,386.04 | 6,152.26 | 4,547.06 | |
| Total assets | 10,372.82 | 11,654.55 | 12,948.06 | 13,643.21 | |
| The ratio of financial assets to total assets | 0.57 | 0.46 | 0.48 | 0.33 | |
| Heilan Home | | | | | |
| Financial assets | 8,280.50 | 9,203.41 | 10,517.77 | 11,103.18 | 13,728.42 |
| Total assets | 18,530.43 | 23,441.74 | 24,376.79 | 25,098.30 | 29,591.45 |
| The ratio of financial assets to total assets | 0.45 | 0.39 | 0.43 | 0.44 | 0.46 |

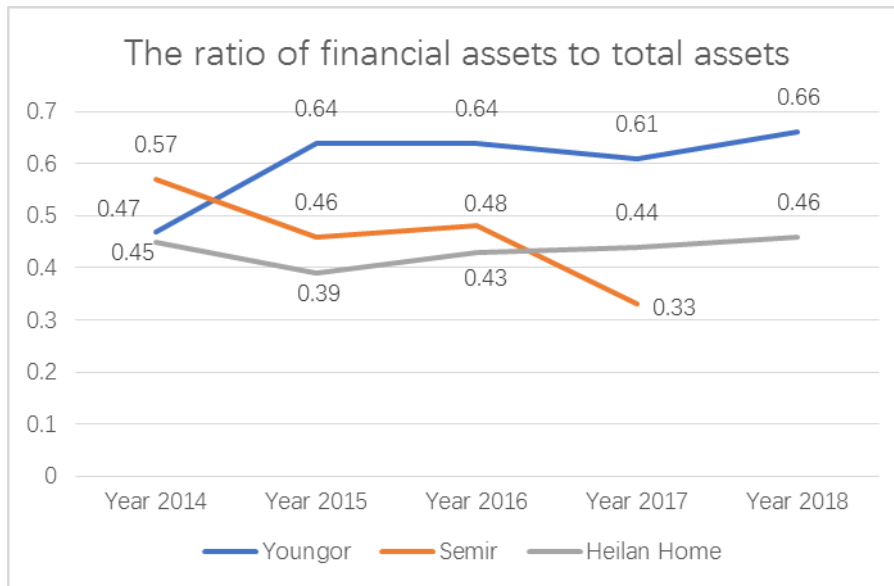


Figure. 2 The trend chart of financial asset allocation ratio in the past 5 years by Youngor and the control group

Based on the proportion of financial assets in the total assets of the three enterprises, it can be concluded that the proportion of Youngor in the allocation of financial assets in the industry is relatively, and the overall trend is still creeping up.

4.2.2 From the perspective of corporate financial capability

The following article uses the ratio analysis method, mainly from the Youngor group and the control group’s solvency, profitability, development ability on the analysis, the selected financial indicators are quick ratio, asset-liability ratio, return on equity (ROE) and net profit growth rate.

Table 4 Financial indicators for Youngor and the control group

Youngor

| | | | | | | |
|------------------------|------|------|-------|-------|-------|--|
| Item | 2014 | 2015 | 2016 | 2017 | 2018 | |
| Quick ratio | 0.21 | 0.32 | 0.45 | 0.29 | 0.50 | |
| Asset-liability ratio | 0.65 | 0.69 | 0.64 | 0.63 | 0.62 | |
| Return on equity | | 0.24 | 0.17 | 0.01 | 0.14 | |
| Net profit growth rate | | 0.36 | -0.16 | -0.92 | 11.52 | Comparison of 2018 and 2016 -0.0024 |

Semir

| | | | | | |
|------------------------|------|------|------|-------|------|
| Item | 2014 | 2015 | 2016 | 2017 | 2018 |
| Quick ratio | 3.31 | 2.29 | 1.94 | 0.97 | |
| Asset-liability ratio | 0.18 | 0.21 | 0.23 | 0.26 | |
| Return on equity | | 0.15 | 0.15 | 0.11 | |
| Net profit growth rate | | 0.23 | 0.04 | -0.19 | |

Heilan Home

| | | | | | |
|------------------------|------|------|------|------|------|
| Item | 2014 | 2015 | 2016 | 2017 | 2018 |
| Quick ratio | 0.89 | 0.69 | 0.79 | 0.69 | 0.90 |
| Asset-liability ratio | 0.62 | 0.64 | 0.59 | 0.55 | 0.56 |
| Return on equity | | 0.38 | 0.34 | 0.31 | 0.28 |
| Net profit growth rate | | 0.24 | 0.06 | 0.07 | 0.04 |

1) Solvency analysis----Short and long term

Solvency analysis is an important aspect of enterprise financial analysis, which can reveal the financial status and financial risks of enterprises and provide financial information for managers, creditors and equity investors.

a. Short-term solvency analysis----Acid test ratio

Quick assets are items with liquidity ability after deducting inventory, prepayments, non-current assets due within 1 year and other current assets, mainly including monetary funds, financial assets measured at fair value and their changes recorded into current profits and losses, notes receivable and accounts receivable. The ratio of quick assets to current liabilities is called quick ratio, also known as acid test ratio. The higher the quick ratio is, the stronger the short-term solvency is.

According to Figure 3, Youngor’s short-term solvency is weak, but it remains relatively stable overall.

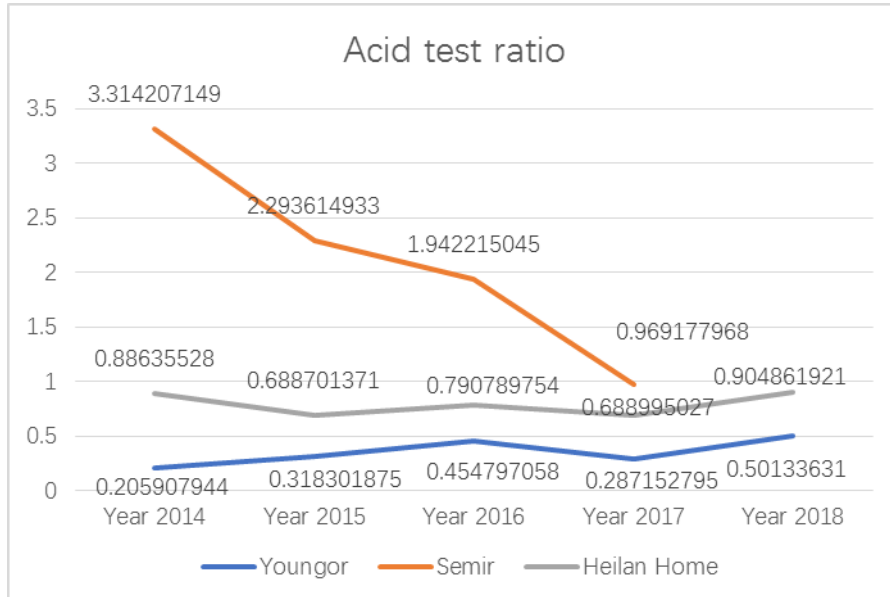


Figure. 3 Chart of acid test ratio trends over 5 years for Youngor and the control group

b. Long-term solvency analysis----Asset-liability ratio

Asset liability ratio is also known as liability ratio or leverage operating ratio, is the ratio of total amount of enterprise debt and total amount of assets, it reflects the total amount of enterprise assets in how much proportion is obtained through leverage, reflects the comprehensive ability of enterprise repay debt.

Figure 4 shows that over 60% of Youngor’s assets are obtained through borrowing. The higher the asset-liability ratio is, the worse the enterprise’s solvency is and the greater its financial risk is. It can be seen that Youngor’s solvency is poor compared with general level of the industry. From the perspective of creditors, the high asset-liability ratio indicates that the proportion of capital provided by shareholders is too low in the total assets of an enterprise, the financial risks of the enterprise are mainly borne by creditors, and the security of loans lacks reliable guarantee ; From the perspective of corporate shareholders, what they care about is the level of investment returns. When the interest rate paid by corporate liabilities is lower than the return rate of assets, Youngor’s asset-liability ratio is conducive to shareholders to obtain more investment returns ; From the perspective of enterprise managers, they should consider both the profits of the enterprise and the financial risks borne by the enterprise. A low asset-liability ratio indicates that the managers

are conservative or have insufficient confidence in the future and cannot make good use of the creditors' investment. A high asset-liability ratio will increase the financial risks of the enterprise. In case of an emergency, such as the outbreak of the epidemic this year, an enterprise is in urgent need of a large amount of working capital to maintain its normal operation. Under such circumstances, an enterprise must have a certain amount of cash to maintain its operation. However, when its long-term solvency is poor, it will put the enterprise in a passive and dangerous position.

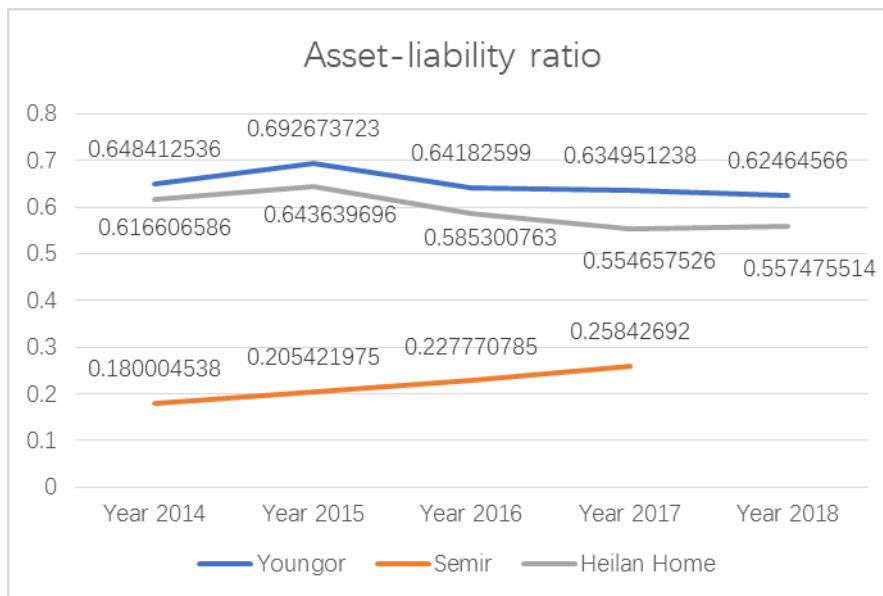


Figure. 4 Trend chart of asset-liability ratio of Youngor and control group in recent 5 years

2) Profitability Analysis----Return on equity (ROE)

Earning profit is one of the main business objectives of an enterprise, which reflects the comprehensive quality of the enterprise. Meanwhile, strong profitability can improve the solvency and reputation of the enterprise. Return on equity, also known as return on owner's equity, is the ratio between the net profit of an enterprise and the average total amount of shareholders' equity in a certain period of time. It reflects the level of investment returns obtained by shareholders. According to Figure 5, it is found that the return on shareholders' equity of Youngor in the past five years is in a downward trend on the whole, and the average ROE of the same industry is likely to be in a downward trend through the performance of the control group.

The rate of return on shareholders' equity depends on the net interest rate on assets and the equity multiplier. Therefore, there are two ways to improve ROE : First, on the condition that the financial leverage remains unchanged, it can improve the net interest rate of assets by increasing the business income, reducing expenses and reducing costs of the garment industry, and improving the asset utilization efficiency of the garment industry, so as to improve the return on equity of the enterprise. Second, on the condition that the profit rate of assets is greater than the interest rate of liabilities, the financial leverage can be improved to improve the return rate of shareholders' equity, but this aspect will increase the financial risk of the enterprise. Combined with Figure 4 and Figure 5, while the financial leverage of Youngor Group remains relatively stable at a high level, the return on shareholders' equity still declines all the way (In 2017, Youngor's performance has a huge decline due to the impact of accounting operations, and the impairment provision of assets of Citic Stock investment in Hong Kong is 3.308 billion yuan). While comparing the ROE of Youngor in 2016 with that of 2018, the ROE of 2018 is still lower than that of 2016, so it is suggested to take approach one.

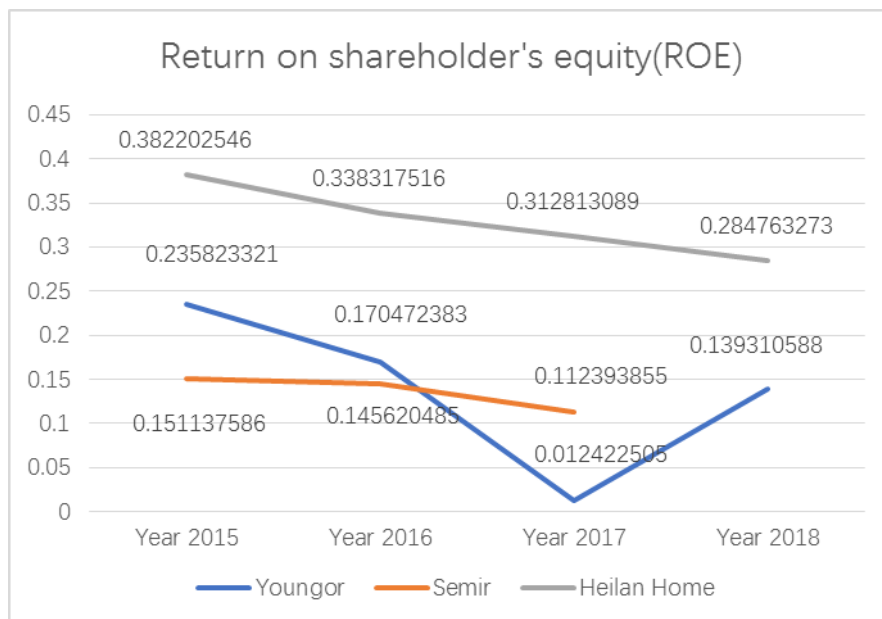


Figure. 5 The ROE trend chart of Youngor and the control group over the last 5 years

3) Development capability analysis---Growth rate of net interest rate

By analyzing the development ability of the enterprise, the development potential of the enterprise can be judged and the business prospect of the enterprise can be predicted, thus providing an important basis for the management and

investment decision of the enterprise. Net profit growth rate is the rate that shows the increase amount of total net interest rate of the enterprise this year and net profit total last year, reflected the change of enterprise profitability. The higher the ratio is, the better the growth and the stronger the development ability are. When analyzing the growth rate of net profit, we excluded the huge difference caused by the asset impairment provision of 3.308 billion yuan for Youngor’s investment in Hong Kong Citic Stock in 2017 from the data, so that the difference between Youngor and the control group could be observed more objectively, as shown in Figure 6. We can see that Youngor is more optimistic in terms of its development capability than other companies in the industry.

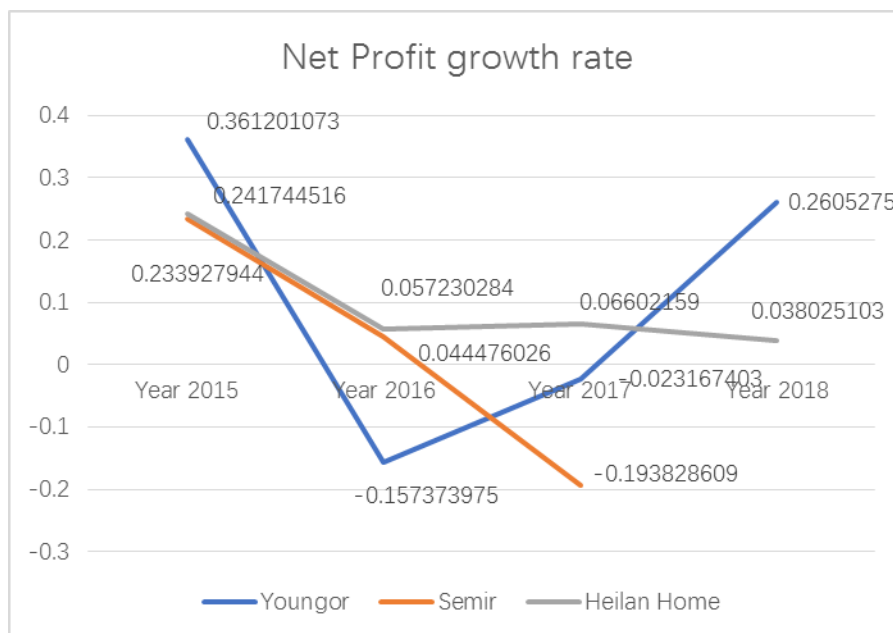


Figure. 6 The trend chart of Youngor and control group’s net profit growth rate in recent 5 years

5. Research conclusions and recommendations

As a comprehensive enterprise that is particularly prominent in the three major sectors of clothing, investment and real estate, Youngor Group Co., Ltd. has certain reference significance for non-financial enterprises in terms of financial asset allocation. The results of its high allocation of financial assets in terms of financial performance are as follows: poor solvency, low profitability with slow and continuous decline, high financial risk, but relatively optimistic growth with its unique advantages.

At present, China is in a critical period of revitalizing the real economy, balancing the relationship between the real economy and the virtual economy, and solidly developing the real economy. Among them, the direction of China's non-financial enterprises plays a decisive role. By focusing on product quality, enterprise quality, and economic quality, high-quality development is gradually penetrated from enterprises to industries or regions to macroeconomics.

Through the analysis of Youngor's case, this paper can represent the investment behavior of some characteristic non-financial enterprises and the psychology of paying too much attention to short-term arbitrage, which leads to the neglect of the main business problems. In response to this kind of problem, this paper has obtained the following suggestions for non-financial enterprises through the above analysis: First, it is necessary to cater to market demand and establish a reasonable market positioning; Second, it is necessary to increase input in high-quality factors while keeping the proportion of financial assets within a reasonable range, such as talents, new technology, new materials, new design, new ideas and other R&D investment. The garment industry needs to increase the business income, reduce expenses and reduce costs of the garment industry, and improve the net interest rate of assets by improving the utilization efficiency of assets in the garment industry, so as to improve the ROE of enterprises; Third, enterprises should implement reasonable and scientific management system and adjust internal mechanisms flexibly in accordance with the social environment; Fourth, we need to promote the spirit of the craftsman, foster a corporate culture that is "pragmatic, hard-working and capable", and foster an entrepreneurial culture that is "innovative and outstanding"; Fifth, enterprises need to establish a great brand awareness and become enterprises with social responsibility and reputation. Enterprises also need to respond to the development slogan of the central government and implement the development concept of "innovation, coordination, green, openness and sharing".

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